

Exhibit No. ____ (KMF-2)
Docket No. UT-040788
Witness: Kathleen M. Folsom

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

VERIZON NORTHWEST INC.,

Respondent.

DOCKET NO. UT-040788

EXHIBIT TO TESTIMONY
(INTERIM CASE)
OF
Kathleen M. Folsom

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Response to Data Request No. 32

July 14, 2004

Docket No. UT-040788
WUTC Staff Data Requests to Verizon Nos. 31-34
June 9, 2004

Data Request No. 32

Verizon Northwest Inc.'s response to WUTC STAFF DATA REQUEST NO. 8 (General) stated the following:

“Since January 1, 1999, Verizon Northwest has financed its annual construction budget via funds from operations (internally generated funds) and short-term notes with GTE Funding Incorporated and Verizon Network Funding Corp.”

Please provide a list of the short-term notes obtained from GTE Funding Incorporated and Verizon Network Funding Corp., and for each note, state the term of the note, interest rate, and any conditions or criteria Verizon Northwest Inc. must comply with to avoid default on such financing.

RESPONSE:

Verizon Northwest Inc. borrows and invests short-term funds with GTE Funding Incorporated according to the conditions and criteria outlined in the attached Financial Services Agreement dated January 3, 1997 (Attachment 32a). The Financial Services Agreement was authorized by the Commission in Docket UT-960952 on October 9, 1996. The agreement works on a “cash pool” basis and has no associated promissory notes. The amount borrowed or invested is rolled over each business day. The interest rate during the month of September 2003 was 1.115%.

Verizon Northwest Inc. borrows and invests short-term funds with Verizon Network Funding Corp. according to the conditions and criteria outlined in the attached Financial Services Agreement dated June 1, 2002 (Attachment 32b). The Financial Services Agreement was filed with the Commission August 16, 2002. The agreement works on a “cash pool” basis and utilizes the attached promissory note dated September 1, 2002 (Attachment 32c), which limits the amount of borrowing to \$500 million. The amount borrowed or invested is rolled over each business day. The interest rate during the month of September 2003 was 1.115%.

Prepared By: Robert G. Deter
Date: June 1, 2004
Witness: James H. Vander Weide

Attachment 32a

FINANCIAL SERVICES AGREEMENT

This Agreement, dated as of January 3, 1997, by and between GTE NORTHWEST INCORPORATED, a Washington corporation (the "Operating Company") whose common stock is wholly-owned by GTE Corporation, a New York corporation ("GTE"), and GTE FUNDING INCORPORATED, a Delaware corporation ("GTEFI") whose common stock is wholly-owned by GTE Florida Incorporated, a Florida corporation whose common stock is wholly-owned by GTE;

WITNESSETH:

WHEREAS, GTEFI has been formed to perform financial services for the Operating Company and for other corporations which are GTE Affiliates (as hereinafter defined); and

WHEREAS, the parties have determined to enter into this Agreement for the provision of financial services by GTEFI to the Operating Company as more fully described below;

NOW THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. Eligible GTE Affiliate. The Operating Company hereby represents to GTEFI that it is an Eligible GTE Affiliate. For the purposes of this Agreement, an Eligible GTE Affiliate shall mean a corporation (a) which provides telephone service in the United States of America, (b) whose telephone service or rates for service are regulated by a public body, (c) which is at least 25% owned (as determined by the ownership of its outstanding voting securities), directly or indirectly, by GTE (a "GTE Affiliate"), and (d) which maintains either a publicly issued or a privately provided Minimum Rating (as hereinafter defined) for its short-term commercial paper from at least two of the following rating agencies (collectively, the "Rating Agencies"), and no Rating Agency publishes a rating for its short-term commercial paper which is less than a Minimum Rating: Standard & Poor's Corporation ("S&P"), Moody's Investors Service ("Moody's"), Duff & Phelps Credit Rating Company ("DCR"), and Fitch Investors Service ("Fitch"). For the purposes of this Agreement, a Minimum Rating shall mean: (a) A-1 or its successor equivalent from S&P, (b) P-1 or its successor equivalent from Moody's, (c) D-1 or its successor equivalent from DCR, and (d) F-1 or its successor equivalent from Fitch.

2. Services to be Performed. GTEFI agrees to provide, either directly or through arrangements with third parties for the benefit of the Operating Company, such

financial services as the Operating Company may from time to time specify, including but not limited to the following services:

a. Loans from GTEFI to the Operating Company. The Operating Company shall be permitted to borrow short-term funds from GTEFI subject to the following provisions:

(i) Availability of Funds. The Operating Company shall be permitted to borrow short-term funds on a day-to-day (demand note) basis from GTEFI on any business day to finance the Operating Company's ordinary business and capital requirements.

(ii) Limitations on Borrowing. As long as GTEFI shall remain below ninety-two percent (92%) of the total external indebtedness limitation agreed to by GTEFI (the "GTEFI Borrowing Limit") in that certain Support Agreement, dated as of January 3, 1997, between GTEFI and GTE, as such agreement may be amended from time to time (the "Support Agreement"), GTEFI shall not impose any limit on the principal amount of funds that may be borrowed by the Operating Company from GTEFI on any business day or the aggregate principal amount of indebtedness that may be due and owing by the Operating Company to GTEFI from time to time. GTEFI may restrict the right of the Operating Company to borrow from GTEFI, or the amount of any such new borrowings, if GTEFI's external indebtedness exceeds ninety-two percent (92%) of the GTEFI Borrowing Limit. The Operating Company understands and agrees that GTEFI shall not be permitted to lend funds to the Operating Company if GTEFI shall at such time have total external indebtedness in excess of the GTEFI Borrowing Limit.

(iii) Interest Rate. The Operating Company shall pay interest on the aggregate principal amount of all funds borrowed by it from GTEFI at the Applicable Rate (as defined herein), which may change daily.

(iv) Calculation of the Applicable Rate. The Applicable Rate shall mean the rate of interest established by GTEFI as its "Applicable Rate" on a day-to-day basis. The Applicable Rate shall be set by GTEFI to approximate GTEFI's net weighted average daily borrowing rate, which shall be determined in part by including in the calculation of such rate the fees which shall be paid or payable by GTEFI to brokers and banks for the issuance by GTEFI of external indebtedness to fund its financial requirements and for the establishment or maintenance of lines of credit to which GTEFI shall have access. The Applicable Rate shall be based upon a 360-day year.

(v) Repayment of Loans. The Operating Company shall have the right to repay all or any part of the principal amount and accrued interest of the loan or loans outstanding that were made to the Operating Company by GTEFI at any time without penalty.

b. Investments by the Operating Company in GTEFI. The Operating Company shall be permitted to invest excess short-term funds in GTEFI (such funds, together with funds invested in GTEFI by other GTE Affiliates, being hereinafter referred to as "Deposits") subject to the following provisions:

(i) Availability of Investment Alternative. The Operating Company shall be permitted to make Deposits on a day-to-day basis with GTEFI on any business day.

(ii) Interest Rate. GTEFI shall pay interest on the aggregate principal amount of all Deposits by the Operating Company at the Applicable Rate, which may change daily.

(iii) Repayment of Investments. The Operating Company shall have the right to demand repayment of any or all Deposits by the Operating Company at any time without penalty.

c. Cash Management. GTEFI will provide cash management services to the Operating Company, including, but not limited to, the opening and closing of bank accounts, transfers of funds into and out of bank accounts, electronic funds transfers, instructions to banks and dealers, negotiation and payment of bank and dealer fees, disbursements and collections of funds and the management of related supporting cash management systems (collectively, "Cash Management Services") subject to the following provisions:

(i) Types of Services. GTEFI shall provide such Cash Management Services to the Operating Company as shall be reasonably requested from time to time by the Operating Company.

(ii) Performance Standard. GTEFI agrees to provide Cash Management Services to the Operating Company in a manner which will efficiently utilize the cash resources of the Operating Company.

(iii) Compensation. GTEFI shall be compensated for the provision of Cash Management Services to the Operating Company based upon the costs incurred in providing such Cash Management Services.

3. Financing Activities. During the term of this Agreement, GTEFI shall loan to Eligible GTE Affiliates at least 85% of any cash or cash equivalents raised through either (a) Deposits, (b) the issuance by GTEFI of commercial paper with a maturity of 270 days or less, or (c) the incurrence by GTEFI of short-term indebtedness with a maturity of less than one year (collectively, "Financing Activities"). Such loans shall be made as soon as possible, but in no event later than 30 days after GTEFI receives such cash or cash equivalents through such Financing Activities.

4. Limitation on Types of Investments. During the term of this Agreement, GTEFI shall not be permitted to invest in, own, hold or trade any securities other than the following permitted investments ("Permitted Investments"):

- a. debt securities issued by Eligible GTE Affiliates, including the Operating Company,
- b. debt securities, including repurchase agreements, which are exempted by the provisions of the Securities Act of 1933 by Section 3(a)(3) of such Act and issued by corporations which maintain Minimum Ratings from at least two Rating Agencies, and
- c. government securities as defined in Section 2(a)(16) of the Investment Company Act of 1940.

5. Inspection Rights. Upon request, GTEFI agrees to make available to the Operating Company for inspection GTEFI's books, records, bills and accounts with respect to the Operating Company, as well as any documents which describe or pertain to the Cash Management Services provided by GTEFI to the Operating Company. GTEFI understands and agrees that copies of such books, records, bills, accounts and documents with respect to the Operating Company may be required to be provided by the Operating Company to public regulatory bodies, and GTEFI hereby consents to such arrangement.

6. Maximum Liability. The maximum liability of the Operating Company to GTEFI hereunder at any time shall be the principal amount plus accrued and unpaid interest of all loans outstanding from GTEFI to the Operating Company at such time plus any compensation which may be due and owing to GTEFI in connection with Cash Management Services previously provided by GTEFI to the Operating Company minus the amount of any Deposits by the Operating Company together with any accrued and unpaid interest related to such Deposits.

7. Scope of Business Limitation. During the term of this Agreement, GTEFI shall limit its business activities to the following:

- a. the raising of funds and the repayment of funds obtained through Financing Activities,
- b. the making of Permitted Investments,
- c. the lending of funds obtained through Financing Activities to Eligible GTE Affiliates,
- d. the performance of Cash Management Services for GTE Affiliates,
- e. the establishment and maintenance of fee-paid back-up bank lines of credit (which may not be canceled by the issuer thereof due to the occurrence of a material adverse change in the financial or business affairs of GTEFI or any

Eligible GTE Affiliate) covering all of commercial paper indebtedness obtained through Financing Activities that may be utilized by GTEFI and Eligible GTE Affiliates to repay such commercial paper indebtedness obtained through Financing Activities, and

f. activities directly related to and in furtherance of the foregoing.

8. Corporate Formalities. During the term of this Agreement, GTEFI shall maintain all corporate formalities generally associated with separate and distinct corporate entities, including, but not limited to, the following:

a. the maintenance of separate and distinct GTEFI corporate minute books and records,

b. the maintenance and usage of separate and distinct GTEFI bank accounts (including checking accounts),

c. the maintenance and usage of separate stationery in connection with GTEFI's external correspondence, and

d. the execution of contracts and agreements in GTEFI's own name.

9. Financial Statements. During the term of this Agreement, GTEFI shall prepare quarterly unaudited financial statements and annual audited financial statements, and shall make such financial statements available to lenders and rating agencies upon request as soon as such financial statements shall become available (which, for quarterly unaudited financial statements, shall be within 60 days after the end of each of GTEFI's first three preceding fiscal quarters and, for annual audited financial statements, shall be within 120 days after the end of GTEFI's preceding fiscal year).

10. Termination. Notwithstanding anything to the contrary contained in this Agreement, this Agreement may be terminated by the parties hereto, and the effect of such termination shall be, as follows:

a. Termination by the Operating Company Following Notice. The Operating Company may unilaterally terminate this Agreement by giving two business days prior written notice of such termination to GTEFI.

b. Termination by the GTEFI Following Notice. GTEFI may and, if the Operating Company shall no longer be an Eligible GTE Affiliate, GTEFI shall, unilaterally terminate this Agreement by giving two business days prior written notice of such termination to the Operating Company.

c. Immediate Termination. This Agreement shall be terminable immediately by either party hereto if the Support Agreement or any similar substituted agreement shall no longer be in full force and effect, or if all of the

common stock of GTEFI shall no longer be directly or indirectly wholly owned by GTE.

d. Effect of Termination. Upon any such termination, GTEFI shall immediately repay to the Operating Company with interest any Deposits made by the Operating Company, and the Operating Company shall immediately repay to GTEFI with interest any loans from GTEFI to the Operating Company.

11. Other Agreements with Eligible GTE Affiliates. The parties acknowledge that GTEFI intends to execute financial services agreements similar to this Agreement ("Other Agreements") with other Eligible GTE Affiliates. GTEFI agrees to terminate any Other Agreement within two business days if the party to such Other Agreement shall no longer be an Eligible GTE Affiliate.

12. Effectiveness of this Agreement. Although this Agreement has been executed by both parties hereto, to the extent that any state statute, order, rule or regulation or any state regulatory body having competent jurisdiction over either of the parties to this Agreement shall require that this Agreement be filed with or approved by such regulatory body before this Agreement may become effective, this Agreement shall not become effective for such party until the first business day after such approval or filing shall have been obtained or such other date approved by such regulatory body.

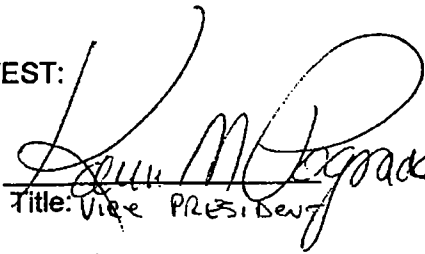
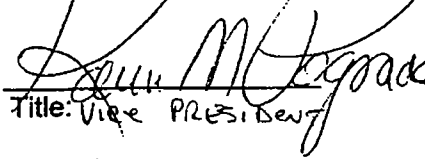
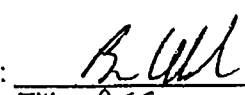
13. Amendment. This Agreement may be amended or rescinded only by written instrument signed by both of the parties hereto, but no such amendment shall become effective until five business days after a copy of such amendment shall have been provided by either party hereto to each of the Rating Agencies.

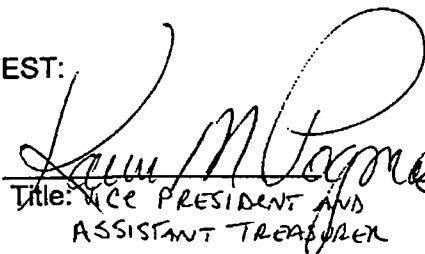
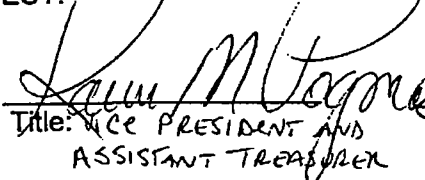
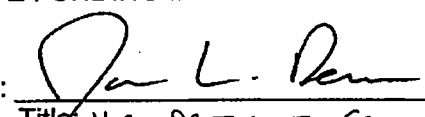
14. Successors. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon, and inure to the mutual benefit of, each of the parties hereto and its successors and assigns.

15. Multiple Counterparts. This Agreement may be executed by the parties in one or more counterparts, and each executed counterpart shall be considered an original.

16. Governing Law. This Agreement shall be governed by the laws of the State of Delaware which are applicable to agreements made and performed in that state.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

ATTEST:  GTE NORTHWEST INCORPORATED
By:  Title: Vice PRESIDENT
By:  Title: ASSISTANT TREASURER

ATTEST:  GTE FUNDING INCORPORATED
By:  Title: VICE PRESIDENT AND ASSISTANT TREASURER
By:  Title: VICE PRESIDENT - General Manager and ASSISTANT TREASURER

Verizon Response to WUTC Staff Data Request No. 32
UT-040788

Attachment 32b

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of June 1, 2002, by and between Verizon Northwest Inc. ("Operating Company") and Verizon Network Funding Corp. ("Network Funding").

W I T N E S S E T H:

WHEREAS, Network Funding has been formed to perform financial services for the Operating Company and for other corporations which are Eligible Verizon Affiliates (as hereinafter defined); and

WHEREAS, the parties have determined to enter into this Agreement for the provision of financial services by Network Funding to the Operating Company as more fully described below;

NOW THEREFORE, the parties agree as follows:

1. Eligible Verizon Affiliate. For the purposes of this Agreement, an Eligible Verizon Affiliate shall mean each direct or indirect subsidiary of Verizon Communications Inc. ("Verizon") which has entered into a financial services agreement that is similar to this Agreement (an "Other Agreement") and either (a) provides telephone service in the United States of America and its telephone service or rates for service are regulated by a public body (a "Regulated Telephone Affiliate"), or (b) provides administrative and other support services to a Regulated Telephone Affiliate which are necessary or desirable to permit the Regulated Telephone Affiliate to conduct its operations.
2. Services to be Performed. Network Funding agrees to provide either directly or through arrangements with third parties for the benefit of the Operating Company, such financial services as the Operating Company may from time to time specify, including but not limited to the following services:
 - a. Short-Term Loans from Network Funding to the Operating Company. The Operating Company shall be permitted to borrow funds on a day-to-day basis from Network Funding subject to the following provisions:
 - (i) Short-Term Loans. The Operating Company shall be permitted to borrow funds on a day-to-day basis from Network Funding on any business day ("Short-Term Loans") up to the Maximum Principal Sum outlined in the Promissory Note between the Operating Company and Verizon Network Funding.

- (ii) **Interest Rate and Payments.** The Operating Company shall pay interest on its unpaid outstanding principal balance of all Short-Term Loans from Network Funding at a rate per annum equal to the Short-Term Interest Rate to be determined in the manner set forth below.
- (A) **Weighted Average Interest Rate.** If Network Funding shall pay any interest, premiums, discounts, commissions or fees in connection with its short-term borrowings during any month, the Short-Term Interest Rate shall be equal to the weighted average of all interest, premiums, discounts, commission and fees paid by Network Funding in connection with its short-term borrowings for each month.
- (B) **Selected Interest Rate.** If Network Funding shall not pay any interest, premiums, discounts, commissions or fees in connection with its short-term borrowings during any month, the Short-Term Interest Rate shall be an interest rate to be selected by Network Funding and to be accepted by the Operating Company; provided, however, that any rate which is at least equal to the interest rate paid by the United States government on its 90-day Treasury securities on the last business day of such month shall be deemed acceptable to the Operating Company.
- (C) **Timing of Payments.** The Operating Company shall pay interest on Short-Term Loans to Network Funding on the first business day of each month following a month during which any Short-Term Loans were outstanding for at least one business day; provided, however, that the Operating Company and Network Funding may mutually agree to change the date or frequency of interest payments if it becomes desirable and beneficial to do so.
- (iii) **Repayment of Short-Term Loans.** The Operating Company shall have the right to repay all or any part of the principal amount and accrued interest of any Short-Term Loans outstanding at any time without penalty. Network Funding shall have the right to demand repayment of all or any part of the principal amount and accrued interest of any Short-Term Loans outstanding at any time without penalty.

- b. Short-Term Investments by the Operating Company in Network Funding. The Operating Company shall be permitted to invest funds in Network Funding subject to the following provisions:
- (i) Short-Term Investments. The Operating Company shall be permitted to lend funds on a day-to-day basis to Network Funding on any business day (“Short-Term Investments”).
 - (ii) Interest Rate and Receipts. Network Funding shall pay interest on the aggregate principal amounts of all Short-Term Investments by the Operating Company at the Short-term Interest Rate. Network Funding shall pay interest on Short-Term Investments to the Operating Company on the first business day of each month following a month during which any Short-Term Investments were outstanding for at least one business day; provided, however, that the Operating Company and Network Funding may mutually agree to change the date or frequency of interest payments if it becomes desirable and beneficial to do so.
 - (iii) Repayment of Short-Term Investments. Network Funding shall have the right to repay all or any part of the principal amount and accrued interest of any Short-Term Investments outstanding at any time without penalty. The Operating Company shall have the right to demand repayment of all or any part of the principal amount and accrued interest of any Short-Term Investments outstanding on any business day without penalty.
- c. Financial Management Services. Network Funding shall provide financial management services to the Operating Company, including but not limited to, the opening and closing of bank accounts, transfers of funds into and out of bank accounts, foreign currency transactions, electronic funds transfers, instructions to banks and dealers, negotiation and payment of bank and dealer fees, disbursements and collections of funds, long-term debt portfolio management, the establishment and maintenance of back-up bank lines of credit, the establishment and maintenance of standby letters of credit and financial guarantees, and the management of related supporting financial management systems (collectively, “Financial Management Services”).
- (i) Cost of Services. The Operating Company agrees to pay to Network Funding each month a financial management fee to provide Financial Management Services to the Operating Company (the “Financial Management Fee”).

- (ii) Calculation of Financial Management Fee. The Financial Management Fee shall be the sum of bank account service fees and general overhead costs, and shall be calculated by Network Funding as follows:
 - (A) Bank Account Service Fees. Bank account services fees shall be based upon actual usage when bank accounts are solely for use by the Operating Company, and based upon relative usage of bank account services when bank accounts are shared between the Operating Company and other Eligible Verizon Affiliates; and
 - (B) General Overhead Costs. General overhead costs of Network Funding, including some bank fees that cannot reasonably be allocated according to the above methodology, shall be allocated among the Operating Company and other Eligible Verizon Affiliates based on the percentage of each Eligible Verizon Affiliate's total capital to the sum of the total capital for all Eligible Verizon Affiliates or through the same methodologies utilized by Verizon for allocation of common costs among Verizon's operating telephone companies.
- (iii) Payment for the Cost of Services. Network Funding shall prepare and deliver to the Operating Company a monthly statement specifying the Financial Management Fee. The Operating Company shall pay the amount shown on such statement within 30 days after the billing date.

- 3. Limitations on Types of Investments. During the term of this Agreement, Network Funding shall not be permitted to invest in, own, hold, or trade any securities other than the following permitted investments ("Permitted Investments"):
 - a. Affiliate Debt Securities. Debt securities issued by Eligible Verizon Affiliates, including the Operating Company;
 - b. Section 3(a)(3) Securities. Debt securities, including repurchase agreements, which are exempted by the provisions of the Securities Act of 1933 Section 3(a)(3) of such Act; and
 - c. Government Securities. Government securities as defined in Section 2(a)(16) of the Investment Company Act of 1940.

4. Inspection Rights. Upon reasonable notice, Network Funding agrees to make available to the Operating Company for inspection Network Funding's books, records, bills, accounts, with respect to the Operating Company, as well as any documents which describe or pertain to the calculation of the Financial Management Fee. Network Funding understands and agrees that the Operating Company may provide copies of such books, records, bills, accounts, and documents to public regulatory bodies, and Network Funding hereby consents to such arrangement.

5. Maximum Liability. The maximum liability of the Operating Company to Network Funding hereunder at any time (the "Maximum Liability") shall be the sum of net short-term indebtedness and unpaid financial services, to be determined as set forth herein.
 - a. Net Short-term Indebtedness. Net short-term indebtedness shall be calculated as follows:
 - (i) the principal amount plus accrued and unpaid interest of all Short-Term Loans outstanding from Network Funding to the Operating Company at such time, minus
 - (ii) the amount of any Short-Term Investments by the Operating Company with Network Funding together with any accrued and unpaid interest related to such Short-Term Investments.

 - b. Unpaid Financial Services. Unpaid financial services shall be all compensation which may be due and owing to Network Funding in connection with the Financial Management Services previously provided by Network Funding to the Operating Company, and

6. Scope of Business Limitation. During the term of this Agreement, Network Funding shall limit its business activities to the following:
 - a. the raising of funds on behalf of Eligible Verizon Affiliates;
 - b. the lending of funds to Eligible Verizon Affiliates;
 - c. the making of Permitted Investments;
 - d. the performance of Financial Management Services for Eligible Verizon Affiliates;
 - e. activities directly related to and in furtherance of the foregoing.

7. Termination. Notwithstanding anything to the contrary contained in this Agreement, this Agreement may be terminated by the parties hereto, and the effect of such termination shall be, as follows:
 - a. Termination by the Operating Company Following Notice. The Operating Company may unilaterally terminate this Agreement by giving 90 business days prior written notice of such termination to Network Funding.
 - b. Termination by Network Funding Following Notice. Network Funding may unilaterally terminate this Agreement by giving 90 business days prior written notice of such termination to the Operating Company.
 - c. Immediate Termination. This Agreement shall be terminable immediately by either party hereto if all of the common stock of Network Funding shall no longer be directly or indirectly wholly owned by Verizon or its successor.
 - d. Effect of Termination. Upon any such termination, the Operating Company shall immediately repay to Network Funding the Maximum Liability; provided, however, that if the Maximum Liability shall be less than zero, Network Funding shall pay the amount by which the Maximum Liability is less than zero to the Operating Company.
8. Other Agreements with Eligible Verizon Affiliates. Network Funding agrees to terminate any Other Agreement within 90 business days if the party to such Other Agreement shall no longer be an Eligible Verizon Affiliate.
9. Effectiveness of this Agreement. Although this Agreement has been executed by both parties hereto, to the extent that any state statute, order, rule or regulation or any state regulatory body having competent jurisdiction over either of the parties to this Agreement shall require that this Agreement to be filed with or approved by such regulatory body before this Agreement may become effective, this Agreement shall not become effective for such party until the first business day after such approval or filing shall have been obtained or such other date approved by such regulatory body.
10. Governing Law. This Agreement shall be governed by the laws of the State of New York, which are applicable to agreements made and performed in that state.
11. Execution and Amendment. This Agreement may be executed by the parties in one or more counterparts, and each executed counterpart shall be considered an original. This Agreement may be amended or rescinded only by written instrument signed by both of the parties hereto.

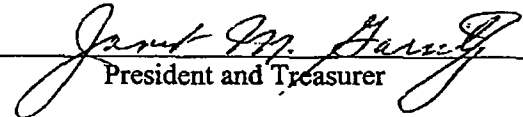
12. Successors. The covenants, representations, warranties, and agreements herein set forth shall be mutually binding upon, and inure to the mutual benefit of, each of the parties hereto and its successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

ATTEST: VERIZON NORTHWEST INC.

By: 
Treasurer

ATTEST: VERIZON NETWORK FUNDING CORP.

By: 
President and Treasurer

Verizon Response to WUTC Staff Data Request No. 32
UT-040788

Attachment 32c

PROMISSORY NOTE

\$500,000,000

September 1, 2002

FOR VALUE RECEIVED, Verizon Northwest Inc., a Washington corporation (herein "Borrower") hereby promises to pay **ON DEMAND** to the order of Verizon Network Funding Corp. (formerly Bell Atlantic Network Funding Corporation), a Delaware corporation (herein "Lender"), in same day funds at its offices at 3900 Washington Street, 2nd floor, Wilmington, Delaware 19802 or such other place as Lender may from time to time designate, the principal sum of Five Hundred Million (\$500,000,000.00) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to Lender's Cost of Funds (defined hereunder as the weighted average of all interest, premiums, discounts, commissions and fees paid by Lender in connection with its borrowings for each month), such rate to change as Lender's Cost of Funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of such borrowings shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder within five (5) days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt, insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, then the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender shall, at the option of Lender, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor, all of which are hereby expressly waived by Borrower.

In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor, and any and all other notices in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect. Borrower further waives and releases all errors, defects and imperfections in any proceedings instituted by Lender.

Following the occurrence of any event of default, Borrower shall pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and shall bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable thereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

In the event that for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note insures to the benefit of Lender and binds Borrower, and their respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated June 1, 2002 by and among Borrower, Lender, Bell Atlantic Administrative Services, Inc., Contel of the South, Inc., GTE Midwest Incorporated, GTE Southwest Incorporated, Verizon California Inc., Verizon Corporate Services Corp., Verizon Florida Inc., Verizon Hawaii Inc., Verizon North Inc., Verizon South Inc., and Verizon West Coast Inc. to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

VERIZON NORTHWEST INC.

By: 
Janet M. Garrity
Title: Assistant Treasurer