

Exhibit No. \_\_\_\_ (PMS-2)  
Docket No. UT-040788  
Witness: Paula M. Strain

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  
OF  
PAULA M. STRAIN  
REGARDING INTERIM RATE RELIEF

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

Staff Adjusted Results of Operations – Washington Intrastate  
Verizon Response to Staff Data Request No. 25 (Headcount Reduction)  
Verizon Response to Public Counsel Data Request No. 8 (Uncollectibles)  
Verizon Response to Staff Data Request No. 20 (Directory Revenues)

July 14, 2004

**VERIZON NORTHWEST INC**  
**WASHINGTON INTRASTATE RESULTS OF OPERATIONS**  
**WITH STAFF RESTATING AND COMMISSION-BASIS ADJUSTMENTS**  
(Dollars in Thousands)

(a)	(b) 12 MTD Intrastate Before Restatements		(c) Company Restating Adjustments		(d) 12 MTD Sep-03 Intrastate Restated		(e) Access Reduction		(f) STAFF PROPOSED			(g) STAFF PROPOSED		(h) 12 MTD Sep-03 After Add'l Restatements		(i) STAFF PROPOSED		(j) STAFF PROPOSED		(k) Interest Synchronization		(l) 12 MTD Sep-03 w/Access Reduction		
									Employee Separation Program	Uncollectible Restatement	Directory Imputation	Flowthrough Income Tax												
<b>Operating Revenues:</b>																								
1 Local Network Service	260,882	1,982	262,864			262,864									262,864								262,864	
2 Network Access Revenues	78,092	(581)	77,511	(29,700)		77,511	(29,700)								47,811								47,811	
3 Long Dist Netwk Revenues	21,863	0	21,863			21,863									21,863								21,863	
4 Miscellaneous Revenues	17,587	351	17,938	481		17,938	481								17,938								17,938	
5 Uncollectibles	(8,487)	0	(8,487)			(8,487)			2,183						(5,823)								(6,304)	
6															0								0	
7															0								0	
8 Total Operating Revenue	369,937	1,782	371,689	(29,219)		371,689	(29,219)	0	2,183		29,241			344,653								373,894		
9																								
<b>Operating Expenses:</b>																								
10 Plant Specific Operations	56,503	(1,492)	55,011			55,011									55,011								55,011	
11 Plant Non-Spec Operations	20,224	3,079	23,303			23,303									23,303								23,303	
12 Access	(487)	6,716	6,229			6,229									6,229								6,229	
13 Customer Operations	53,572	(1,980)	50,788			50,788									50,788								50,788	
14 Corporate Operations	79,040	1,418	81,262			81,262		(7,977)							73,285								73,285	
15 Depreciation	124,692	0	124,692			124,692									124,692								124,692	
16 Other Income & Expenses	(172)	0	(172)			(172)									(172)								(172)	
17 Taxes Other Than Income Taxes	16,167	1,007	17,174			17,174									17,174								17,174	
18															0								0	
19															0								0	
20 Total Operating Expenses	349,538	8,748	358,286	0		358,286	0	(7,977)	0		29,241			350,310								350,310		
21																								
22 Earnings Before Interest and Taxes (EBIT)	20,399	(6,996)	13,403	(29,219)		13,403	(29,219)	7,977	2,183		29,241			(5,657)								23,584		
23																								
24 Federal Income Tax	1,443	(2,449)	(1,005)	(10,227)		(1,005)	(10,227)	2,792	764		10,234			(7,676)								1,050		
25																							2,299	
26 Net Operating Income	\$18,955	(\$4,547)	\$14,408	(\$18,992)		\$14,408	(\$18,992)	\$5,185	\$1,419		\$19,007			\$2,019								(\$1,050)		
27																							\$21,285	
<b>Rate Base (Average):</b>																								
28 Telecomm Plant in Service	1,856,467	(2,123)	1,856,344	0		1,856,344	0							1,856,344									1,856,344	
29 Other Assets (SFAS 87)	134,136	1,292	135,428	0		135,428	0							135,428									135,428	
30 Investor Supplied Working Capital	0	0	0	0		0	0							0									0	
31 Depr & Amort Reserve	(756,207)	0	(756,207)	0		(756,207)	0							(756,207)									(756,207)	
32 Deferred Income Taxes	(272,387)	35,223	(237,164)	0		(237,164)	0							(237,164)									(203,656)	
33 Other LT Liab	(31,114)	17,990	(13,124)	0		(13,124)	0							(13,124)									(13,124)	
34																								
35 Total Rate Base	\$932,894	\$52,382	\$985,276	\$0		\$985,276	\$0	\$0	\$0		\$0			\$985,276								\$0	\$1,018,784	
36																								
37 Return on Rate Base (ROR)	2.03%		1.46%											0.20%									2.09%	
38																								

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

**Data Request No. 25 (Heuring testimony)**

With respect to the \$10 million in employee separation expenses included in test year Corporate Operations expense as documented on Schedule C1, Heuring workpapers Tab 4, please provide Verizon Northwest Inc.'s estimate of annual savings it expects to realize from the employee separation and all documents supporting the estimate. Please explain why the estimated savings from the employee separation are not recognized in the test year.

**RESPONSE:**

Estimated savings associated with employees leaving the payroll during the test year were identified and included in the general rate case filing. See WP P12.1.7, Note (B), included herewith as Attachment 25, for the estimated annual savings of \$17,150,458 associated with the actual headcount reduction in the test year. Of this total annual savings, \$9,173,780 is included in the Test Year booked amounts, as the force reductions occurred over the entire twelve-month period. The incremental difference of \$7,976,678 is included as a proforma adjustment in the general rate case filing.

Prepared By: Jane Lee  
Date: May 19, 2004  
Witness: Nancy Heuring

## Attachment 25

Verizon Northwest - Washington  
 2004 Washington General rate Case  
 Annualized Impact of In-Period Headcount Reductions from 10/1/2003 to 9/30/2004

WP P12.1.7

Line No.	Sep 2002	Oct 2002	Nov 2002	Dec 2002	Jan 2003	Feb 2003	Mar 2003	Apr 2003	May 2003	Jun 2003	Jul 2003	Aug 2003	Sept 2003
1	1,980	1,981	1,952	1,932	1,894	1,883	1,863	1,837	1,835	1,806	1,783	1,777	1,771
2			(29)	(20)	(38)	(11)	(20)	(26)	(2)	(29)	(23)	(6)	(6)
3	23,304	23,304	23,304	23,304	23,304	23,304	23,304	23,304	23,304	23,304	23,304	23,304	23,304
4		11.5	10.5	9.5	8.5	7.5	6.5	5.5	4.5	3.5	2.5	1.5	0.5
5		22,333	(591,332)	(368,975)	(627,258)	(160,213)	(252,457)	(277,703)	(17,478)	(197,111)	(111,664)	(17,478)	(5,826)
6													
7													
8													
9													
10													
11													
12													
13			(209)	23,304	(4,870,476)	(2,605,161)	(2,265,315)						
14													
15													
16													
17													
18													
19													
20													

Pro forma Calculation

	Headcount Reduction	Average Salary	Annual Cost Reduction	Included in Test Period	Required Adjustment
In-Period Salary/Wages Adjustment	(209)	23,304	(4,870,476)	(2,605,161)	(2,265,315)
Allocated In-Period Impact					(3,324,090)
Total In-Period Salary/Wages Adjustment					(5,589,405)

To WP P12.1.3, Line 86

Total Pension & Benefits Adjustment (Direct & Allocated)

(2,211,284) To WP P12.1.4, Line 51

Total Other Employee Related Costs

(175,988) To WP P12.1.3, Line 101

(7,976,678) Total B

Notes

- The adjustment reflects the impact of BAU, or normal attrition, during the test year, assuming these will not be backfilled.
- Average salary computed by dividing annual, regulated salary/wages (Direct only) by average headcount for the period.
- The headcount reductions reflect actual, reported headcount as received from Payroll.
- Reductions in the month are assumed to be mid-month, with half a month's cost reduction impact.
- The allocated salary impact was calculated by using the ratio of booked allocated salary to booked total salary and applying this ratio to the direct salary reductions calculated.
- The allocated pension/benefit impact was calculated by using the ratio of booked pension/benefits to booked total salary and applying this ratio to the total salary reduction calculated.

Notes:

A Required Adjustment to Annual Savings Ratio =  $(2265,315) \div (4870,476) = 46.51\%$

B Total Annual Savings associated w/ Headcount Reductions in Test Year

=  $(7,976,678) \div .4651 = \$17,150,458$  Estimated Annual Savings without any offsets, including the allocated amounts.

Docket No. UT-040788  
Public Counsel Data Requests to Verizon No. 1-14  
June 4, 2004

**Data Request No. PC-8**

Please describe fully the reason(s) for the \$7,273,807 in uncollectible interexchange carrier revenue reported on Schedule S3 during the test year.

**RESPONSE:**

The interexchange uncollectible amount reported on Schedule S3, and mentioned above, was not the amount included in the final revenue deficiency calculations. As explained in Nancy Heuring's testimony, Exhibit No.\_\_\_\_(NWH-1T), Page 15, the test year uncollectible revenues, which are recorded on an accrual basis, were restated to reflect actual write-offs during the test year. See Schedule 1, Tab 4, Book 2, Workpaper WP P8.1 for the actual test period uncollectible write off amounts.

As explained in response to Staff data request No. 233, the wholesale accounts are written off once Verizon has deemed that the collection process is completed and further recovery is zero. Verizon's current practice is to not write off bankrupt customer's receivables until the bankruptcy proceedings are complete and the amount of recoveries is known.

Prepared By: Jane Lee  
Date: June 2, 2004  
Witness: Nancy Heuring

**Data Request No. 20 (Heuring testimony)**

Please describe any changes in jurisdictional allocations and contracts with affiliates that have occurred since 1999, that have resulted in declines to Verizon Northwest Inc.'s Washington intrastate return. Include in your description the date of the change and its annual revenue impact, and provide supporting workpapers.

**RESPONSE:**

**Jurisdictional Allocations**

As described in Ms Heuring's testimony, Verizon NW and its affiliates adhere to the FCC's Service and Asset Valuation Rules as described in Section V of the CAM (Exhibit 1). While the merger with Bell Atlantic and creation of Verizon Communications brought a unified management approach to operating the business, the principles and rules, as described in the testimony, for jurisdictional allocations have not changed.

**Contracts with Affiliates**

Starting in 2000, Verizon Northwest and Verizon Directories Corp. no longer conducted transactions under a revenue sharing arrangement. The current Fee for Service arrangement between Verizon Northwest and Verizon Directories Corp. is consistent with the commission's affiliate transaction guidelines. The estimated annual revenue impact of this change in contracted arrangement is \$34.2 Million, based on the 1999 sharing levels, the last year for which this information is available. Refer to Attachment 20 for the underlying calculation.

Prepared By: Jane Lee  
Date: May 19, 2004  
Witness: Nancy Heuring

## Attachment 20



## Verizon Northwest - Washington Operations

### Directory Advertising

	Intrastate	
Revenues on the Fee for Service Basis	1,269,195	(a)
Directory - Gross	52,119,140	Note 1
Directory - Settlement	<u>(16,608,277)</u>	<u>Note 1</u>
Revenues on the Sharing Basis	35,510,863	(b)
Net decrease from 1999 to Test Year	(34,241,668)	(c=a-b)

Note 1: The data is based on 1999, the last year with the Sharing arrangement in place.