

Exhibit No. ____ (PMS-4)
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 Calculation of Financial Ratios – Northwest, Washington, Washington
Intrastate**

Verizon Response to Staff Data Request No. 15

Verizon Response to Staff Data Request No. 28

Verizon Response to Staff Data Request No. 276(d) and (e)

July 14, 2004

VERIZON NORTHWEST INC.
Request for Interim Rate Relief
Staff Calculation of Financial Ratios
(millions of dollars)

	Test Year Intrastate With Staff Adjustments <u>(a)</u>	Test Year Intrastate Before Adjustments <u>(b)</u>	Test Year Total Washington <u>(c)</u>	Test Year Total Company <u>(d)</u>
<u>EBIT Interest Coverage</u>				
Net Income From Continuing Operations	(\$1.7)	(\$1.0)	\$59.9	\$119.1
Interest Expense	23.0	20.0	26.6	41.5
Income Tax	2.3	1.4	48.4	68.6
Earnings Before Interest and Taxes (EBIT)	<u>\$23.6</u>	<u>\$20.4</u>	<u>\$134.8</u>	<u>\$229.2</u>
Gross Interest Paid	\$25.7	\$22.7	\$28.3	\$47.2
EBIT Interest Coverage	0.9	0.9	4.8	4.9
EBIT Interest Coverage after \$29.7 Interim Increase	1.7	1.7	5.4	5.3
<u>EBITDA Interest Coverage</u>				
Net Income From Continuing Operations	(\$1.7)	(\$1.0)	\$59.9	\$119.1
Interest Expense	23.0	20.0	26.6	41.5
Income Tax	2.3	1.4	48.4	68.6
Depreciation and Amortization	124.7	124.7	166.4	291.9
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	148.3	145.1	301.2	521.1
Gross Interest Paid	22.7	22.7	28.3	47.2
EBITDA Interest Coverage	6.5	6.4	10.6	11.0
EBITDA Interest Coverage after Interim Increase	7.4	7.2	11.3	11.4
<u>Funds From Operations / Total Debt Ratio</u>				
Net Income From Continuing Operations	(\$1.7)	(\$1.0)	\$59.9	\$119.1
Depreciation and Amortization	124.7	124.7	166.4	291.9
Change in Deferred Taxes	1.0	1.0	1.5	15.2
Funds From Operations	124.0	124.7	227.8	426.2
Total Debt	329.1	329.1	433.5	716.4
Prior Year Total Debt	354.9	354.9	463.2	772.4
Average Total Debt	342.0	342.0	448.3	744.4
Funds From Operations / Avg Debt	36.3%	36.5%	50.8%	57.3%
Funds From Operations / Avg Debt After Interim	41.8%	42.0%	55.0%	59.8%

EBIT Interest Coverage =

$$\frac{\text{Earnings from continuing operations before interest and taxes}}{\text{Gross interest incurred before subtracting capitalized interest and interest income}}$$

EBITDA Interest Coverage =

$$\frac{\text{Adj. Earnings from continuing operations bef. Interest, taxes, and Deprec. \& Amort.}}{\text{Gross interest incurred before subtracting capitalized interest and interest income}}$$
Funds from operations (FFO) / =
average total debt
$$\frac{\text{Net income from continuing operations + D\&A, deferred income tax \& other non-cash items}}{\text{L-T debt + current maturities, commercial paper, \& other S-T borrowings}}$$

VERIZON NORTHWEST INC
Request for Interim Rate Relief
Staff Presentation of Capital Structure
For Test Year and Calendar Years Ended 1999 through 2002

	Test Year	Test Year After				
	Before Restatement	Interim Increase	2002	2001	2000	1999
Ratios:						
Short Term Debt	8.18%	7.96%	8.89%	14.31%	7.19%	2.70%
Long Term Debt	29.57%	29.27%	28.31%	26.78%	35.79%	38.86%
Total Debt	38.05%	37.23%	37.53%	41.44%	41.44%	42.06%
Common Equity	62.25%	62.77%	62.81%	58.91%	57.02%	58.44%
Total Capitalization	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Verizon Response to Staff Data Request No. 29

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS

Request for Interim Rate Relief

Staff Summary of Results of Operations without Restatements

12 months Ended September 30, 2003

(Thousands of Dollars)

(a) Line Description	(b) Verizon Northwest	(c) Washington Regulated	(d) Washington Intrastate
1 Operating Revenues:			
2 Local Network Service	\$472,260	\$260,882	\$260,882
3 Network Access Revenues	528,207	319,551	78,092
4 Long Dist Netwk Revenues	30,080	22,468	21,863
5 Miscellaneous Revenues	142,014	30,473	17,587
6 Uncollectibles	(22,635)	(14,389)	(8,487)
7			
8 Total Operating Revenue	1,149,926	618,984	369,937
9			
10 Operating Expenses:			
11 Plant Specific Operations	186,677	73,966	56,503
12 Plant Non-Spec Operations	48,360	26,891	20,224
13 Access	33,038	12,738	(487)
14 Customer Operations	132,845	66,725	53,572
15 Corporate Operations	185,949	101,738	79,040
16 Depreciation	291,899	166,381	124,692
17 Other Income & Expenses	(562)	(228)	(172)
18 Taxes Other Than Income Taxes	42,519	23,621	16,167
19			
20 Total Operating Expenses	920,725	471,832	349,538
21			
22 Earnings Before Interest and Taxes (EBIT)	229,201	147,152	20,399
23			
24 Federal Income Tax	68,585	43,937	1,443
25			
26 Net Operating Income	160,616	103,216	18,955
27			
28 Rate Base (Average):			
29 Telecomm Plant in Service	4,102,787	2,460,353	1,858,467
30 Other Assets (SFAS 87)	321,992	172,466	134,136
31 Investor Supplied Working Capital			0
32 Depr & Amort Reserve	1,883,666	998,652	756,207
33 Deferred Income Taxes	536,735	353,398	272,387
34 Other LT Liab	72,156	40,006	31,114
35			
36 Total Rate Base	1,932,222	1,240,763	932,894
37			
38 Return on Rate Base (ROR)	8.31%	8.32%	2.03%
39			
40			
41 Source: Verizon Northwest Inc. Response to Staff Data Request 278; Hearing Workpaper L1			
42 Quarterly Compliance Report, 12 Months Ended September 30, 2003			

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

Data Request No. 15 (General)

Does Verizon Northwest Inc. possess any analysis of Verizon Northwest Inc.'s financial ratios for its total company operations similar to that contained in Mr. Vander Weide's testimony in Exhibit No. ____ (JHV-4T) at page 9, lines 8-12 or Exhibit No. ____ (JHV-5)? If so, produce it. If not, please explain why not, and provide that analysis.

RESPONSE:

The financial ratio analysis contained in Dr. Vander Weide's testimony was a special project developed specifically for his testimony. Such an analysis is not available for Verizon Northwest's "total company operations".

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

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

Data Request No. 28 (Vander Weide testimony)

Please identify the time periods studied by Mr. Vander Weide (or others of whom Verizon Northwest Inc. is aware), in which the financial ratios Verizon Northwest Inc., on a Washington intrastate basis, would likely confirm a below investment grade rating of BB. Produce the documents reflecting those studies, other than those filed with Verizon Northwest Inc.'s interim rate relief filing in this docket. If no periods other than those presented in his testimony have been studied, please so state.

RESPONSE:

Dr. Vander Weide studied only the periods shown in Table 1. Dr. Vander Weide rendered an opinion regarding the likely bond rating for Verizon NW's Washington Intrastate operations only with respect to the 12-month period ending September 30, 2003.

Prepared By: James H. Vander Weide
Date: May 11, 2004
Witness: James H. Vander Weide

Docket No. UT-040788 – General Rate Case
WUTC Staff Data Requests to Verizon Nos. 276-280
June 22, 2004
Page 2

Data Request No. 276 (General):

As a follow-up to Verizon's response to Staff Data Request No. 203 and in conjunction with the Affiliate Transactions section of Nancy Heuring's testimony, Exhibit NWH-1T, specifically page 36, line 13, and Exhibit NWH-5; please provide a balance sheet and an income statement matching the test period [as normally required by WAC 480-146-360(3)(g)] for each of the following in the same format:

- a. Bell Atlantic Communications, Inc. dba VZ Long Distance (VLD)
- b. All other affiliates listed in Exhibit NWH-6.
- c. Verizon Northwest Inc. – Total Company Operations
- d. Verizon Northwest Inc. – Total Washington Operations
- e. Verizon Northwest Inc. – Washington Intrastate Operations

RESPONSE:

- a. Verizon objects to this Data Request on the basis that it is unduly burdensome. Verizon does not have the requested financial statements for this affiliate that match the test period. Without waiver of the foregoing objection, Verizon has produced the requested financial information on an annual basis in its annual affiliate interest filings, as required by WAC 480-146-360(3)(g).
- b. See a above.
- c. Please see Attachment 276c-1 and 276c-2 for Verizon Northwest Inc.'s Total Company Balance Sheet and Income Statement, respectively.
- d. Please see Attachment 276d for Verizon Northwest Inc. – Total Washington's Income Statement. Balance Sheet is not maintained at a state level other than rate base items as shown in WP Schedule S6.
- e. Income Statement and Balance Sheet are not maintained at an intrastate level.

Prepared By: Jane Lee
Date: June 16, 2004
Witness: Nancy Heuring