

GLOSSARY OF TERMS¹

Accumulated Reserve: The dollar amount of depreciation expense that has been accumulated in the depreciation reserve to date

Accumulated Reserve Percentage or Reserve Ratio Percentage: The percentage of accumulated reserve to the original cost of the asset

Average Remaining Life (ARL): This is the average remaining life of a group of assets and is based on the vintage (year) of each asset in the group. The inputs, or parameters, used to generate the average remaining life are the projected life of the asset, the retirement dispersion pattern (curve shape), and equal life group (ELG) implementation year. For this study, Verizon retained the existing Commission-prescribed Curve Shape and ELG year, and made revisions to the Projection Life in calculating the Average remaining Life

Curve Shape: This reference refers to the retirement dispersion pattern of a group of assets. This is recognition that, in a group of assets, some assets will live less than average and some longer than average. In this proposal, Verizon retained the existing Commission-prescribed Curve Shape.

Depreciation Rate: The depreciation rate in Washington was calculated using the traditional remaining life depreciation rate formula: $100\% \text{ expression of Original Cost} - \text{Reserve Ratio Percentage (RR\%)} - \text{Future Net Salvage (FNS) Percentage} / \text{Average Remaining Life (ARL)}$. For example, assuming a Reserve Ratio percent of 40%, a FNS 0%, and an ARL of 10 years, the formula and rate calculation would be:

$$\begin{aligned} & (100\% - \text{RR\%} - \text{FNS\%}) / \text{ARL} = \text{Depreciation Rate} \\ & (100\% - 40\% - 0\%) / 10 = 60\% / 10 = 6\% \text{ Depreciation Rate} \end{aligned}$$

Equal Life Group (ELG): A calculation technique used to determine depreciation rates that has been used by the FCC and most State Commissions since the early 80s but was not adopted for use by the WUTC until 1995. In this proposal, Verizon retained the existing Commission-prescribed ELG implementation year of 1995.

Future Net Salvage (FNS): This is the net of Gross Salvage and Cost of Removal. If the salvage value exceeds cost of removal, this value will be positive; likewise, if the salvage value is less than cost of removal, this value will be negative.

GAAP Depreciation Lives: This refers to the depreciation lives that Verizon Washington uses on its Financial Books using Generally Accepted Accounting Principles “GAAP”.

¹ This Glossary is not intended as a technical reference.

Intrastate depreciation rates and expense: The depreciation expense charged to the PSC regulatory books using the depreciation rates ordered by the Washington Commission. Verizon Washington's current PSC rates were ordered by the WUTC in Docket

Interstate depreciation rates and expense: The depreciation expense charged to the FCC regulatory books using the depreciation rates ordered by the FCC. Verizon Washington's current FCC rates were ordered by the FCC in Docket

Intrastate Factor: For Regulated Books, approximately 75% of investment is governed by WUTC, and 25% is governed by the FCC.

Parameters: This reference refers to the inputs used to calculate the remaining life and generate the remaining life depreciation rate.

Prescribed Rates: The rates ordered or approved by a regulatory Commission.

Reserve Gap: The difference between the accumulated depreciation expense when intrastate reserves are compared to either interstate, other state commissions, or GAAP.

Total Company State Change in Expense: The amount of additional intrastate depreciation expense over the current level of depreciation expense. This is the total company state change in expense before applying the Intrastate Factors.