

Agenda Date: July 29, 2005

Item Number: A1

Docket: UT-050695

Company: Verizon Northwest Inc.

Staff: Kathy Folsom, Regulatory Analyst

Recommendation:

Deny the petition of Verizon Northwest Inc. for a waiver of WAC 480-120-395 as it relates to reporting transactions with Verizon Northwest Inc.'s subsidiary, Verizon West Coast Inc.

Background:

By order dated February 28, 2005, in Docket A-021178, the Commission adopted revisions to WAC 480-120-395, Affiliated interest and subsidiary transactions report. The rule revisions added a requirement that companies file an annual report summarizing transactions with their subsidiaries by June 1 of each year. Verizon Northwest Inc. (Verizon NW or Company) is now required to file a report of transactions with its sole subsidiary, Verizon West Coast Inc. (Verizon West Coast). Verizon West Coast provides local exchange service in northern California.

On May 6, 2005, Verizon NW filed a petition pursuant to WAC 480-07-110 seeking a permanent waiver from the requirement to annually file the report of transactions with Verizon West Coast. On May 24, 2005, Verizon NW was granted an extension of time until August 1, 2005, to file the report of transactions with Verizon West Coast. The additional time would allow Staff to investigate the Company's request for waiver of the subsidiary reporting requirements.

Discussion:

WAC 480-120-395 provides that when total company transactions with a subsidiary equal or exceed one hundred thousand dollars (\$100,000) for the reporting period, the Company must generally provide a description of the subsidiary and all transactions between the subsidiary and the company.

As justification for the permanent waiver of the rule, the Company asserts the following:

1. The waiver is warranted because the reporting of transactions between Verizon NW and Verizon West Coast is not needed to protect Verizon NW's financial viability or to prevent inappropriate rates from being charged to Washington customers.
2. The new filing requirement creates an unnecessary regulatory burden contrary to the Governor's Executive Order 97-02.
3. Verizon West Coast's operations account for less than one percent of the total Verizon NW operations.
4. Granting the waiver is consistent with RCW 80.16, because while the law expressly gives the Commission some limited authority over transactions with affiliates, it does not expressly cover transactions with subsidiaries.

The transactions between Verizon NW and Verizon West Coast are primarily comprised of inventory transfers and occupational labor distributions. The Company has stated that the level of payments for 2004 was as follows: the goods and services provided by Verizon West Coast to Verizon NW amounted to \$1,598,813 and the goods and services provided from Verizon NW to Verizon West Coast amounted to \$1,942,916 for a total of approximately \$3.5 million per year.

The reporting requirement currently contains a threshold which allows for a reduced level of reporting (name of the subsidiary and total dollar amount) when total transactions with an affiliated interest or subsidiary are less than one hundred thousand dollars. In its annual affiliated interest report for 2004, Verizon NW filed the minimum level report for seven separate affiliates that had less than one hundred thousand dollars in transactions. Staff believes that the current threshold is sufficient to allow for a reduced level of reporting when total transactions with a subsidiary are minimal.

In looking at the payments to/from Verizon NW and its affiliates, it appears that there are eight entities with less than \$3.5 million in total transactions that are currently fully reported as required by rule. Staff does not see a distinction between the transactions the Company has with its subsidiary and the transactions the Company has with its affiliated companies. Given the level of payments and the reality that Verizon NW has unilateral control over its

subsidiary transactions in the future, Staff believes that the Company should fully report its transactions with Verizon West Coast.

As noted in the Commission's order in Docket A-021178, the Commission has broad authority under RCW 80.04.080 to require reports from regulated companies concerning any matters about which it is authorized or required to keep itself informed. These include transactions with subsidiaries which can affect the assets and liabilities of the regulated company.

Nowhere in its petition does Verizon NW indicate that it does not have the information. The Company currently files an annual affiliated interest report with the California Public Utilities Commission containing similar information to the report required by WAC 480-120-395. Verizon NW does not claim that the additional reporting requirement is financially burdensome. The Company does not seek to either waive or file alternative reports for specific items required by the rule. Instead, the Company seeks to be exempt from the entire reporting requirement.

Conclusion:

For the reasons stated above, Staff believes that the petition for a waiver of WAC 480-120-395 as it relates to reporting transactions with Verizon Northwest Inc.'s subsidiary, Verizon West Coast Inc. should be denied.