Before the

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No. UT-040788

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VERIZON NORTHWEST INC.

RESPONSE TO COMMISSION BENCH REQUEST NOS. B-3 and B-4

August 17, 2004

Docket No. UT-040788
Verizon Response to Commission Bench Request No. B-3 and B-4
Due Date: August 17, 2004

Data Request No. B-3

Please provide a statement of cash flow projections for Washington intrastate operations for the period ending June 1, 2005.

RESPONSE:

See Attachment B-3 for the requested Washington intrastate projected cash flow for the period August 2004 through May 2005. In assessing this projection, the Commission should recognize that there are many uncertainties that could cause the "actual" cash flow from Washington intrastate operations to be significantly less than the "projected" cash flow. The financial community is aware that every company must have a sufficient margin of cash resources to cover unforeseen events such as higher than expected line losses, greater than expected required capital expenditures, or unusual expenses due to events such as severe weather (e.g., Hurricane Charlie). Bond rating agencies acknowledge the need to maintain a margin for contingencies when they require a company to maintain coverage ratios significantly in excess of 1.0 in order to have an investment-grade bond rating. This Commission acknowledged the need to maintain a margin for contingencies when it used a 1.5 coverage ratio to determine interim rate relief in the *Olympic Pipeline* case.

The inadequacy of the projected cash flow from Washington intrastate operations is demonstrated by the projected deterioration in the financial ratios from those shown in the attachment to Dr. Vander Weide's direct testimony, Exhibit JHV-5. Indeed, the most important financial ratio, EBIT interest coverage, is projected to decline from negative 0.70 to negative 1.26, while the EBITDA interest coverage is projected to decline from 4.80 to 4.64, and the Funds from Operations to Total Debt Ratio is projected to decline from approximately 30% to approximately 24%. (See summary table below.) Given this further deterioration in the key financial ratios, considered on a stand-alone basis, the financial community would certainly deem Verizon's Washington intrastate operations to be experiencing severe financial distress, which is not alleviated in any regard by a slightly positive cash flow.

Key S&P Financial Ratios	September 30, 2003	Projected May 2005	Required for Investment-Grade Bond Rating
EBIT Interest Coverage	(0.70)	(1.26)	3.9
EBITDA Interest Coverage	4.80	4.64	5.4
Funds From Operations/Total Debt Ratio	29.9%	24.0%	30.6%

Prepared By: Cory Legner and James H. Vander Weide
Date: August 13, 2004
Witness: Nancy Heuring and James H. Vander Weide

Docket No. UT-040788
Verizon Response to Commission Bench Request No. B-3 and B-4
Due Date: August 17, 2004

Data Request No. B-4

Please provide a statement of cash flows for Washington intrastate operations for the test year.

RESPONSE:

Please see attached as previously provided in response to Staff Data Request No. 78 for Interim Rate Relief. Note that the third column of Attachment 78, entitled "Post Revenue Reduction Amount", is the proper cash flow level for the test year.

Prepared By: Cory Legner
Date: August 13, 2004
Witness: Nancy Heuring and James H. Vander Weide