

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

Complainant,

v.

VERIZON NORTHWEST INC.,

Respondent.

DOCKET NO. UT-040788

MOTION TO COMPEL  
PRODUCTION OF DOCUMENTS  
AND/OR INFORMATION

1           This Motion is filed on behalf of Commission Staff. Staff seeks the relief  
described in ¶¶ 36, 37, and 38 below.

2           This Motion places into issue no particular Commission rules or statutes.

3           This Motion asks the Commission to order Verizon Northwest Inc. (“Verizon  
NW”) to produce documents and/or information necessary for Staff to adequately  
evaluate the Company’s results of operations in this rate case. There are three data  
requests at issue.

## FACTS AND ARGUMENT

4 For the Commission's convenience, below we separately discuss each item.  
The facts regarding each data request item are provided, followed by argument  
relating to each item.

### A. Board Minutes for Verizon Communications

#### Facts Related to Item A

5 Verizon Communications owns 95.25% of GTE Corporation, which owns all  
of Verizon NW. Verizon Communications provides overall corporate governance  
and direction for Verizon NW. Accordingly, Verizon NW is subject to the policies  
established by Verizon Communications.

6 Commission Staff personnel Paula Strain and Betty Erdahl went to Verizon  
NW's corporate offices located in Irving, Texas, for purposes of conducting an audit  
of Verizon NW's books and records, and other relevant documents. Ms. Strain was  
present there from September 6 to 11. Ms Erdahl was there from September 8 to 11.

7 Prior to embarking on the trip, Ms. Strain sent Verizon NW an e-mail listing  
the documents Staff wished to review. It was Staff's understanding that Verizon  
NW would only permit Staff to have access to certain of these documents on-site.

8 One item on the list was the minutes from the Board of Director meetings  
held by the Board of Directors of Verizon NW's parent, Verizon Communications.

Another item was the minutes of the Audit and Finance Committee of the Board.

*See Attachment 1, e-mails from Paula Strain to Gregg Diamond, et al., dated August 2, August 18, and August 27, 2004; and from Gregg Diamond to Paula Strain, dated August 17, 2004.*

9           At no time prior to Staff's trip to Texas did Verizon NW inform Staff that the Company would refuse Staff full access to these documents.

10           After Staff arrived in Texas, Verizon NW refused Staff any access whatsoever to any Board of Director minutes of Verizon Communications. Verizon NW permitted limited access to the minutes of the Verizon Communications Audit and Finance Committee of the Board, redacting certain items.

11           Counsel for the Commission contacted Verizon NW's counsel by e-mail and telephone. By e-mail dated September 9, 2004, Verizon NW's counsel stated the Board minutes would not be produced for inspection. Counsel for the Commission, by e-mail dated September 9, 2004, then asked for the basis for redaction of the Board Audit and Finance Committee minutes,<sup>1</sup> and asked Verizon NW to clarify whether it was the Company's position that the Verizon Communications Board did not set policy for Verizon NW.

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<sup>1</sup> The September 9, 2004, e-mail (in Attachment 2) asking Verizon for the basis for redaction incorrectly referred to "VNW minutes," it should have said Verizon Communications Audit and Finance Committee minutes. In any event, Verizon's September 14, 2004, e-mail response, also in Attachment 2, indicated that the basis was provided verbally by Mr. Diamond to Ms. Strain. Staff is seeking that this verbal communication of information be provided in writing.

12           On September 14, 2004, Verizon NW's counsel responded by e-mail, stating that Ms. Strain was told the basis for redacting, and reiterated that the Board minutes would not be provided. Verizon NW did not respond to the question whether it was the Company's position that the Verizon Communications Board did not set policy for Verizon NW. *See Attachment 2, September 9, 2004, e-mail from Donald T. Trotter to Judith Endejan, and June 14, 2004, e-mail from Judith Endejan to Donald T. Trotter.*

### **Argument Related to Item A**

13           The Commission should order Verizon NW to produce the Verizon Communications Board minutes, and to state the specific basis for each redaction of the Board committee minutes.<sup>2</sup>

14           These documents are relevant, or are likely to lead to relevant evidence. Verizon Communications owns virtually all of Verizon NW and provides overall corporate governance and direction for Verizon NW. *See, Exhibit \_\_\_ (NWH-1T, Direct Testimony of Nancy W. Heuring, at 37 ll. 14-19.* Verizon Communications sets the policies of Verizon NW with respect to, for example, financing, income tax returns, pensions, employee compensation including employee incentive plans,

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<sup>2</sup> While reviewing the Audit and Finance Committee minutes, Staff learned that the Verizon Communications Board of Directors also had a Management Audit Committee that was separate from the Audit and Finance Committee. Staff asked to review the Management Audit Committee minutes, and Verizon NW has agreed to provide access to those minutes at its offices in Olympia, but has indicated they will be provided in redacted form. The Commission should require the Company to provide a specific description of the basis for redaction of these minutes as well.

stock-based compensation plans and workforce reductions. *See Attachment 3, Verizon NW's, Response to Staff Data Request 207a, Verizon Northwest Inc. Financial Statements, esp. Footnotes 1, 2, 8, and 9, at pages 8, 11, 15 and 15, respectively.*

15           Reviewing just the minutes of Verizon NW's Board is insufficient to determine what the policies are and how the policies are implemented for Washington operations. Indeed, based on the on-site review performed by Paula Strain, Verizon NW's board minutes contain little more than the authorization of agreements with affiliates, adopting of policies and contracts developed by other Verizon entities, and dividend payments to its parent. *See Attachment 4, Declaration of Paula M. Strain.*

16           Reviewing Board of Director minutes is a standard audit function. The Rate Case and Audit Manual prepared by the NARUC Staff Subcommittee on Accounting and Finance (2003) contemplates review of minutes of Board of Directors' meetings, both for the utility and for the utility's parent company. *See Attachment 5, NARUC Rate Case and Audit Manual (2003), pp 7, 14, 35, 38.* The review of the parent company's board minutes is especially important when, as here, the parent company provides direction and policy for the regulated utility.

17           The minutes of the Verizon Communications Board of Directors for the period January 1, 2002 to date should be produced.

**B. Data Request No. 418: Year End Journal Entries for Verizon NW**

**Facts Related to Item B**

18 On August 27, 2004, Commission Staff requested a list of year-end journal entries for 2002 and 2003. *See Attachment 1, e-mail from Paula Strain to Gregg Diamond, dated August 27, 2004.* Like the previous data request item described in Part II.A of this motion, this information was to be reviewed on site in Texas during Staff's audit.

19 On September 7, 2004, in Texas, Commission Staff was provided a list of year-end journal entries for Verizon NW Inc. for 2002 and 2003 and selected certain journal entries from the list for on-site review. However, Verizon NW provided only partial year-end journal entries; the Company redacted figures from other jurisdictions, and other Verizon companies affected by the journal entries.

20 Staff later issued Data Request No. 418, seeking this information on a more formal basis. Staff does not anticipate the answer will be any different.

Attachment 6 is a copy of Staff Data Request No. 418.

**Argument Related to Item B**

21 The total journal entry information requested, un-redacted, is necessary for Staff to review how, and the extent to which total journal entry figures became Verizon NW Washington figures.

22 For example, assume there was an entry for \$1 million in expense to Verizon Northwest – Washington operations in the test year results of operations. If Staff is unable to review the entire journal entry, and follow the allocation of the total journal entry amount to the Washington level, Staff cannot assess the reasonableness of the allocation method used or the overall magnitude of the adjustment.

23 Accordingly, the Commission should order Verizon NW to provide the year-end journal entries, un-redacted.

**C. Data Request No. 277: Hawaii Sale Documents**

**Facts Related to Item C**

24 On June 9, 2004, Commission Staff issued Staff Data Request No. 277, seeking all documents related to a sale of Verizon’s telephone operations in the state of Hawaii, including the Directory business. *See Attachment 7, Staff Data Request No. 277.*

25 On June 22, 2004, Verizon NW objected to the request, and did not produce any of the documents requested. *See Attachment 8, and Verizon NW’s June 22, 2004 response to Staff Data Request No. 277.*

26 Discussions ensued. Commission Counsel sent a follow-up e-mail dated July 21, 2004, to which the Company responded by a July 23, 2004 e-mail, asking whether the request could be refined. Staff endeavored to refine the request, and

did so via an e-mail sent the same day: July 23, 2004. The Company sent an e-mail July 27, 2004, indicating it was looking into the matter. *See Attachment 9 for these three e-mails.*

27           The refined Staff Data Request No. 277 solicited by the Company asked the Company to produce only those documents covered by Staff Data Request No. 277 that mention the directory business, and to simply list all of the other documents responsive to the original data request. Verizon NW did not promptly respond.

28           On August 17, 2004, Commission Counsel sent an e-mail to Verizon NW's counsel, asking for the documents. *See Attachment 10, the August 17, 2004 e-mail from Commission Counsel to Verizon NW's counsel.* That evening, during the public hearing in Everett, Verizon NW's counsel stated to Commission Counsel that some documents would be forthcoming.

29           Once again, the promised documents were not forthcoming.

30           On September 3, 2004, following yet another round of correspondence by Commission Counsel, once again following up on this item, Verizon NW finally provided two documents: 1) a "portion" of an internal management presentation, and 2) certain "reporting information" Verizon NW says was provided to all potential buyers. *See Attachment 10, Verizon's September 3, 2004 response (the documents provided were designated confidential; they are not included for that reason. The cover sheets to the documents are provided, and the response identifies the documents).*



31           The two documents the Company provided are not the only documents responsive to Data Request No. 277, as originally written, or as refined at the Company's request. No list of the documents responsive to Data Request No. 277 was provided, as specifically requested in the refined request.

32           In its September 3, 2004, response, the Company for the first time objected to responding to the refined data request, because it would be "burdensome and onerous" to review each document to determine whether it would be responsive. The Company did not indicate the number of documents involved nor did it quantify the burden alleged. *See Attachment 11 at 1.*

#### **Argument on Item C**

33           The Company should be ordered to provide all documents described in the July 23, 2004, e-mail, on page 7 of Attachment 8, including the list of responsive documents not provided. This information is directly relevant to the valuation of directory operations, which is an issue in this case. This information may lead to relevant information to the extent it contains any evaluation of the value of the directory operations to the telecommunications operations.

34           Verizon NW's September 3, 2004, objections (*Attachment 11 at 1*) are untimely because the request was issued June 8, 2004. The objections are also disingenuous, because the burden the Company alleges is caused by a refinement to the data request the Company itself solicited.

35           It should not take months of continuous Staff efforts to get the Company to produce extant documents that are plainly relevant to this case. In the alternative, to eliminate the burden Verizon NW alleges, the Company should simply produce all documents responsive to Staff Data Request No. 277 as originally stated.

**RELIEF SOUGHT**

36           The Commission should order Verizon NW to produce for review by Commission Staff the minutes of the Verizon Communications Board of Directors for the period January 1, 2002 to date. The review can, at the Company's election, be at Company offices in Olympia, and Staff will review and take notes, but will not copy. Staff will reserve the right to request specific minutes be produced for copying, however. The Commission should also order Verizon NW to state in writing the specific basis for redaction of any Board Audit and Finance Committee minutes that were provided for review, and any Management Audit Committee minutes that are provided in redacted form.

37           The Commission should order Verizon NW to produce the 2002 and 2003 year-end journal entries for Verizon NW Inc. without redaction.

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The Commission should order Verizon NW to provide the documents requested in Staff Data Request No. 277, either as originally requested, or as modified, with the list requested in that modification.

DATED this 15<sup>th</sup> day of August 2004.

CHRISTINE O. GREGOIRE  
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