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TRANSCRIPTION OF DOCKET(S) A-021178 and TO-030288

Item C1 and C2, Docket(s) A-021178 and TO-030288

Chairman Sidran: We are now going to take up Item C1 related to a rulemaking on financial reporting rules. I just note that this is not an item required to be decided in an open meeting but we are taking this up for the convenience of the Commission and for the public.

Sally Johnston: They are taken up together.

Chairman Sidran: I'm sorry...yes, Items 1 and 2.

Fred Ottavelli: Good morning Commissioners.

Chairman Sidran: Good morning.

Fred Ottavelli: Fred Ottavelli with the Commission staff. Item C1 and C2 in Dockets A-021178 and TO-030288, are rulemakings to consider financial reporting rules in several of the industries that are regulated by this agency.

The Commission is nearing the end of what has been a very, very long journey in consideration of financial reporting rules. It's a journey that started in this room in the summer of 2002, with a stakeholder meeting that occurred, you may note the time, around the Enron incident, and very much unrest in the financial markets, and the Commission determined at that stakeholder meeting, that it was appropriate to visit...to re-visit its financial reporting rules, primarily those rules that involve the issuance of securities by regulated utilities, affiliated interest arrangements, entered into by the regulated utilities, and arrangements with subsidiaries.

Over the last several years, the Commission has conducted a number of stakeholder meetings. It has issued a number of requests for written comments from the industries and again, I add that this is a rule to virtually every industry regulated by the Commission.

In short, the Commission has, over these last years, conducted a very, very comprehensive review of its financial reporting rules. On February 28th, the Commission issued an order adopting the majority of the rules under consideration, but at that time, determined it wanted further time to consider rules applicable to the issuance of securities, which is regulated under RCW Chapter 80.08.

On May 4, the Commission filed a Supplemental CR-102 to consider the remainder of the rules relating to security transactions. And, the rules under consideration in that CR-102, in essence are parallel language set forth in Chapters 80.08 and 81.08 RCW. Repealing Chapter 480-146, a section of the rules that was...that currently is solely applicable to the issuance of securities, transferring the rules from the securities provision to each of the industries, making it...the intent being to make it more user-friendly to the industry, to the public, and the Commission.

With that May 4th mailing, the Commission asked for comments from the various industries that are being...that are impacted, namely gas, electric, telecom, water and pipeline.

Comments have been received...written comments have been received from two telecom companies...being Verizon Northwest Inc., and Qwest Corporation. No other comments either written or oral have been received from the other regulated industries.

Just very briefly, the rules that were proposed...that are proposed in the CR-102, reflect changes in terms of adopting rules applicable to liquid pipeline

companies regulated as common carriers adopting security rules... none exist today...permitting...broadening the ability of companies to file by electronic or mail or facsimile, their security filings...inserting statutory language to explicitly state that security filings must be filed with the Commission before issuance of a security. That is the case with the existing rule however, it is not explicitly stated. Codifying the Commission's Interpretive Statement regarding "shelf" registration, specifying that security filings may be submitted with designation as confidential, increasing from 30 to 60 days the tie in period in which a utility may file following the issuance of a security, and adding to that report the...to the extent known, the disposition of proceeds from issuance for each purpose as permitted by 80.08.030, and specifying that annual report that exists in the current rules, include a report of purpose again, allowed by 80.08.030, for the issuance of securities.

Verizon's comments concern...were concerned with an earlier version that the Commission did consider, received comments on, involving the development of investment grade versus non-investment grade...excuse me...utilities requiring that investment grade file...be able to file, following the issuance of securities, but requiring the non-investment grade companies file five days prior to the issuance. That...after consideration and comments from many of the regulated industries, the Commission's determination was to drop that distinction from its rules and so the proposed rules to not include that distinction. However, any company that is subject to 80.08 may at any time file for an exemption, and the Commission may find that it's in the public interest to do so for a particular issuance or for a class of issuance.

Qwest comments go to the first...the difficulty of reporting...in both the annual report and the 30-day...the 60-day report, the exact use of dollars that are received from a particular issuance. The Commission had no intent...there is no

intent to track particular dollars. The Commission's concern here is that if the company has, in fact, used proceeds for refunding in a particular time period, then that would be sufficient to permit them to file that they had, in fact, used proceeds for that purpose.

Qwest also expressed concern that certain information within 60-days after the issuance of securities, just may not be possible in certain instances, and asked for the insertion of the words either "if known" or "to the extent known" actually on both that report and the annual report. The proposed draft that you have before you inserts that "to the extent known" in the 60-day report, recognizing that, in fact, there may be problems. However, the annual report simply requires that they report the proceeds that were used in that particular year by April 1, and there is no reason why the company should not be able to provide that information. So, that proposal is not included in the draft.

Finally, the comments of Qwest expressed a concern. There are exemptions in 80.08, dealing...exempting short-term obligations and reporting any obligation or a liability as a guarantor, and a very literal reading of our rule, Qwest was concerned that they would have to report securities that were not subject to the jurisdiction 80.08. That is not the intent. It has never been the intent, but if, a very literal reading does produce that result, then we suggest...and it is in the proposed rules, that the language suggested by Qwest be inserted...that makes it very specific those exemptions exist.

Staff is available for questions and I understand there may be some from the industry here.

Chairman Sidran: No questions. Thank you Mr. Ottavelli, and thank you for your leadership on this and all the hard work that staff has put in over the last more...I guess two and a half years of this process. So, progress is being made.

Unless there are questions for you from the Commissioner's, I will invite Mr. is it Millar, from Verizon, if you'd like to comment on this.

Robert Millar: Chairman Sidran, Commission Oshie, Commissioner Jones, my name is Robert Mallar, I am here on behalf of Verizon Northwest. Verizon has submitted comments in this proceeding...and it isn't my intent to repeat arguments previously made, however, Verizon is unclear why the Commission's taken the distinction out between investment grade and non-investment grade companies from the rule.

Verizon believes that the earlier proposed version of the rule, which distinguished between the two and waived the requirement, that investment grade companies file such transactions before they occur, reflects the reality that financing activities of investment grade companies such as Verizon, do not need the same regulatory oversight as non-investment grade companies.

The proposed response to Verizon's comments indicates that the Commission may exempt certain issuances by order under the statute, but seems to indicate that any investment grade company will be required to file a separate waiver request for such waiver to occur. Verizon suggests that this regulatory requirement may be unnecessary for the Commission to protect the public interest, as noted in the previous versions of...of this rule. That's all I have sir.

Chairman Sidran: Thank you. Any questions?

Commissioner Jones: Just one for Mr. Mallar. How...can you give me a rough idea of how often this occurs for Verizon Northwest and how often you have to file under this rule? Let's take a year or two year period.

Robert Millar: My understanding is that it does not happen that often. I do have someone on the line, because I've just recently joined Verizon Northwest that may be able to answer that question with more specificity. My colleague Richard Potter, I believe, is on the bridge line. Richard...?

Richard Potter: It has not happened too often, but we're always looking forward to minimize regulatory requirements so that we don't inadvertently violate them or so that they don't complicate future transactions.

Commissioner Jones: Just one more, short question. How often do you use the "shelf" registration process of the SEC? As I understand it that is an accelerated, streamlined process by which a company can file with the SEC, and we are exempting such SEC "shelf" registrations from this rule as well. So, how often do you use that?

Richard Potter: I'm sorry I don't have the answer to that off the top of my head.

Commissioner Jones: Okay, that's all Mr. Chairman.

Chairman Sidran: Okay, anything else? We need not decide this matter at this hearing, unless that is the preference of the Commission. I suggest we just take this matter up after this meeting and hopefully bring this matter to closure expeditiously. So, unless someone wishes to comment further, we'll move on.