

ATTACHMENT A

Docket No. UT-040788
WUTC Staff Data Requests to Verizon Nos. 1-28
May 21, 2004

Data Request 2 (General)

Please produce, for the past five years:

- a) all bond rating documents for Verizon Northwest Inc. (or any affiliate thereof) issued by any bond rating agency (*e.g.*, Standard & Poor's, Moody's, *etc.*). This includes documents such as the bond rating itself, any associated analysis, "credit watch" type analysis, bond rating upgrades, downgrades, *etc.*
- b) all correspondence between Verizon Northwest Inc. (or any affiliate thereof) and any bond rating agency (*e.g.*, Standard & Poor's, Moody's, *etc.*) relating to any document or rating related to Item (a) of this data request.
- c) all documents in which Verizon Northwest Inc. (or any affiliate thereof) discusses Verizon Northwest Inc.'s bond rating including any written record of presentations that Verizon Northwest Inc. or Verizon Communications Inc. has made to any bond rating agency.
- d) any reports, notes or other written materials furnished by brokerage firms or other financial institutions in which Verizon Northwest Inc. or Verizon Communications Inc. or its subsidiaries were discussed. Please include the date of discussion and any creditworthiness evaluations.

RESPONSE:

- a) See files provided on CD in the folder labeled as DR #2 - Attachment 2a.
- b) There is no correspondence relating to Item (a).
- c) See files provided on CD in the folder labeled as DR #2 - Attachment 2c.
- d) See files provided on CD in the folder labeled as DR #2 - Attachment 2d.

Prepared By: Robert G. Deter
Date: May 13, 2004
Witness: James H. Vander Weide

Docket No. UT-040788
WUTC Staff Data Requests to Verizon Nos. 1-28
May 21, 2004

Data Request No. 25 (Heuring testimony)

With respect to the \$10 million in employee separation expenses included in test year Corporate Operations expense as documented on Schedule C1, Heuring workpapers Tab 4, please provide Verizon Northwest Inc.'s estimate of annual savings it expects to realize from the employee separation and all documents supporting the estimate. Please explain why the estimated savings from the employee separation are not recognized in the test year.

RESPONSE:

Estimated savings associated with employees leaving the payroll during the test year were identified and included in the general rate case filing. See WP P12.1.7, Note (B), included herewith as Attachment 25, for the estimated annual savings of \$17,150,458 associated with the actual headcount reduction in the test year. Of this total annual savings, \$9,173,780 is included in the Test Year booked amounts, as the force reductions occurred over the entire twelve-month period. The incremental difference of \$7,976,678 is included as a proforma adjustment in the general rate case filing.

Prepared By: Jane Lee
Date: May 19, 2004
Witness: Nancy Heuring

Docket No. UT-040788
WUTC Staff Data Requests to Verizon Nos. 29-30
Related to Interim Rate Relief Case
June 2, 2004

Data Request No. 30

Please provide the end-of-month short-term debt balances for Verizon Northwest Inc., for the preceding 36 months and include the monthly cost rate of that short-term debt.

RESPONSE:

See Attachment 30.

Prepared By: Robert G. Deter
Date: May 25, 2004
Witness: James H. Vander Weide

Verizon Response to WUTC Staff Data Request No. 30
UT-040788

Attachment 30

VERIZON NORTHWEST INC.
MONTH END SHORT-TERM DEBT
(Thousands of Dollars)

Attachment 30

	Amount	Cost Rate
Sep-03	\$153,268	1.115%
Aug-03	\$200,329	1.120%
Jul-03	\$181,704	1.156%
Jun-03	\$206,433	1.240%
May-03	\$240,061	1.291%
Apr-03	\$175,307	1.280%
Mar-03	\$187,530	1.285%
Feb-03	\$214,865	1.350%
Jan-03	\$195,487	1.365%
Dec-02	\$173,617	1.383%
Nov-02	\$196,451	1.939%
Oct-02	\$167,117	2.055%
Sep-02	\$208,995	2.033%
Aug-02	\$209,746	1.966%
Jul-02	\$246,518	1.899%
Jun-02	\$300,097	1.887%
May-02	\$267,801	1.870%
Apr-02	\$244,740	1.880%
Mar-02	\$261,063	1.922%
Feb-02	\$282,971	1.925%
Jan-02	\$255,641	2.031%
Dec-01	\$294,728	2.136%
Nov-01	\$276,712	2.340%
Oct-01	\$254,979	2.861%
Sep-01	\$293,324	3.479%
Aug-01	\$318,428	3.678%
Jul-01	\$296,832	3.855%
Jun-01	\$345,829	4.195%
May-01	\$343,762	4.667%
Apr-01	\$107,908	5.086%
Mar-01	\$92,242	5.286%
Feb-01	\$160,298	5.811%
Jan-01	\$114,982	6.376%
Dec-00	\$150,929	6.571%
Nov-00	\$53,699	6.553%
Oct-00	\$56,867	6.563%
Sep-00	\$60,591	6.564%

Docket No. UT-040788
WUTC Staff Data Requests to Verizon Nos. 31-34
June 9, 2004

Data Request No. 32

Verizon Northwest Inc.'s response to WUTC STAFF DATA REQUEST NO. 8 (General) stated the following:

“Since January 1, 1999, Verizon Northwest has financed its annual construction budget via funds from operations (internally generated funds) and short-term notes with GTE Funding Incorporated and Verizon Network Funding Corp.”

Please provide a list of the short-term notes obtained from GTE Funding Incorporated and Verizon Network Funding Corp., and for each note, state the term of the note, interest rate, and any conditions or criteria Verizon Northwest Inc. must comply with to avoid default on such financing.

RESPONSE:

Verizon Northwest Inc. borrows and invests short-term funds with GTE Funding Incorporated according to the conditions and criteria outlined in the attached Financial Services Agreement dated January 3, 1997 (Attachment 32a). The Financial Services Agreement was authorized by the Commission in Docket UT-960952 on October 9, 1996. The agreement works on a “cash pool” basis and has no associated promissory notes. The amount borrowed or invested is rolled over each business day. The interest rate during the month of September 2003 was 1.115%.

Verizon Northwest Inc. borrows and invests short-term funds with Verizon Network Funding Corp. according to the conditions and criteria outlined in the attached Financial Services Agreement dated June 1, 2002 (Attachment 32b). The Financial Services Agreement was filed with the Commission August 16, 2002. The agreement works on a “cash pool” basis and utilizes the attached promissory note dated September 1, 2002 (Attachment 32c), which limits the amount of borrowing to \$500 million. The amount borrowed or invested is rolled over each business day. The interest rate during the month of September 2003 was 1.115%.

Prepared By: Robert G. Deter
Date: June 1, 2004
Witness: James H. Vander Weide

Verizon Response to WUTC Staff Data Request No. 32
UT-040788

Attachment 32a

FINANCIAL SERVICES AGREEMENT

This Agreement, dated as of January 3, 1997, by and between GTE NORTHWEST INCORPORATED, a Washington corporation (the "Operating Company") whose common stock is wholly-owned by GTE Corporation, a New York corporation ("GTE"), and GTE FUNDING INCORPORATED, a Delaware corporation ("GTEFI") whose common stock is wholly-owned by GTE Florida Incorporated, a Florida corporation whose common stock is wholly-owned by GTE;

WITNESSETH:

WHEREAS, GTEFI has been formed to perform financial services for the Operating Company and for other corporations which are GTE Affiliates (as hereinafter defined); and

WHEREAS, the parties have determined to enter into this Agreement for the provision of financial services by GTEFI to the Operating Company as more fully described below;

NOW THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. Eligible GTE Affiliate. The Operating Company hereby represents to GTEFI that it is an Eligible GTE Affiliate. For the purposes of this Agreement, an Eligible GTE Affiliate shall mean a corporation (a) which provides telephone service in the United States of America, (b) whose telephone service or rates for service are regulated by a public body, (c) which is at least 25% owned (as determined by the ownership of its outstanding voting securities), directly or indirectly, by GTE (a "GTE Affiliate"), and (d) which maintains either a publicly issued or a privately provided Minimum Rating (as hereinafter defined) for its short-term commercial paper from at least two of the following rating agencies (collectively, the "Rating Agencies"), and no Rating Agency publishes a rating for its short-term commercial paper which is less than a Minimum Rating: Standard & Poor's Corporation ("S&P"), Moody's Investors Service ("Moody's"), Duff & Phelps Credit Rating Company ("DCR"), and Fitch Investors Service ("Fitch"). For the purposes of this Agreement, a Minimum Rating shall mean: (a) A-1 or its successor equivalent from S&P, (b) P-1 or its successor equivalent from Moody's, (c) D-1 or its successor equivalent from DCR, and (d) F-1 or its successor equivalent from Fitch.

2. Services to be Performed. GTEFI agrees to provide, either directly or through arrangements with third parties for the benefit of the Operating Company, such

financial services as the Operating Company may from time to time specify, including but not limited to the following services:

a. Loans from GTEFI to the Operating Company. The Operating Company shall be permitted to borrow short-term funds from GTEFI subject to the following provisions:

(i) Availability of Funds. The Operating Company shall be permitted to borrow short-term funds on a day-to-day (demand note) basis from GTEFI on any business day to finance the Operating Company's ordinary business and capital requirements.

(ii) Limitations on Borrowing. As long as GTEFI shall remain below ninety-two percent (92%) of the total external indebtedness limitation agreed to by GTEFI (the "GTEFI Borrowing Limit") in that certain Support Agreement, dated as of January 3, 1997, between GTEFI and GTE, as such agreement may be amended from time to time (the "Support Agreement"), GTEFI shall not impose any limit on the principal amount of funds that may be borrowed by the Operating Company from GTEFI on any business day or the aggregate principal amount of indebtedness that may be due and owing by the Operating Company to GTEFI from time to time. GTEFI may restrict the right of the Operating Company to borrow from GTEFI, or the amount of any such new borrowings, if GTEFI's external indebtedness exceeds ninety-two percent (92%) of the GTEFI Borrowing Limit. The Operating Company understands and agrees that GTEFI shall not be permitted to lend funds to the Operating Company if GTEFI shall at such time have total external indebtedness in excess of the GTEFI Borrowing Limit.

(iii) Interest Rate. The Operating Company shall pay interest on the aggregate principal amount of all funds borrowed by it from GTEFI at the Applicable Rate (as defined herein), which may change daily.

(iv) Calculation of the Applicable Rate. The Applicable Rate shall mean the rate of interest established by GTEFI as its "Applicable Rate" on a day-to-day basis. The Applicable Rate shall be set by GTEFI to approximate GTEFI's net weighted average daily borrowing rate, which shall be determined in part by including in the calculation of such rate the fees which shall be paid or payable by GTEFI to brokers and banks for the issuance by GTEFI of external indebtedness to fund its financial requirements and for the establishment or maintenance of lines of credit to which GTEFI shall have access. The Applicable Rate shall be based upon a 360-day year.

(v) Repayment of Loans. The Operating Company shall have the right to repay all or any part of the principal amount and accrued interest of the loan or loans outstanding that were made to the Operating Company by GTEFI at any time without penalty.

b. Investments by the Operating Company in GTEFI. The Operating Company shall be permitted to invest excess short-term funds in GTEFI (such funds, together with funds invested in GTEFI by other GTE Affiliates, being hereinafter referred to as "Deposits") subject to the following provisions:

(i) Availability of Investment Alternative. The Operating Company shall be permitted to make Deposits on a day-to-day basis with GTEFI on any business day.

(ii) Interest Rate. GTEFI shall pay interest on the aggregate principal amount of all Deposits by the Operating Company at the Applicable Rate, which may change daily.

(iii) Repayment of Investments. The Operating Company shall have the right to demand repayment of any or all Deposits by the Operating Company at any time without penalty.

c. Cash Management. GTEFI will provide cash management services to the Operating Company, including, but not limited to, the opening and closing of bank accounts, transfers of funds into and out of bank accounts, electronic funds transfers, instructions to banks and dealers, negotiation and payment of bank and dealer fees, disbursements and collections of funds and the management of related supporting cash management systems (collectively, "Cash Management Services") subject to the following provisions:

(i) Types of Services. GTEFI shall provide such Cash Management Services to the Operating Company as shall be reasonably requested from time to time by the Operating Company.

(ii) Performance Standard. GTEFI agrees to provide Cash Management Services to the Operating Company in a manner which will efficiently utilize the cash resources of the Operating Company.

(iii) Compensation. GTEFI shall be compensated for the provision of Cash Management Services to the Operating Company based upon the costs incurred in providing such Cash Management Services.

3. Financing Activities. During the term of this Agreement, GTEFI shall loan to Eligible GTE Affiliates at least 85% of any cash or cash equivalents raised through either (a) Deposits, (b) the issuance by GTEFI of commercial paper with a maturity of 270 days or less, or (c) the incurrence by GTEFI of short-term indebtedness with a maturity of less than one year (collectively, "Financing Activities"). Such loans shall be made as soon as possible, but in no event later than 30 days after GTEFI receives such cash or cash equivalents through such Financing Activities.

4. Limitation on Types of Investments. During the term of this Agreement, GTEFI shall not be permitted to invest in, own, hold or trade any securities other than the following permitted investments ("Permitted Investments"):

a. debt securities issued by Eligible GTE Affiliates, including the Operating Company,

b. debt securities, including repurchase agreements, which are exempted by the provisions of the Securities Act of 1933 by Section 3(a)(3) of such Act and issued by corporations which maintain Minimum Ratings from at least two Rating Agencies, and

c. government securities as defined in Section 2(a)(16) of the Investment Company Act of 1940.

5. Inspection Rights. Upon request, GTEFI agrees to make available to the Operating Company for inspection GTEFI's books, records, bills and accounts with respect to the Operating Company, as well as any documents which describe or pertain to the Cash Management Services provided by GTEFI to the Operating Company. GTEFI understands and agrees that copies of such books, records, bills, accounts and documents with respect to the Operating Company may be required to be provided by the Operating Company to public regulatory bodies, and GTEFI hereby consents to such arrangement.

6. Maximum Liability. The maximum liability of the Operating Company to GTEFI hereunder at any time shall be the principal amount plus accrued and unpaid interest of all loans outstanding from GTEFI to the Operating Company at such time plus any compensation which may be due and owing to GTEFI in connection with Cash Management Services previously provided by GTEFI to the Operating Company minus the amount of any Deposits by the Operating Company together with any accrued and unpaid interest related to such Deposits.

7. Scope of Business Limitation. During the term of this Agreement, GTEFI shall limit its business activities to the following:

a. the raising of funds and the repayment of funds obtained through Financing Activities,

b. the making of Permitted Investments,

c. the lending of funds obtained through Financing Activities to Eligible GTE Affiliates,

d. the performance of Cash Management Services for GTE Affiliates,

e. the establishment and maintenance of fee-paid back-up bank lines of credit (which may not be canceled by the issuer thereof due to the occurrence of a material adverse change in the financial or business affairs of GTEFI or any

Eligible GTE Affiliate) covering all of commercial paper indebtedness obtained through Financing Activities that may be utilized by GTEFI and Eligible GTE Affiliates to repay such commercial paper indebtedness obtained through Financing Activities, and

f. activities directly related to and in furtherance of the foregoing.

8. Corporate Formalities. During the term of this Agreement, GTEFI shall maintain all corporate formalities generally associated with separate and distinct corporate entities, including, but not limited to, the following:

a. the maintenance of separate and distinct GTEFI corporate minute books and records,

b. the maintenance and usage of separate and distinct GTEFI bank accounts (including checking accounts),

c. the maintenance and usage of separate stationery in connection with GTEFI's external correspondence, and

d. the execution of contracts and agreements in GTEFI's own name.

9. Financial Statements. During the term of this Agreement, GTEFI shall prepare quarterly unaudited financial statements and annual audited financial statements, and shall make such financial statements available to lenders and rating agencies upon request as soon as such financial statements shall become available (which, for quarterly unaudited financial statements, shall be within 60 days after the end of each of GTEFI's first three preceding fiscal quarters and, for annual audited financial statements, shall be within 120 days after the end of GTEFI's preceding fiscal year).

10. Termination. Notwithstanding anything to the contrary contained in this Agreement, this Agreement may be terminated by the parties hereto, and the effect of such termination shall be, as follows:

a. Termination by the Operating Company Following Notice. The Operating Company may unilaterally terminate this Agreement by giving two business days prior written notice of such termination to GTEFI.

b. Termination by the GTEFI Following Notice. GTEFI may and, if the Operating Company shall no longer be an Eligible GTE Affiliate, GTEFI shall, unilaterally terminate this Agreement by giving two business days prior written notice of such termination to the Operating Company.

c. Immediate Termination. This Agreement shall be terminable immediately by either party hereto if the Support Agreement or any similar substituted agreement shall no longer be in full force and effect, or if all of the

common stock of GTEFI shall no longer be directly or indirectly wholly owned by GTE.

d. Effect of Termination. Upon any such termination, GTEFI shall immediately repay to the Operating Company with interest any Deposits made by the Operating Company, and the Operating Company shall immediately repay to GTEFI with interest any loans from GTEFI to the Operating Company.

11. Other Agreements with Eligible GTE Affiliates. The parties acknowledge that GTEFI intends to execute financial services agreements similar to this Agreement ("Other Agreements") with other Eligible GTE Affiliates. GTEFI agrees to terminate any Other Agreement within two business days if the party to such Other Agreement shall no longer be an Eligible GTE Affiliate.

12. Effectiveness of this Agreement. Although this Agreement has been executed by both parties hereto, to the extent that any state statute, order, rule or regulation or any state regulatory body having competent jurisdiction over either of the parties to this Agreement shall require that this Agreement be filed with or approved by such regulatory body before this Agreement may become effective, this Agreement shall not become effective for such party until the first business day after such approval or filing shall have been obtained or such other date approved by such regulatory body.

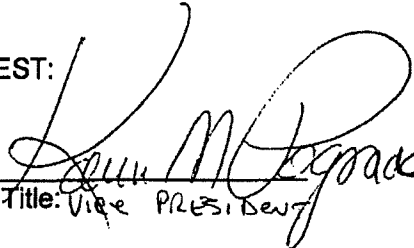
13. Amendment. This Agreement may be amended or rescinded only by written instrument signed by both of the parties hereto, but no such amendment shall become effective until five business days after a copy of such amendment shall have been provided by either party hereto to each of the Rating Agencies.

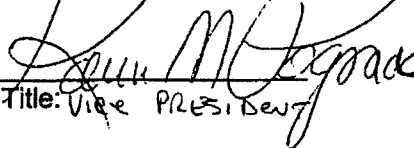

14. Successors. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon, and inure to the mutual benefit of, each of the parties hereto and its successors and assigns.

15. Multiple Counterparts. This Agreement may be executed by the parties in one or more counterparts, and each executed counterpart shall be considered an original.

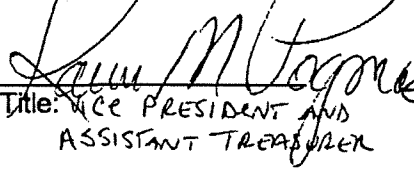
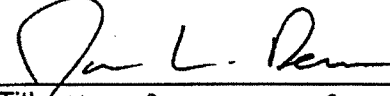
16. Governing Law. This Agreement shall be governed by the laws of the State of Delaware which are applicable to agreements made and performed in that state.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

ATTEST:  GTE NORTHWEST INCORPORATED

By:  Title: Vice President
By:  Title: ASSISTANT TREASURER

ATTEST:  GTE FUNDING INCORPORATED

By:  Title: Vice President and Assistant Treasurer
By:  Title: Vice President - General Manager and Assistant Treasurer

Verizon Response to WUTC Staff Data Request No. 32
UT-040788

Attachment 32b

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of June 1, 2002, by and between Verizon Northwest Inc. ("Operating Company") and Verizon Network Funding Corp. ("Network Funding").

WITNESSETH:

WHEREAS, Network Funding has been formed to perform financial services for the Operating Company and for other corporations which are Eligible Verizon Affiliates (as hereinafter defined); and

WHEREAS, the parties have determined to enter into this Agreement for the provision of financial services by Network Funding to the Operating Company as more fully described below;

NOW THEREFORE, the parties agree as follows:

1. Eligible Verizon Affiliate. For the purposes of this Agreement, an Eligible Verizon Affiliate shall mean each direct or indirect subsidiary of Verizon Communications Inc. ("Verizon") which has entered into a financial services agreement that is similar to this Agreement (an "Other Agreement") and either (a) provides telephone service in the United States of America and its telephone service or rates for service are regulated by a public body (a "Regulated Telephone Affiliate"), or (b) provides administrative and other support services to a Regulated Telephone Affiliate which are necessary or desirable to permit the Regulated Telephone Affiliate to conduct its operations.
2. Services to be Performed. Network Funding agrees to provide either directly or through arrangements with third parties for the benefit of the Operating Company, such financial services as the Operating Company may from time to time specify, including but not limited to the following services:
 - a. Short-Term Loans from Network Funding to the Operating Company. The Operating Company shall be permitted to borrow funds on a day-to-day basis from Network Funding subject to the following provisions:
 - (i) Short-Term Loans. The Operating Company shall be permitted to borrow funds on a day-to-day basis from Network Funding on any business day ("Short-Term Loans") up to the Maximum Principal Sum outlined in the Promissory Note between the Operating Company and Verizon Network Funding.

- (ii) Interest Rate and Payments. The Operating Company shall pay interest on its unpaid outstanding principal balance of all Short-Term Loans from Network Funding at a rate per annum equal to the Short-Term Interest Rate to be determined in the manner set forth below.
- (A) Weighted Average Interest Rate. If Network Funding shall pay any interest, premiums, discounts, commissions or fees in connection with its short-term borrowings during any month, the Short-Term Interest Rate shall be equal to the weighted average of all interest, premiums, discounts, commission and fees paid by Network Funding in connection with its short-term borrowings for each month.
- (B) Selected Interest Rate. If Network Funding shall not pay any interest, premiums, discounts, commissions or fees in connection with its short-term borrowings during any month, the Short-Term Interest Rate shall be an interest rate to be selected by Network Funding and to be accepted by the Operating Company; provided, however, that any rate which is at least equal to the interest rate paid by the United States government on its 90-day Treasury securities on the last business day of such month shall be deemed acceptable to the Operating Company.
- (C) Timing of Payments. The Operating Company shall pay interest on Short-Term Loans to Network Funding on the first business day of each month following a month during which any Short-Term Loans were outstanding for at least one business day; provided, however, that the Operating Company and Network Funding may mutually agree to change the date or frequency of interest payments if it becomes desirable and beneficial to do so.
- (iii) Repayment of Short-Term Loans. The Operating Company shall have the right to repay all or any part of the principal amount and accrued interest of any Short-Term Loans outstanding at any time without penalty. Network Funding shall have the right to demand repayment of all or any part of the principal amount and accrued interest of any Short-Term Loans outstanding at any time without penalty.

- b. Short-Term Investments by the Operating Company in Network Funding. The Operating Company shall be permitted to invest funds in Network Funding subject to the following provisions:
- (i) Short-Term Investments. The Operating Company shall be permitted to lend funds on a day-to-day basis to Network Funding on any business day ("Short-Term Investments").
 - (ii) Interest Rate and Receipts. Network Funding shall pay interest on the aggregate principal amounts of all Short-Term Investments by the Operating Company at the Short-term Interest Rate. Network Funding shall pay interest on Short-Term Investments to the Operating Company on the first business day of each month following a month during which any Short-Term Investments were outstanding for at least one business day; provided, however, that the Operating Company and Network Funding may mutually agree to change the date or frequency of interest payments if it becomes desirable and beneficial to do so.
 - (iii) Repayment of Short-Term Investments. Network Funding shall have the right to repay all or any part of the principal amount and accrued interest of any Short-Term Investments outstanding at any time without penalty. The Operating Company shall have the right to demand repayment of all or any part of the principal amount and accrued interest of any Short-Term Investments outstanding on any business day without penalty.
- c. Financial Management Services. Network Funding shall provide financial management services to the Operating Company, including but not limited to, the opening and closing of bank accounts, transfers of funds into and out of bank accounts, foreign currency transactions, electronic funds transfers, instructions to banks and dealers, negotiation and payment of bank and dealer fees, disbursements and collections of funds, long-term debt portfolio management, the establishment and maintenance of back-up bank lines of credit, the establishment and maintenance of standby letters of credit and financial guarantees, and the management of related supporting financial management systems (collectively, "Financial Management Services").
- (i) Cost of Services. The Operating Company agrees to pay to Network Funding each month a financial management fee to provide Financial Management Services to the Operating Company (the "Financial Management Fee").

- (ii) **Calculation of Financial Management Fee.** The Financial Management Fee shall be the sum of bank account service fees and general overhead costs, and shall be calculated by Network Funding as follows:
 - (A) **Bank Account Service Fees.** Bank account services fees shall be based upon actual usage when bank accounts are solely for use by the Operating Company, and based upon relative usage of bank account services when bank accounts are shared between the Operating Company and other Eligible Verizon Affiliates; and
 - (B) **General Overhead Costs.** General overhead costs of Network Funding, including some bank fees that cannot reasonably be allocated according to the above methodology, shall be allocated among the Operating Company and other Eligible Verizon Affiliates based on the percentage of each Eligible Verizon Affiliate's total capital to the sum of the total capital for all Eligible Verizon Affiliates or through the same methodologies utilized by Verizon for allocation of common costs among Verizon's operating telephone companies.
- (iii) **Payment for the Cost of Services.** Network Funding shall prepare and deliver to the Operating Company a monthly statement specifying the Financial Management Fee. The Operating Company shall pay the amount shown on such statement within 30 days after the billing date.

- 3. **Limitations on Types of Investments.** During the term of this Agreement, Network Funding shall not be permitted to invest in, own, hold, or trade any securities other than the following permitted investments ("Permitted Investments"):
 - a. **Affiliate Debt Securities.** Debt securities issued by Eligible Verizon Affiliates, including the Operating Company;
 - b. **Section 3(a)(3) Securities.** Debt securities, including repurchase agreements, which are exempted by the provisions of the Securities Act of 1933 Section 3(a)(3) of such Act; and
 - c. **Government Securities.** Government securities as defined in Section 2(a)(16) of the Investment Company Act of 1940.

4. Inspection Rights. Upon reasonable notice, Network Funding agrees to make available to the Operating Company for inspection Network Funding's books, records, bills, accounts, with respect to the Operating Company, as well as any documents which describe or pertain to the calculation of the Financial Management Fee. Network Funding understands and agrees that the Operating Company may provide copies of such books, records, bills, accounts, and documents to public regulatory bodies, and Network Funding hereby consents to such arrangement.

5. Maximum Liability. The maximum liability of the Operating Company to Network Funding hereunder at any time (the "Maximum Liability") shall be the sum of net short-term indebtedness and unpaid financial services, to be determined as set forth herein.
 - a. Net Short-term Indebtedness. Net short-term indebtedness shall be calculated as follows:
 - (i) the principal amount plus accrued and unpaid interest of all Short-Term Loans outstanding from Network Funding to the Operating Company at such time, minus
 - (ii) the amount of any Short-Term Investments by the Operating Company with Network Funding together with any accrued and unpaid interest related to such Short-Term Investments.
 - b. Unpaid Financial Services. Unpaid financial services shall be all compensation which may be due and owing to Network Funding in connection with the Financial Management Services previously provided by Network Funding to the Operating Company, and

6. Scope of Business Limitation. During the term of this Agreement, Network Funding shall limit its business activities to the following:
 - a. the raising of funds on behalf of Eligible Verizon Affiliates;
 - b. the lending of funds to Eligible Verizon Affiliates;
 - c. the making of Permitted Investments;
 - d. the performance of Financial Management Services for Eligible Verizon Affiliates;
 - e. activities directly related to and in furtherance of the foregoing.

7. **Termination.** Notwithstanding anything to the contrary contained in this Agreement, this Agreement may be terminated by the parties hereto, and the effect of such termination shall be, as follows:
- a. **Termination by the Operating Company Following Notice.** The Operating Company may unilaterally terminate this Agreement by giving 90 business days prior written notice of such termination to Network Funding.
 - b. **Termination by Network Funding Following Notice.** Network Funding may unilaterally terminate this Agreement by giving 90 business days prior written notice of such termination to the Operating Company.
 - c. **Immediate Termination.** This Agreement shall be terminable immediately by either party hereto if all of the common stock of Network Funding shall no longer be directly or indirectly wholly owned by Verizon or its successor.
 - d. **Effect of Termination.** Upon any such termination, the Operating Company shall immediately repay to Network Funding the Maximum Liability; provided, however, that if the Maximum Liability shall be less than zero, Network Funding shall pay the amount by which the Maximum Liability is less than zero to the Operating Company.
8. **Other Agreements with Eligible Verizon Affiliates.** Network Funding agrees to terminate any Other Agreement within 90 business days if the party to such Other Agreement shall no longer be an Eligible Verizon Affiliate.
9. **Effectiveness of this Agreement.** Although this Agreement has been executed by both parties hereto, to the extent that any state statute, order, rule or regulation or any state regulatory body having competent jurisdiction over either of the parties to this Agreement shall require that this Agreement to be filed with or approved by such regulatory body before this Agreement may become effective, this Agreement shall not become effective for such party until the first business day after such approval or filing shall have been obtained or such other date approved by such regulatory body.
10. **Governing Law.** This Agreement shall be governed by the laws of the State of New York, which are applicable to agreements made and performed in that state.
11. **Execution and Amendment.** This Agreement may be executed by the parties in one or more counterparts, and each executed counterpart shall be considered an original. This Agreement may be amended or rescinded only by written instrument signed by both of the parties hereto.

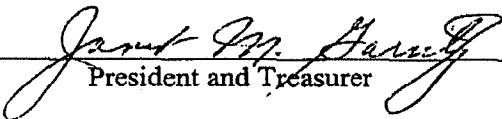
12. Successors. The covenants, representations, warranties, and agreements herein set forth shall be mutually binding upon, and inure to the mutual benefit of, each of the parties hereto and its successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

ATTEST: VERIZON NORTHWEST INC.

By: 
Treasurer

ATTEST: VERIZON NETWORK FUNDING CORP.

By: 
President and Treasurer

Verizon Response to WUTC Staff Data Request No. 32
UT-040788

Attachment 32c

PROMISSORY NOTE

\$500,000,000

September 1, 2002

FOR VALUE RECEIVED, Verizon Northwest Inc., a Washington corporation (herein "Borrower") hereby promises to pay **ON DEMAND** to the order of Verizon Network Funding Corp. (formerly Bell Atlantic Network Funding Corporation), a Delaware corporation (herein "Lender"), in same day funds at its offices at 3900 Washington Street, 2nd floor, Wilmington, Delaware 19802 or such other place as Lender may from time to time designate, the principal sum of Five Hundred Million (\$500,000,000.00) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to Lender's Cost of Funds (defined hereunder as the weighted average of all interest, premiums, discounts, commissions and fees paid by Lender in connection with its borrowings for each month), such rate to change as Lender's Cost of Funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of such borrowings shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder within five (5) days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt, insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, then the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender shall, at the option of Lender, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor, all of which are hereby expressly waived by Borrower.

In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor, and any and all other notices in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect. Borrower further waives and releases all errors, defects and imperfections in any proceedings instituted by Lender.

Following the occurrence of any event of default, Borrower shall pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and shall bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable thereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

In the event that for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note insures to the benefit of Lender and binds Borrower, and their respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated June 1, 2002 by and among Borrower, Lender, Bell Atlantic Administrative Services, Inc., Contel of the South, Inc., GTE Midwest Incorporated, GTE Southwest Incorporated, Verizon California Inc., Verizon Corporate Services Corp., Verizon Florida Inc., Verizon Hawaii Inc., Verizon North Inc., Verizon South Inc., and Verizon West Coast Inc. to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

VERIZON NORTHWEST INC.

By: 
Janet M. Garrity
Title: Assistant Treasurer

DATA REQUEST NO. 73:

The July 27, 2004 press release issued by Verizon Communications, includes the following statement:

“In Domestic Telecom, wage and salary expenses decreased by more than \$200 million year-over-year due to last year's voluntary separation program. These savings were used to fund increases in sales and marketing expenses and other operating costs in the growth areas of the wireline segment.”

Please provide the following information:

1. Please state the amount of savings due to the voluntary separation program for Verizon NW's: a) total Washington operations and b) Washington intrastate operations. If your answer is not the same as the \$17.1 million figure shown in your response to Staff Data Request No. 25, please explain why.
2. Please:
 - a) Identify the specific “growth areas of the wireline segment” referred to,
 - b) for each “growth area of the wireline segment,” approximate the amount of savings that were used to fund such area,
 - c) for each amount of savings provided in response to 2(b), identify the approximate amount attributable to Verizon NW's: i) total Washington, and ii) Washington intrastate operations.

If you are required to make assumptions in stating the amounts responsive to this request, please state the assumptions and explain how they were used.

RESPONSE:

1 a. & b. The amount of savings due to the voluntary separation program as it relates to the total Washington Regulated Operations and Washington Intrastate Operations were provided in Book 2 of 6, Tab 4, WP 20.1.1 through WP 20.1.3. Staff Data Request No. 25 asked about a footnote on Schedule C1 which referenced the employee separation expense which is not associated with the 4th quarter management voluntary separation program. The amount of \$17.1 million figure shown in Verizon's response to this data request was associated with employees leaving the payroll during the test year and not to the management voluntary separation program.

Docket No. UT-040788 – Interim Rate Relief
Verizon Responses to WUTC Staff Data Request Nos. 72, 73
August 4, 2004

2a, b, & c. The statements in the press release address overall Domestic Telecom. However, as stated in the response to data request number 11, the savings associated with the management voluntary separation program for Washington are being used to address the current financial condition. The savings from the management voluntary separation program savings will be reflected in the Verizon Washington financials as they are realized.

Prepared By: Jane Lee
Date: August 2, 2004
Witness: Nancy Heuring and Steve Banta

Data Request No. 236 (Heuring testimony)

Regarding the testimony of Ms. Heuring that “the Commission eliminated its rule requiring flow through,” as the reason for not using flow through treatment (Exhibit No. ___ (NWH-1T) at page 33, lines 16-17):

- a. Please state all other reasons (if any) for not including flow through treatment, and produce all documents relied on for your position.
- b. Please produce the document where the Commission “eliminated its rule requiring flow through.”

RESPONSE:

- a. It has historically been the Verizon policy to utilize tax normalization. Normalization provides for more equitable distribution of tax benefits between current and future ratepayers since, under normalization, the benefits of tax deductions associated with expenditures are recognized for rate purposes as the underlying expenditures become recoverable for rate purposes.

However, if the flow-through method were adopted, the Company estimates a higher revenue requirement associated with the flow-through treatment of income taxes. Refer to WP L4.1, Book 2, Tab 7 for quantification of flow-through tax adjustments.

Verizon reserves the right to submit detailed testimony on this issue if necessary.

- b. The statement is based on our comparison of new accounting rule, WAC 480-120-302, effective July 1, 2003 against the previous accounting rule, WAC 480-120-031. The sections of the old rules which specifically stated the flow-through requirement are boxed in the copy attached as Attachment 236a. These requirements are missing from the new rule, a copy of which is also attached as Attachment 236b. The specific elimination of the flow-through language was interpreted as a change in commission requirement regarding the flow-through treatment of income taxes.

Prepared By: Jane Lee
Date: May 26, 2004
Witness: Nancy Heuring

Verizon Response to WUTC Staff Data Request No. 236
UT-040788

Attachment 236a

WAC 480-120-031 Accounting.

(1) Except as provided in this rule, the *Uniform System of Accounts (USOA)* for *Class A and Class B Telephone Companies* published by the Federal Communications Commission (FCC) and designated as Part 32, effective October 1, 1991, is hereby prescribed for book and recording purposes for telecommunications companies in the state of Washington. A company wishing to use accounting methods not authorized in this rule for book and recording purposes must petition for, and receive, commission approval before implementing the change. This includes the adoption of any changes to the USOA made by the FCC after October 1, 1991, and includes the use of Generally Accepted Accounting Principles (GAAP) that are not adopted in the October 1, 1991, version of the USOA. The commission will ordinarily consider implementation of GAAP procedures on a case-by-case basis. The accounting rules for book and recording purposes do not dictate intrastate ratemaking. Copies of Part 32 (effective October 1, 1991) are available for examination at the WUTC library.

(2) Telecommunications companies operating within this state shall be classed by access lines as follows:

Class Number of Access Lines

- A In Excess of
10,000
- B Less than
10,000

Upon authorization by the commission, a company presently classified by the commission as a Class B company but desiring more detailed accounting may adopt the accounts prescribed for Class A companies. Class B companies authorized to adopt the accounts prescribed for Class A companies shall be required to comply with the more detailed accounting specified for Class A companies. Any election to the contrary notwithstanding, the commission reserves the right to require any company to comply with the accounting requirements applicable to Class A companies.

(3) Jurisdictional differences. For Account 7910--Income effect of jurisdictional ratemaking differences--Net; Account 1500--Other jurisdictional assets--Net; Account 4370--Other jurisdictional liabilities and deferred credits--Net, and in a subaccount of Account 4550--Retained earnings, the exchange telecommunications companies operating in this state shall keep subsidiary accounts and records reflecting in separate accounts, subaccounts, and subsidiary records, the Washington intrastate differences in amounts arising from the departure of this commission for booking and/or ratemaking purposes from FCC prescribed accounting. Separate subaccounts shall be kept for each difference. Examples include, but are not limited to, separate accounting for the booking of an allowance for funds used during construction (AFUDC) for short-term construction work in progress (Account 2003, formerly subdivision (1) of Account 100.2); flow-through accounting of tax timing differences to the extent permitted by tax regulations (unless specific exceptions to the flow-through requirement have been granted or required by the commission); elimination of excess profits for affiliated transactions; or such other company specific ratemaking or accounting treatment ordered by the commission in any case involving the rates of a specific company, or in other accounting directives issued by the commission.

(a) All local exchange telecommunications companies shall account as of January 1, 1988, for any embedded jurisdictional ratemaking differences by incorporating any previous jurisdictional differences side-records accounts, and any other accounting directives made by the commission, into the appropriate jurisdictional differences account.

(b) All companies shall keep subsidiary records as may be necessary to report readily the source of Washington intrastate local exchange network services revenues by residential and business class of service.

(c) All telecommunication companies subject to this rule shall keep subsidiary accounts in Account 5084--State access revenue, showing separately the following: Intrastate revenues from end users (subscriber line charges); special access revenues; interLATA and intraLATA switched access revenues,

identified as income derived from the carrier common line and Universal Service Fund rate elements, and revenue derived from all other services. Access revenues are derived from rate elements; intercompany settlements; and other access revenues.

(d) Any company filing with the FCC reports in compliance with the requirements of Part 32, Paragraph 32.25 of Subpart B, Unusual Items and Contingent Liabilities, relating to extraordinary items, prior period adjustments, or contingent liabilities shall file a copy of such report concurrently with this commission.

(e) As to a leased asset which is or has been used in the provision of utility service, unless an alternate accounting treatment has been specifically approved by the commission, any company which capitalizes leases in accordance with FASB-13 shall capitalize such leases at the lower of their original cost or the present value of the minimum lease payments. For purposes of this section "original cost" is defined as the net book value of the leased property to the lessor at the inception of the lease. If all efforts by a company to obtain original cost information fail, and the original cost can not be reasonably estimated, then the companies will file a request with the commission seeking approval to record the asset at the lower of the fair market value of the asset or the present value of the minimum lease payments.

When the asset in question has never been used in the provision of utility service, any company which capitalizes leases in accordance with FASB-13 shall capitalize such leases at the lower of their fair market value or the present value of the minimum lease payments.

(f) Unless specific exceptions are granted, or required, all companies shall keep records for ratemaking and/or booking purposes which flow-through tax benefits to the extent permitted by federal tax regulations. Any jurisdictional ratemaking differences, created by this rule, shall be reflected in accounts provided in Part 32 for jurisdictional differences, more specifically Accounts 1500, 4370, and 7910. See (g) and (k) of this subsection for further exceptions to this rule.

(g) As to compensated absences and sick pay, if payment of nonvesting accumulated sick pay benefits depends on the future illness of an employee, companies shall not accrue a liability for such an expense for purposes of portraying results of operations until such sick pay is actually paid. In addition, if a company accrues expenses for compensated absences before such expenses are actually deductible for federal income tax purposes, then an exception to the flow-through accounting requirement in (f) of this subsection is required. In such a case, a normalized tax accounting treatment will be required.

(h) No depreciation expense will be allowed for rate-making purposes on amounts included in Account 2002--Property held for future telecommunications use. If a company records depreciation on amounts in this account, it shall record the jurisdictional difference in a separate subaccount of the designated jurisdictional differences accounts.

(i) Any property which has been used in the provision of utility service, when acquired from a nonaffiliate shall be recorded at its net book value at the time of the transfer. If the company wishes to record the acquisition at its acquisition cost rather than its net book value, it shall first seek approval for such accounting, providing such detail as the commission may require. If there is a jurisdictional difference in recording the cost of an acquisition, any such difference shall be recorded in a separate subaccount of the designated jurisdictional differences accounts. Any other property acquired from a nonaffiliate shall be recorded at its acquisition cost.

(j) Amounts booked to Account 2005--Tel-e-com-muni-cations plant adjustment, shall be treated as nonoperating investment, and shall not be included in any rate base account without the expressed permission of the commission. Unless an alternate treatment has been authorized by the commission, any amortization taken on amounts in Account 2005 will be treated as though charged to Account 7360--Other nonoperating income, or other non-operating accounts as required.

(k) If a company is allowed to convert to a GAAP accounting treatment of an item, or allowed other accounting changes which call for the accrual of expenses before such expenses are deductible for federal income tax purposes, an exception to the flow-through accounting requirement in (f) of this subsection is required. In such event, a normalized tax accounting treatment will be required.

(4) The annual report form promulgated by the Federal Communications Commission is hereby adopted for purposes of annually reporting to this commission by those Class A telecommunications companies classified by the FCC in CC Docket No. 86-182 as Class A Tier I telecommunications companies. The annual report forms for all other Class A and Class B telecommunications companies shall be published by the commission. The annual report shall be filed with the commission as soon after the close of each calendar year as possible but in no event later than May 1 of the succeeding year. Those telecommunications companies having multistate operations shall report both total company and Washington results in their annual report. Companies

may also be required to include certain supplemental information in the annual report, such as the status of all jurisdictional differences accounts and subaccounts for the period. This supplemental information will be described in the mailing of the annual reports, or in other sections of this rule (see subsections (7) and (9) of this section).

(5) The total company results of operations reported by each telecommunications company in its annual report shall agree with the results of operations shown on its books and records.

(6) All telecommunications companies having multistate operations shall maintain records in such detail that the costs of property located and business done in this state in accordance with state geographic boundaries can be readily ascertained.

(7) All telecommunications companies having multistate operations shall report to this commission at least once each year, as a supplement to its annual report, such allocations between states as are requested by the commission from time to time for each utility. Any allocations required in developing results of operations for the state of Washington separately shall be accomplished on a basis acceptable to the commission. In these supplemental reports, adjustments will be made to incorporate Washington intrastate amounts in the jurisdictional differences accounts.

(8)(a) If a company prepares an annual separations cost study and furnishes a copy thereof to the National Exchange Carrier Association, Inc., (NECA), that company shall, upon request by the commission, make available for commission review at a company-designated location in Thurston County a copy of the same study material as has been so furnished to NECA. Such copy shall be made available for such commission review within ten days after the later of:

- (i) The date of the company's receipt of the commission's request therefor; or
- (ii) The date on which NECA's copy of the study is furnished to NECA.

(b) If a company prepares an annual separations cost study and furnishes a copy thereof to the Federal Communications Commission (FCC), that company shall, upon request by the commission, make available for commission review at a company designated location in Thurston County a copy of the same study material as has been so furnished to the FCC. Such copy shall be made available for such commission review within ten days after the later of:

- (i) The date of the company's receipt of the commission's request therefor; or
- (ii) The date on which FCC's copy of the study is furnished to the FCC.

(9) Each telecommunications company shall file with the commission periodic results of operations statements showing total Washington per books, restating adjustments to per books, total Washington per books restated, and Washington restated intrastate results of operations.

Class A companies shall file periodic results of operations statements quarterly. Each quarterly statement shall show monthly and twelve months ended data for each month of the quarter reported. Class B companies shall file periodic results of operations statements semiannually. Each semiannual statement shall show six months and twelve months ended data. For Class A companies, periodic results of operations statements shall be due ninety days after the close of the period being reported with the exception of the fourth quarter statement which shall be due no later than May 1 of the succeeding year. Class B companies shall file the June 30 ended and December 31 ended semiannual results of operations statements on October 1 and May 1 of each year, respectively.

The periodic results of operations statements shall be on a "commission basis" and restated for out-of-period items, nonoperating, nonrecurring, extraordinary items, or any other item that materially distorts test period earnings or expenses. By use of notes, an explanation of the restating adjustments shall accompany the results of operations statement.

"Commission basis" means that the rate base includes those standard rate base components that have been historically accepted by the commission for ratemaking. "Commission basis" does not include new theories or approaches which have not been previously addressed and resolved by the commission. The telecommunications companies shall use the allocation factors from their most recent separations cost study to develop the Washington intrastate results of operations.

(10) This rule shall not supersede any reporting requirements specified in a commission order, nor shall it be construed to limit the commission's ability to request additional information on a company specific basis as is deemed necessary.

(11) The annual budget of expenditures form for budgetary reporting for telecommunications companies will be published by this commission in accordance with chapter 480-140 WAC.

(12) The requirements of this section shall not apply to telecommunications companies classified by the commission as competitive, and subject to WAC

480-120-033.

(13) There shall be no departure from the foregoing except as specifically authorized by the commission.

[Statutory Authority: RCW 80.01.040, 93-07-089 (Order R-386, Docket No. UT-921167), § 480-120-031, 3/22/93, effective 4/22/93; 91-19-090 (Order R-349, Docket No. UT-910385), § 480-120-031, filed 9/17/91, effective 10/18/91; 91-09-039 (Order R-343, Docket No. UT-901585), § 480-120-031, filed 4/15/91, effective 5/16/91; 89-23-048 (Order R-311, Docket No. U-89-2864-R), § 480-120-031, filed 11/13/89, effective 12/14/89; 87-24-056 (Order R-278, Cause No. U-87-1144-R), § 480-120-031, filed 11/30/87; 86-14-049 (Order R-247, Cause No. U-86-31), § 480-120-031, filed 6/27/86. Statutory Authority: RCW 80.01.040 and 1985 c 450, 85-23-001 (Order R-242, Cause No. U-85-56), § 480-120-031, filed 11/7/85; Order R-25, § 480-120-031, filed 5/5/71.]

Verizon Response to WUTC Staff Data Request No. 236
UT-040788

Attachment 236b

WAC 480-120-302 Accounting requirements for companies not classified as competitive. (1)(a) Companies with two percent or more of state access lines and companies with less than two percent of state access lines are classified as follows:

Class	Number of Access Lines as of December 31 from prior year's annual report
A	2% or more of state access lines
B	Less than 2% of state access lines
For example:	
Company X access lines as of 12/31/98	33,823
Divided by	
Total state access lines as of 12/31/98	3,382,320
Equals company access lines as a percentage of total access lines.	1%
Therefore, company X is a Class B company.	

(b) As long as a company can show it serves less than two percent of the total access lines listed in (a) of this subsection, it may compare future years to the year listed in the example above, as a safe harbor option.

(c) If a company has more than two percent of the total access lines listed in (a) of this subsection, but believes that it has less than two percent of a subsequent year to that listed in the example above, it may use the more recent "total state access lines" as of that subsequent year in order to calculate a different threshold, as long as it provides all relevant information in a letter of certification to the commission concurrent with its election. For purposes of this rule the raw data may be requested from the commission's record center in order for the company seeking the data to generate its own calculation subsequent, and pursuant, to this rule.

(2) (a) For accounting purposes, companies not classified as competitive must use the Uniform System of Accounts (USOA) for Class A and Class B Telephone Companies published by the Federal Communications Commission (FCC) and designated as Title 47, Code of Federal Regulations, Part 32, (47 CFR 32, or Part 32). The effective date for Part 32 is stated in WAC 480-120-999. Companies not classified as

competitors wishing to adopt changes to the USOA made by the FCC after the date specified in 480-120-999, must petition for and receive commission approval. The petition must include the effect of each change for each account and subaccount on an annual basis for the most recent calendar year ending December 31. If the petition is complete and accurate the commission may choose to grant such approval through its consent agenda.

(b) Class B companies may use Class A accounting, but Class A companies shall not be permitted to use Class B accounting.

(3) The commission modifies Part 32 as follows:
(a) Any reference in Part 32 to "Commission," "Federal Communications Commission," or "Common Carrier Bureau" means the Washington utilities and transportation commission.

(b) Companies not classified as competitive must keep subsidiary records to reflect Washington intrastate differences when the commission imposes accounting or ratemaking treatment different from the accounting methods required in subsection (2) of this section. Companies not classified as competitive must maintain subsidiary accounting records for:

- (i) Residential basic service revenues;
- (ii) Business basic service revenues;
- (iii) Access revenues for each universal service rate element;
- (iv) Special access revenues; and
- (v) Switched access revenues.

(c) Part 32 section 24, compensated absences, is supplemented as follows:
(i) Companies not classified as competitive must record a liability and charge the appropriate expense accounts for sick leave in the year in which the sick leave is used by employees.

(ii) Companies not classified as competitive must keep records for:
(A) Compensated absences that are actually paid; and
(B) Compensated absences that are deductible for federal income tax purposes.

(d) Companies not classified as competitive that have multistate operations must keep accounting records that provide Washington results of operations. The methods used to determine Washington results of operations must be acceptable to the commission.

(e) Part 32 section 32.11(a) is replaced by subsection (1) of this section.

(f) Part 32 section 32.11 (d) and (e) are replaced by subsection (1) of this section.

(g) The commission does not require Part 32 section 32.2000 (b)(4). This rule does not supersede any accounting requirements specified in a commission order, nor will it be construed to limit the commission's ability to request additional information on a company specific basis. This rule does not dictate intrastate ratemaking.

(h) Any reference in Part 32 to "Class A" or "Class B" means the classification as set out in subsection (1) of this section.

[Statutory Authority: RCW 80.01.040 and 80.04.160. 03-01-065 (Docket No. UT-990146, General Order No. R-507), § 480-120-302, filed 12/12/02, effective 7/1/03.]

DATA REQUEST NO. 361:

- a. With respect to the pension plan(s) covering, applicable to, or affecting Verizon Northwest's Washington intrastate operations, please provide the most recent 5 years of actuarial reports for the following employee benefit plans:
 1. Retirement Plan (FAS 87)
 2. Other Benefits/Post Retirement (FAS 106)
 3. Any other employee benefits not covered under a.1. or a.2. above.
- b. Please provide workpapers detailing the Verizon Northwest Washington intrastate amounts that are allocated or assigned from the totals in the actuarial reports, the method of allocation or assignment, and the Verizon account numbers affected.

RESPONSE:

- a. 1. Please see Confidential Attachments 361.a.1.a – 361.a.1.f
Please note that remeasurements were made to the 1999 and 2000 pension studies which are documented in Confidential Attachments 361.a.1.f (pages 1-6).
- a. 2. Please see Confidential Attachments 361.a.2.a – 361.a.2.e
Please note that remeasurements were made to the 2000 OPEB study which are documented in attachments 361.a.1.f (pages 1,2 &7).
- a. 3. None
- b. Please see Confidential Attachments 361.b.1 and 361.b.2.

Pension costs are booked as a debit to account 1410, and the offsetting credits are booked to numerous expense accounts that follow the labor distributions.

OPEB costs are booked as a debit to numerous expense accounts that follow the labor distributions, with the offsetting credit to account 4310.

Prepared By: Cory Legner
Date: September 3, 2004
Witness: Nancy Heuring or TBD

Docket No. UT-040788 – General Rate Case
Verizon Responses to WUTC Staff Data Request Nos. 361-373
September 7, 2004

DATA REQUEST NO. 363:

With respect to the pension plan(s) covering, applicable to, or affecting Verizon Northwest's Washington intrastate operations,

- a. Is (are) the Pension fund(s) held by an independent trust fund?
- b. Who are the trustees and/or the portfolio managers for the pension fund(s)?

RESPONSE:

- a. Yes.
- b. Mellon Bank is the Trustee. There are 282 different portfolio managers for the Verizon pension plans which are maintained in a Master Trust at Mellon. Please see Attachment 363 for a list of those managers.

Prepared By: Cory Legner
Date: August 31, 2004
Witness: Nancy Heuring

Verizon Response to WUTC Staff Data Request No. 361-373
UT-040788

Attachment 363

Verizon Northwest Inc. Washington Operations
2004 Washington General Rate Case
Pension Plan Fund Managers
Response to Staff Data Request 363 (b)

Name

21ST CENT
ABS VENTURES
ACCEL
ADVANCED TECH
ADVENT FIRST
AEW PARTNERS
AIG
ALLIANCE
ALLSOP VENTURE PARTNERS
ALTA-BERKELEY
AMER IND PARTNERS
AMVESCAP
APA EXCELSIOR
APAX VENT
APOLLO
ARDEN OFFSHORE ADVISERS, LTD
ARIA INVEST PTNS
ARIEL CAPITAL
ARLINGTON CAP PT
AUSTIN VENTURES
BA/ALL WEATHER LLC
BAKER NYE ADVISORS
BARROW HANLEY ET
BASS ASSOCIATES
BATTERY VENT
BC EUROPEAN CAP
BCI
BDCM
BEGSCGI
BELLPIC LLC
BELMONT PTRS
BLACKSTONE
BNY
BOSTON PARTNERS
BOSTON VENTURES
BRANDES
BRANTLEY VENTURE PARTNERS
BRENTWOOD ASSOC
BRIDGE CAPITAL INVESTORS
BRIDGEPORT HOLDINGS
BRIDGEWATER PURE ALPHA
BRS& CO
BRUNO MAGLI GROUP
BRYNWOOD PARTNERS
BUYOUT PARTNERSHIPS
BVP EUROPE
CA FIN INST
CAMG ROCK CREEK
CAN JOHN URBAN FD
CANDOVER
CAP GUARDIAN
CAP PTNS
CAPRI SELECT INC LLC

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Name

CAPRICORN INVESTORS
CARLYLE PTNS
CASTLE HARLAN LP
CASTLE HARLAN PARTNERS
CHANCELLOR VENTURE CAPITAL LP
CHARLES RIVER
CHARLIE BROWN'S AQ
CHINA AUTO
CHINA RENAISSANCE INDUSTRIES
CHINA RETAIL FUND
CHINA VEST
CLAYTON DUBILIER LP
CMPASS EURO EQ FD
COLONY INVESTORS
COLUMBUS CIRCLE INV DB/DC
COMWLTH CAP PTNS
CONCORD VENT
COPLEY II F
CROSSPOINT LS 2000
CROWN TRUST
CSTLE HRLN AUS MEZ
CVC EURO EQ PTRS
CWB CAPITAL PARTNERS
DAVIS ST PROP LLC
DB INT'L RESIDUAL
DELAWARE
DEUTSCHE
DICTAPHONE
DIMENSIONAL
DLJMB
DOMAIN
DOMESTIC DB
DOUGHTY HANSON
DPIC/DERMOT KEW GDNS
DR INVESTORS LP
DSV PARTNERS
EARNEST PARTNERS
ECI CAPITAL PARTNERS
EDISON VENTURE FUND
EMERGING GROWTH FUNDS
ENERGY TRUST PARTNERS LP
ENTERPRISE PTNRS
EQUINOX
ESSEX VENTURE PARTNERS FUND
EUROKNIGHTS
EUROPE RE OP PTNS
FENWAY PTRS CAP FD
FIDELITY REIT
FIRST QUADRANT
FIRST RESERVE
FOCUS VENTURES
FOOTHILLS PTRS
FORSTMANN LITTLE

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Name

FORSTMANN LT EQ PTNS
FREMONT PARTN
FRONTIER CAPITAL MANAGEMENT
FS EQUITY PARTNERS
GALEN PARTNERS
GAMCO INVESTORS
GARDNER LEWIS ASSET
GATEWAY VENTURE PARTNERS
GEBERIT GROUP
GENESIS EMER MKTS FD
GEOCAPITAL
GMO
GOLDER THOMA RAUNER CRESSEY
GREENWICH STREET CAP PTNRS
GROTECH
GROUP ELIS
GSAM
GSC RECOVERY
GTCR
GTEIMC
H&F CAP PTNS
HALDER
HALPERN DENNY
HAMBRO INTL VEN FD
HANCOCK VENTURE PART
HBRVEST VENT.
HELLMAN/FRIEDMAN LP
HIG CAP PARTNERS
HILL PTNR
HIPEP L.P.
HPE LP
HSBC PVT EQ EURO LP
IAC - BRPF
INDEPENDENCE USLCG
INDEX VENTURES II, L
INST PTNRS
INTER-ASIA CAPITAL
INTERWEST
INTL AIRPORT CTRS
INTL NETWORK FUND
INVESCO VC PSHIPS
J W CHILDS LP
JACOBS LEVY USLCG
JAPAN AMER VENT
JOHN HANCOCK ADVISER
JPMIM
KELSO INVESTMENT ASSOC
KIDD KAMM EQ PTRS
KKR 1996 FUND LP
KLEINER PERKINS
KOHLBERG INVESTORS
LAWRENCE, TYRELL, ORTALE & SMITH
LEEDS WELD EQ PNT

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Name

LEND LEASE - BPR FND
LF SRI LP
LIBERTY LIFE ENERGY
LIGHTHOUSE CAP PTN
LINCLNSH FUND
LOOMIS SAYLES US HY
MARATHON IED LCAP
MARQUETTE VNT PTNS
MAYFIELD
MCCORMICK&SCHMICK
MEDIA/COMM PTRS
MEDICAL INNOV. FUND
MELLON
MENLO CENT VI LP
MERRILL LYNCH CAP LP
MERRILL PICKARD ANDSN EYRE
MEZZANINE ASSOC
MIG REALTY ADVISOR
MILLER ANDERSON & SHERRARD
MOHR, DAVIDOW
MORGAN GRENFELL EQ
MORGANTHALER VNT
MS CAPITAL PTRS
MSIM
NARRAGANSETT FST FD
NAZEM & CO
NEW ENTERPRISE ASSOC
NORO-MOSELY PTNRS
NORTH RES SECS
NOVAK BIDDLE
NT PASS CURR HEDGE
NTCC
OAK INV PTNRS
OCM RE OPP FD
OLYMPUS GROWTH
OPERA PART 2 SCA
OVP VENT PART
PACVEN WALDEN
PAGE MILL PROPERTIES
PALISADE
PARAGON VENT PTRS
PARTECH INTERNATIONAL
PAUL CAP ACQ FD LP
PHAROS CAP PTN LP
PHILDREW VENTURES LP
PIAGGIO ACQ LP
PIC SMALL DB/DC
PIEDRA CAPITAL
PIMCO
PITTCO ASSOCIATED
PLANT RESOURCES VENTURE
PNC EQUITY PARTNERS
PORTFOLIO ADVISORS

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Name

PROCURITAS PTNS
PROVENDER OP FD
PRU SR HS PTNRS
PRUDENTIAL RE COMPANIES
PTC-TET INTL
PUBLIC STORAGE
QUANTUM ENERGY
QUESTOR PARTNERS FD
RECH INT'L S.A.
REGIONAL FIN ENT
RESTRICTED FD - FGTE
RFE INV PTRS
RHM GROUP LTD
RHONE PARTNERS
ROGGE
RRE VENTURES
SAFEGUARD INTL FD LP
SALIX VENTURES
SANFORD BERNSTEIN
SCHROEDER
SEQUOIA CAP
SGK EQUITY FUND LP
SIERRA VENTURES
SIMON PROPERTY GROUP
SKM EQUITY FD
SNOWMASS
SOLERA PARTNERS LP
SOUTHERN CA VENTS
SPROUT CAP
SSR REALTY ADVISORS
STANDISH AYER
STARWOOD OP FD
STONINGTON FD
SUMMIT VENTURES
SW PELHAM FD LP
SYNDICATED VP
T ROWE POST DISTR
TA ADVENT
TA ASSOC
TA SUBORD DEBT
TBC DYNAMIC
TCH
TCW
TECH PTNRS
TH LEE EQUITY
THAYER EQ INV
THOMA CRESSEY
TRANSEUROPEAN
TRANSPAC EQUITY
TRAXIS OFFSHORE
TRIDENT
TRIUMPH PTRS
TULLIS-DICKERSON CAP

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Name

TVG
UBS BRINSON
US VENTURE PTRS
USHCC PRIV EQ LP
UTENDAHL
VEN CAP FD/N.E.
VIKING RESINS GRP
VMT
VS&A COMM PARTNERS
WALDEN ISRAEL
WAMCO
WARBURG PINCUS VENTURES
WEISS PECK GREER ROB
WELSH CARSON
WESTCOAST PVT EQ LP
WHITNEY V, L.P
ZELL/ML REO PTRS

Docket No. UT-040788 – General Rate Case
Verizon Response to WUTC Staff Data Request No. 367
September 14, 2004

DATA REQUEST NO. 367:

With respect to the pension plan(s) covering, applicable to, or affecting Verizon Northwest's Washington intrastate operations, please identify and explain any substantive pension plan amendments in the past 5 years.

RESPONSE:

Pension Plan Amendments will be provided electronically on a CD labeled as "Confidential Attachment - Staff Request 367". All documents on the CD should be treated as Confidential. (Confidential per Protective Order in WUTC Docket No. UT-040788.)

Prepared By: Cory Legner

Date: September 14, 2004

Witness: Nancy Heuring or another SME to be identified at a later date

Docket No. UT-040788 – General Rate Case
Verizon Responses to WUTC Staff Data Request Nos. 361-373
September 7, 2004

DATA REQUEST NO. 370:

Referring to Heuring Workpaper C6.1.1.1: Please provide the source of the Pension and OPEB amounts on lines 5 and 6 of \$34,708,000 and \$12,262,000, respectively, and reconcile these amounts to the Pension and OPEB amounts shown on Workpaper C.6.1.1.2.

RESPONSE:

The Pension and OPEB amounts mentioned above are included in the Schedule M's based on the 2003 estimated return filed with the IRS. Please refer to Book 2, Tab 4, C6.1.1.2 for the Schedule M amounts. Components of these Schedule M amounts are shown below.

MVSP Related Pension Activity	(\$34,708,000)	C6.1.1.1, Line 5
Other Pension Activity	<u>\$ 1,042,007</u>	
Total Schedule M	(\$33,665,993)	C6.1.1.2
MVSP Related OPEB Activity	(\$12,262,000)	C6.1.1.1, Line 6
Other Pension Activity	<u>(\$ 4,340,289)</u>	
Total Schedule M	(\$16,602,289)	C6.1.1.2

Prepared By: Cory Legner
Date: September 1, 2004
Witness: Nancy Heuring

WUTC STAFF DATA REQUEST NO. 426:

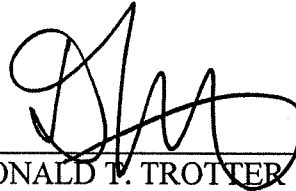
Please provide the accrual for the test year for compensated absences, both in total and broken out by type of absence, e.g., sick, holiday and vacation.

WUTC STAFF DATA REQUEST NO. 427:

Please provide the actual expense, for the years 1998 through 2003, for year-to-date 2004, and for the test year, for compensated absences, both in total and broken out by type of absence, e.g., sick, holiday and vacation.

WUTC STAFF DATA REQUEST NO. 428:

Please provide, on a Washington and a Washington intrastate basis, the Company's estimate, or calculation if available, of the financial impact of the change in accounting to expense employee stock options. Please include the effect of both allocated and directly charged stock option expenses.



DONALD T. TROTTER
Senior Counsel

Docket No. UT-040788 – General Rate Case
Verizon Responses to WUTC Staff Data Request Nos. 419, 420, 428
September 21, 2004

DATA REQUEST NO. 428:

Please provide, on a Washington and a Washington intrastate basis, the Company's estimate, or calculation if available, of the financial impact of the change in accounting to expense employee stock options. Please include the effect of both allocated and directly charged stock option expenses.

RESPONSE:

The Company does not estimate the financial impact of the change in accounting to expense employee stock options at a state or jurisdictional level. However, Page 11 of the 2003 Verizon Northwest Bondholder's Report (see Attachment 428) provides the total direct and allocated employee stock options expense of \$0.1M, net of taxes, for Verizon Northwest.

Prepared By: Cory Legner
Date: September 20, 2004
Witness: Nancy Heuring

Verizon Response to WUTC Staff Data Request No. 428
UT-040788

Attachment 428

Verizon Northwest Inc.

Comprehensive Income

We had no comprehensive income components for the years ended December 31, 2003 and 2002. Therefore, comprehensive income is the same as net income for both years.

2. ACCOUNTING CHANGES*Stock-Based Compensation*

We participate in employee compensation plans sponsored by Verizon with awards of Verizon common stock. As discussed in Note 1, we adopted the fair value recognition provisions of SFAS No. 123 using the prospective method as permitted under SFAS No. 148.

The following table illustrates the effect on net income if the fair value method had been applied to all outstanding and unvested options in each period.

(Dollars in Millions)	Years ended December 31	
	2003	2002
Net Income, As Reported	\$149.0	\$174.3
Add: Stock option-related employee compensation expense included in reported net income, net of related tax effects	.1	---
Deduct: Total stock option-related employee compensation expense determined under fair value based method for all awards, net of related tax effects	(.4)	(2.2)
Pro Forma Net Income	\$148.7	\$172.1

After-tax compensation expense for other stock-based compensation included in net income as reported for the years ended December 31, 2003 and 2002 was not material.

For additional information on assumptions used to determine the pro forma amounts as well as other information related to our stock-based compensation plans, see Note 8.

Asset Retirement Obligations

Effective January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. We have determined that we do not have a material legal obligation to remove long-lived assets as described by this statement. However, prior to the adoption of SFAS No. 143, we included estimated removal costs in our group depreciation models. These costs have increased depreciation expense and accumulated depreciation for future removal costs for existing assets. These removal costs were recorded as a reduction to accumulated depreciation when the assets were retired and removal costs were incurred.

For some assets, such as telephone poles, the removal costs exceeded salvage value. Under the provisions of SFAS No. 143, we are required to exclude costs of removal from our depreciation rates for assets for which the removal costs exceed salvage. Accordingly, in connection with the initial adoption of this standard on January 1, 2003, we have reversed accrued costs of removal in excess of salvage from our accumulated depreciation accounts for these assets. The adjustment was recorded as a cumulative effect of an accounting change, resulting in the recognition of a gain of \$112.5 million (\$71.2 million after-tax). Effective January 1, 2003, we began expensing costs of removal in excess of salvage for these assets as incurred. The ongoing impact of this change in accounting resulted in a decrease in depreciation expense and an increase in cost of services and sales, which was not material to our total operating expenses for the year ended December 31, 2003.