

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

VERIZON NORTHWEST INC.,

Respondent.

DOCKET NO. UT-040788

PUBLIC COUNSEL REPLY TO
VERIZON NORTHWEST
SUPPLEMENTAL RESPONSE TO
STAFF MOTION TO COMPEL
PRODUCTION OF DOCUMENTS
RELATING TO HAWAII SALE

Public Counsel submits this reply to the Supplemental Response of Verizon Northwest, Inc, To Motion To Compel Production of Documents Relating to Hawaii Sale (Verizon Supplemental) filed September 28, 2004.

As we have previously stated, Public Counsel supports the Staff Motion to Compel. The motion is justified for the reasons set forth in the Staff's memorandum and in oral argument. Public Counsel will not duplicate Staff's arguments here.

Public Counsel's fundamental concern here is with Verizon's assertion that "the Hawaii sale documents have no relevancy to any issue in this case," Verizon Supplemental, p.1, and with the arguments it makes in support of that proposition.

As an initial matter, there can be no dispute that directory imputation is a significant issue in this proceeding. Tr. 591- 592 (response of Paula Strain to questions of Commission Hemstad). Verizon's assertions that the directory valuation issue in Hawaii has no relevance to the Washington proceeding and that there is no nexus between valuation of the business and directory imputation is based on a misunderstanding of the directory issue. Directory revenue imputation is based on the current period value of the business income stream, while valuation for purposes of a complete sale of the business is essentially a monetization of the expected future revenue and profit stream from the directory business. The two are related and there is a nexus between them. *See e.g., In the Matter of the Application of Qwest Corporation Regarding the Sale and Transfer of Qwest Dex to Dex Holdings, LLC, a non-affiliate, Docket No. UT-*

021120, ¶ 28 (order approving a stipulation that replaced the directory income stream being sold with a fixed imputation value and a cash payment to customers); *In Re the Petition of U S West Communications, Inc. for an Accounting Order*, Docket No. UT-980948, Fourteenth Supplemental Order, ¶¶ 170-175. Moreover, that value, whether for sale or for imputation purposes, is enhanced by the relationship of the publishing business to the local operating company. That is why it is relevant to be able to look at Hawaii, or another state, to see whether and how Verizon directory transactions reflect the existence of that synergistic value. The point is not to compare specific dollar valuations with Washington, which concededly does not have a sale or merger under way, but to compare the Verizon treatment of a comparable relationship in a different jurisdiction.

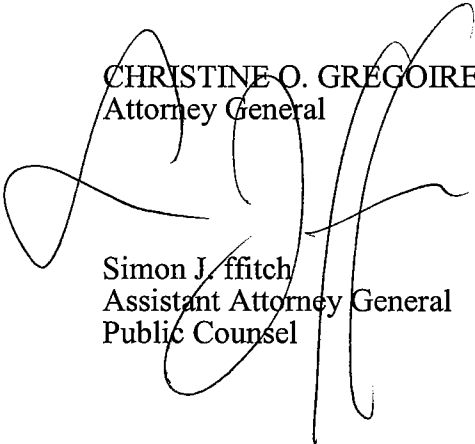
That also is the point of the reference to Exhibit 70. What Exhibit 70 indicates is that company wide, Verizon's predecessor GTE had agreements between the GTE local operating companies and the directory affiliate that allocated the majority of the revenue to the telephone company as a "royalty payment" for the exclusive right to publish. This reflects a company-wide policy of recognizing a significant source of business value arising from being the exclusive publisher of the GTE local telephone directory. This information about a nationwide practice is clearly relevant to the examination of the directory imputation issue in any individual state, such as Washington, and has been admitted into the record. What the argument boils down to is that Verizon's actions regarding the directory business in other states provide valuable and relevant information to the Commission in evaluating the factual accuracy, credibility, and consistency of its claims regarding the directory business in this proceeding.

In sum, Public Counsel has a strong concern with Verizon's aggressive resistance to cooperating with discovery about its directory business, not only with respect to Staff's discovery but in relation to our own. Jointly with AARP and WeBTEC, Public Counsel will file tomorrow a Motion to Compel production of answers to its own Data Requests asking for

detailed information about the Washington directory operations which we have been unable to obtain to date.

For the foregoing reasons, Public Counsel urges that Staff's Motion to Compel be granted.

Respectfully submitted this 29th day of September, 2004.



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