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.

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

Docket No. UT-040788
WUTC Staff Data Requests to Verizon Nos. 201 - 245
May 28, 2004

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

Attachment 236a

WAC 480-12-031 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 [illegible]ue derived from the carrier common line and Universal Se[illegible] Fund rate elements, and revenue derived from all other sw[illegible]ed access 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-mak-ing 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-mu-ni-ca-tions 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-op-er-at-ing 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 com-mis-sion'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 com-mis-sion'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 480-1 02 Accounting requirements for compani not classified as competitive. (1)(a) Co nies 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 that 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

competiti[illegible] [illegible]ishing to adopt changes to the USOA ma[illegible] [illegible]y the FCC after the date specified in [illegible] 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.]

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

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

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

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

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

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

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

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

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

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

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

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

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

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	$ 1,042,007	
Total Schedule M	($33,665,993)	C6.1.1.2
MVSP Related OPEB Activity	($12,262,000)	C6.1.1.1, Line 6
Other Pension Activity	($ 4,340,289)	
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

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

Attachment 428

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.

ATTACHMENT B

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. VERIZON NORTHWEST INC., Respondent.	Docket No. UT-040788 DECLARATION OF NANCY W. HEURING

Nancy W. Heuring states and declares as follows:

1. I am the Director-Regulatory Accounting for Verizon Services Organization, Inc. My business address is 600 Hidden Ridge, Irving, Texas.

2. I submitted direct testimony on April 30, 2004, with respect to the accounting information, financial filings and regulatory reporting involved in this rate case.

3. I have reviewed Staff's Motion to Compel Production of Documents and/or Information dated September 16, 2004.

4. I know that we provided Commission Staff with a list of year-end journal entries for the Washington Operations of Verizon Northwest Inc. ("VZNW") for 2002-2003 from which Commission Staff selected certain journal entries for review during Staff's visit to Texas during the week of September 7, 2004.

5. Of the 23 journal entries provided to Staff, 18 entries were redacted to remove financial numbers that do not pertain to Washington State operations in any way.

6. Staff is operating under a misimpression or misunderstanding with respect to how the journal entries are kept and it is not necessary for Staff review of VZNW's Washington operations for it to view journal entry numbers outside of the Washington jurisdiction.

7. The Washington amounts are not derived from total journal entry figures, as apparently assumed by Staff. Of the 18 journal entries redacted, the Washington amounts on 10 journal entries were not the result of "allocations" but simply reflect the appropriate Washington specific revenue and expense activity.

8. On a regular basis, journal entries are prepared and entered into the financial system to generate the financials for the State of Washington. The vast majority of these entries are generated during the course of the year and are processed mechanically. The Staff requested a review of year-end journal entries. These year-end entries are made manually and reflect an insignificant subset of the journal entries that are recorded in the Washington books and records.

9. The books and records for revenues, expenses and rate-based items are maintained by study area. The State of Washington is comprised of two study areas: Contel of the Northwest Inc. and GTE Northwest Incorporated. Every journal entry for the State of Washington is input into the financial system by study area. Staff had access to the journal entries requested for the State of Washington.

10. The financial data by study area is combined to develop the books and records for the State of Washington. There are no stand-alone books for the State of Washington.

11. The same process of maintaining books by study area is applied for each state within VZNW. Contrary to Staff's assumption, the books are not maintained at the VZNW level and then allocated down to the state level.

12. For entries that might include more than one state, the description on the journal entry is applicable to each study area and amount shown on the journal entry. However, the amount associated with each such journal entry will be specific to that jurisdiction and is not derived by allocating a total amount. Rather, the fact simply indicates that the journal entry with the same description was required for each study area and each state included in the journal entry.

13. The entries that contain study areas from multiple states could just as easily have been prepared so that each journal entry only contained the study areas for an individual state. The 18 redacted documents contained study areas from multiple state jurisdictions, but the amounts recorded on 10 of these documents are not the result of "allocations" but simply reflect an appropriate amount specific to study area and state. Three of the remaining 8 redacted journal entries included amounts for states outside of Verizon Northwest. The Washington amount was determined by taking an amount applicable to Verizon Northwest, as reflected in the support to the other five redacted journal entries and distributing that amount to a particular Washington study area. The journalized amounts for states outside of Verizon Northwest are not relevant. These amounts are not necessary to be known and do not help in determining whether the appropriate amount was recorded to Washington because they were not used to determine the amount applicable to Washington.

14. The bottom line is that the amounts journalized for Washington are specific to Washington or were determined by taking an amount applicable to Verizon Northwest and distributing that amount.

15. In sum, the amounts journalized for other jurisdictions are not relevant to an examination of Washington intrastate financials because they were not used to develop the Washington numbers.

I declare under penalty of perjury under the laws of the State of Texas that the foregoing is true and correct.

DATED this 22 day of September 2004 at Irving, Texas.

By Nancy W. Heuring
Nancy W. Heuring

ATTACHMENT C

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. VERIZON NORTHWEST INC., Respondent.	Docket No. UT-040788 DECLARATION OF DALE CHAMBERLAIN

Dale Chamberlain states and declares as follows:

1. I am Assistant General Counsel for Verizon Communications Inc. My business address is Verizon, 600 Hidden Ridge, PO Box 152092, Irving, TX 75015-2092.

2. I am the Verizon transactional attorney responsible for the sale of the Verizon Hawaii properties that were sold as a combined package.

3. I have reviewed Verizon's response to Staff Data Request No. 277 and it is true and accurate. Specifically, I know that Verizon had no separate evaluation of, and determined no independent value for, the directory operations included in a Hawaii sale; such operations were part of the aggregate operations sold for a specific price to the purchaser. The offer accepted by Verizon for the total Verizon properties was a single amount without any indication, direct or indirect, as to the buyer's assessment of the value of any individual piece part of the properties being sold, such as the Verizon Hawaii directory operations.

4. Verizon is not privy to, nor can it determine, how the buyer arrived at its sales price, or how the directory operations was included in that determination.

5. I know of no document that individually evaluates the value of the directory operations of Verizon Hawaii.

6. Potential buyers were provided with financial and operational information pertaining to the Hawaii business operations.

7. Potential buyers were provided no information with respect to Verizon's Washington operations in any respect. There is no relationship between these operations and the Hawaii directory operations.

8. I am familiar with the documents associated with the Hawaii sale, maintained in a comprehensive data room. This data room contains over 5,800 documents associated with the sale. Many of the documents are not segregated by business unit or segment, so I cannot state the extent to which documents may contain information that directly or indirectly relates to the Hawaii directory operations.

9. It would be onerous and burdensome to identify every document related to the Hawaii sale.

I declare under penalty of perjury under the laws of the State of Texas that the foregoing is true and correct.

DATED this 22nd day of September, 2004 at Irving, Texas.

Dale Chamberlain

CERTIFICATE OF SERVICE

I hereby certify that I have this 22nd day of September 2004, served the true and correct original along with the correct number of copies, of the attached document upon the WUTC, via the method(s) noted below, properly addressed as follows:

Ms. Carole Washburn Secretary Washington Utilities and Transportation Commission P.O. Box 47250 1300 South Evergreen Park Dr. S.W. Olympia, WA 98504-7250	____ U.S. Mail, Postage Prepaid _X_ Hand Delivered **(ON 9/23/04)** ____ Overnight Mail (Federal Express) ____ Facsimile (360) 586-1150 _X_ Email (records@wutc.wa.gov)

I hereby certify that I have this 22nd day of September 2004, served a true and correct copy of the attached document upon parties of record, via the method(s) noted below, properly addressed as follows:

On Behalf of Public Counsel: Simon ffitch Assistant Attorney General Public Counsel 900 4th Avenue, Suite 2000 Seattle, WA 98164	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (206) 389-2058 _X_ Email (simonf@atg.wa.gov)
Robert C. Wallis Administrative Law Judge Washington Utilities and Transportation Commission 1300 S. Evergreen Park Drive SW Olympia, WA 98504-7250	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (360) 586-8203 _X_ Email (bwallis@wutc.wa.gov
On Behalf of The Washington Electronic Business & Telecommunications Coalition ("WeBTEC"): Arthur A. Butler Ater Wynne, LLP 601 Union Street Suite 5450 Seattle, WA 98101	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (206-467-8406) _X_ Email (aab@aterwynne.com)

On Behalf of AARP: Ronald L. Roseman Columbia Legal Services 2011 14th Avenue E. Seattle, WA 98112	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (206-568-0138) _X_ Email (ronaldroseman@comcast.net)
On Behalf of Commission Staff: Don Trotter Attorney General of Washington Utilities & Transportation Division 1400 S. Evergreen Park Drive SW P.O. Box 40128 Olympia, WA 98504-0128	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (360-586-5522) _X_ Email (dtrotter@wutc.wa.gov)
Christopher G. Swanson Attorney General of Washington Utilities & Transportation Division 1400 S. Evergreen Park Drive SW P.O. Box 40128 Olympia, WA 98504-0128	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (360-586-3564) _X_ Email (cswanson@wutc.wa.gov)
Gregory J. Trautman Asst. Attorney General of Washington Utilities & Transportation Division 1400 S. Evergreen Park Drive SW P.O. Box 40128 Olympia, WA 98504-0128	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (360-586-5522) _X_ Email (gtrautma@wutc.wa.gov)
On Behalf of Integra Telecom of Washington: Karen J. Johnson Deborah Harwood Integra Telecom of Washington, Inc. 1201 NE Lloyd Blvd, Suite 500 Portland, OR 97232	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (503-748-1955) _X_ Email (karen.johnson@integratelecom.com) (Deborah.harwood@integra.com)
On Behalf of AT&T Communications of the Pacific Northwest (AT&T): Gregory J. Kopta Davis Wright Tremaine LLP 2600 Century Square 1501 Fourth Avenue Seattle, WA 98101-1688	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (206-628-7699 _X_ Email (gregkopta@dwt.com)

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Mary M. Taylor
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(marymtaylor@att.com)

On Behalf of Northwest Public Communications Council (NPCC):
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Miller Nash LLP
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On Behalf of Citizens' Utility Alliance of Washington:
John O'Rourke
Citizens' Utility Alliance
212 W. Second Avenue, Suite 100
Spokane, WA 99201

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____ Hand Delivered
____ Overnight Mail
____ Facsimile (509-744-3374)
_X_ Email (orourke@snapwa.org)

On Behalf of The United States Department of Defense:
Stephen S. Melnikoff
Regulatory Law Office
U.S. Army Litigation Ctr.
Office of the Judge Advocate General
901 N. Stuart Street, Suite 700
Arlington, VA 22203-1837

_X_ U.S. Mail, Postage Prepaid
____ Hand Delivered
____ Overnight Mail
____ Facsimile (703-696-1643)
_X_ Email (stephen.melnikoff@hqda.army.mil)

I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

DATED this 22nd day of September, 2004, at Seattle, Washington.

By Nancy E. Dickerson
Nancy E. Dickerson
Legal Secretary

ATTACHMENT C

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. VERIZON NORTHWEST INC., Respondent.	Docket No. UT-040788 SUPPLEMENTAL RESPONSE OF VERIZON NORTHWEST INC. TO MOTION TO COMPEL PRODUCTIONS OF DOCUMENTS RELATING TO HAWAII SALE

I. INTRODUCTION

At the hearing on the Motion to Compel filed by Commission Staff on September 23, 2004, ALJ Wallis asked Verizon Northwest Inc. ("VZNW") to address the issue of whether the documents relating to the sale of various operations ultimately owned by Verizon Communications Inc. in the state of Hawaii (Staff's "Item C") are relevant to the issues in this case, based upon the testimony of Dennis B. Trimble (DBT-1T), Michael Doane (MJD-1T), and Exhibit 70 (admitted in the interim rate case hearings in this docket). For the reasons stated herein, the Hawaii sale documents have no relevancy to any issue in this case.[1]

[1] Verizon submits this supplemental brief only to address the narrow issue raised by ALJ Wallis' request. In addition to being irrelevant, the documents relating to the Hawaii sale are simply beyond the jurisdiction of this Commission for the reasons stated in VZNW's Response filed on September 22, 2004. Under *Waste Management of Seattle v. The Utilities and Transportation Commission*, 123 Wn.2d 621, 869 P.2d 1034 (1994), the Commission cannot compel VZNW to

II. THE THEORY OF "RELEVANCY" ARGUED BY STAFF/PUBLIC COUNSEL

Verizon understands that Staff and Public Counsel allege that the Hawaii sales documentation is somehow relevant to "the valuation of directory operations which is an issue in this case. This information may lead to relevant information to the extent it contains any evaluation of the value of the directory operations to the telecommunications operations." (Staff Motion to Compel, p. 9). At the hearing on the Motion to Compel, Staff further explained its theory, arguing that the value of a directory business is maximized if sold as part of a bundle that includes regulated local telephone operations. Staff speculates that the market more highly values a directory operations that is affiliated with a regulated local telephone company. Public Counsel also argued that somehow the Hawaii sale documents should be examined because they may be inconsistent with the Company's expressed "imputation policy" as set forth in Exhibit 70 admitted during the interim rate proceedings.

As explained below, first, Staff and Public Counsel are wrong in their characterization of the relevant issues in this case. Second, even assuming for the sake of argument that their theories of relevancy have merit, which they do not, none of the Hawaii sale documents will prove or disprove such theories.

III. A DESCRIPTION OF THE HAWAII SALE

The sale of the included Hawaii assets owned by Verizon Communications Inc. is complex. A helpful overview of the transaction can be drawn from the Application on file with the Hawaii Public Utilities Commission for approval of the merger transaction.[2] The Application (Attachment A) describes the $1.65 billion transaction, which will involve the transfer of all of

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produce its affiliates' financial records relating to the sale of unrelated Verizon Hawaii operations.

[2] Attached hereto is the Application in Docket No. 04-0140 downloaded from the Hawaii Commission's website. Some attachments to the Application are filed under Protective Order and are not publicly available and could not be provided. Verizon downloaded and printed what was available on the Website, with the exception of Exhibits B and D to Exhibit 1 and Exhibits 4, 5 and 6. These were not included due to volume, but can be obtained from the Hawaii PUC Website.

the assets of Verizon Hawaii Inc. (the Hawaii local exchange operations) and all of the Hawaii assets of Bell Atlantic Communications, Inc., dba Verizon Long Distance ("VLD") and Verizon Select Services Inc. ("VSS"). These entities are owned entirely by GTE Corporation, a New York corporation, which is not regulated by the Hawaii PUC. In turn, GTE Corporation is owned by Verizon Communications Inc. Paradise Merger Inc. is the purchaser.

Exhibit 2 to the Application describes in a nutshell how the merger transaction is to occur. The assets of three distinct entities, Verizon Hawaii Inc., Verizon Asset Co., and GTE Hawaii Intel Insurance Company Incorporated will be transferred to Verizon Hold Co. LLC, which in turn will merge with the purchasing entity, Paradise Merger, Inc. The sale of certain non-regulated assets, including directories assets, GTE.net LLC, Verizon Network Integration Corp. and GTE Communications Systems Corporation are addressed in footnote 18 of the Application. These entities will contribute certain assets directly or indirectly to Verizon Asset Co.

The $1.65 billion base purchase price is a total price, with no individual value ascribed to any piece of this complicated transaction. As the Application clearly demonstrates, nothing about the Hawaii sale relates to, or includes, any assets of VZNW. Requiring the production of documents relating to this complex merger transaction, based upon a fishing expedition is simply unwarranted.

IV. VZNW HAS NOT RAISED DIRECTORY VALUATION AS AN ISSUE

As a threshold matter, it is critical to understand that VZNW has not raised the issue of directory valuation; it has only raised the issue of the continued propriety of directory imputation as a matter of law and regulatory and economic policy.

Public Counsel's interpretation of Exhibit 70 is incorrect. This document does not reflect any general corporate policy with respect to directory imputation. It is simply a document that discusses how local operating companies are to deal with the regulatory issues associated with changing from a Master Publishing Agreement to fee for service contracts. This four year old document notes on page 1, "In states where we are required to impute, the imputation will

continue to occur." This statement does not mean that going forward VZNW was foreclosed from challenging another parties' proposal in a general rate case to apply old imputation practices to contemporary circumstances, which is what the testimony of Dennis Trimble and Michael Doane does.

Mr. Trimble's testimony does not raise the issue of the value associated with <u>any</u> directory operations, let alone VZNW's. He states his purpose as explaining why "VDC (Verizon Directories Corp.) earnings should not be imputed to Verizon Northwest." (Ex. DBT-1T, p. 3). He testifies that:

- The VZNW-VDC contractual arrangements are consistent with affiliate interest guidelines and provide for reasonable and prudent revenue flows between the affiliated companies;
- Imputation should not occur on the basis that ratepayers funded the development of VDC, because that is factually not the case for VZNW;
- He describes the yellow imputation process and explains why such imputation is bad public policy;
- He describes the imputation calculation process, which is based upon the directory affiliate's earnings or revenues within the state (Ex. DBT-1T, p. 6).

Mr. Trimble does not testify to any valuation of VDC's directory operations in Washington. He does not testify to any nexus, or lack thereof, between any such value and the practice of revenue imputation. He does not testify about any theory that the value of a directory operation is maximized if sold in a bundle that includes regulated local telephone operations.

Mr. Doane does not testify to any of these topics either. Mr. Doane's testimony comments on the economic issues raised by the practice of imputing revenues generated by the unregulated publishing business of VDC to VZNW for rate-making purposes. (Ex. MJD-1T, p. 3). A major focus of his testimony is an examination of the competitive market in which VDC operates vis-à-vis other directories and other local advertising outlets. He concludes that there is

no economic basis for imputing "excess directory earnings in rate-making proceedings to offset the cost of Verizon Northwest's local telephone service."

In sum, while VZNW has raised as an issue the continuing practice of directory imputation, VZNW's witnesses have <u>not</u> submitted any testimony on what is an entirely separate question posed by Staff – directory valuations for purposes of sale.

V. THE HAWAII SALE IS IRRELEVANT TO THE WASHINGTON RATE CASE

WAC 480-07-400(4) limits permissible data requests to information that is "relevant to the issues in the adjudicative proceeding or that may lead to the production of information that is relevant." This rule does not define "relevant evidence." Evidence Rule 401 defines relevant evidence as "evidence having any tendency to make the existence of any fact that is of consequence to the determination of the action more probable or less probable without the evidence." The definition encompasses two concepts – probative value and what is often referred to as "materiality." "Thus, evidence is not relevant unless, (1) it has a tendency to prove or disprove a fact, and (2) that fact is of consequence in the context of the other facts and the applicable substantive law." Tegland, 5 Wash. Practice, Evidence, Section 401.2 (4th Ed.).

Documents relating to the sale of Verizon's Hawaii operations have no tendency to prove or disprove any fact of consequence to this rate case for the following reasons: First, there is no question that the documents at issue do not belong to VZNW; they do not relate to any VZNW operations and do not relate to any Washington State operations of Verizon Directories Corporation. As such, they would have no tendency to prove or disprove any fact that is of relevance to this Washington State rate case. Second, there is no connection between the issue of the continued viability of the practice of directory revenue imputation and the sale of directory operations as part of the sale of certain of a corporation's operations in a different state. Simply put, there is no nexus between an aggregate sale price, that includes a directories operation, and the revenue imputation process in Washington, which is based on the directory affiliate's earnings. (Ex. DBT-1T, p. 6). Valuation of a directories business in Hawaii for sale purposes,

assuming *argeundo* that one exists, which it does not, has no relationship at all to the extent of the Washington directory affiliate's earnings.[3]

Furthermore, the information Staff speculates it might find in the Hawaii sale documents could not *prove* anything with respect to the Washington directory revenue imputation issue. First, it is impossible to draw the foregoing conclusion in this case because, as noted, the Hawaii sales price is an aggregate figure that includes many assets and was set up by the purchaser. There is simply no way to separate out in this complicated transaction any independent "added value" that may inure to the ILEC due to an association with a directories company. Second, there is no way to ascertain if the sales price reflects in any manner added value to the directories company due to its association with a regulated local telephone company. In this case, the fact that directory operations are sold as a part of an overall asset sale of various entities does not prove that its value is enhanced by the bundled sale of the local telephone operation. It is equally as, or more, plausible that the buyer placed more value on the non-directory assets included in the sale (i.e., VLD, VSS, GTE Hawaii Intel Insurance Company, GTE.net LLC, Verizon Network Integration Corp. or GTE Communications Systems Corporation).[4]

Finally, the Hawaii sale deals with a different state, with different market characteristics and a different history of operations. Even if an independent economic value could be derived (which cannot be done), this fact is immaterial because it is based upon Hawaii-specific conditions. There simply is no relevancy between the Hawaii sale documents and Washington State's specific issues and practices.

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[3] Verizon did not value the Directories business for purposes of the sale nor did Paradise assign a value to the Directories business in making its offer. *See* Chamberlain Declaration filed on September 22, 2004.

[4] Furthermore, documents relating to the Hawaii sale are not probative of any "company-wide" practice with respect to imputation as argued by Public Counsel at hearing. It is illogical to conclude, as Public Counsel suggests, that the fact that Verizon is selling its Hawaii directory assets in conjunction with its Hawaii Telco means anything in connection with a revenue imputation practice.

VI. CONCLUSION

Leaving aside the jurisdictional issues, Staff cannot prove the relevancy of Hawaii sale documents to a Washington rate case proceeding. Discovery into the Hawaii sale truly is nothing but the proverbial fishing expedition that will lead to nothing that is probative on the issue of the continued practice of directory revenue imputation in Washington.

DATED this 24th day of September 2004.

GRAHAM & DUNN PC

By [signature]
Judith A. Endejan
WSBA# 11016
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ATTACHMENT A

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application	)	
	)	
of	)	Docket No. 04-0140
	)	
PARADISE MERGERSUB, INC., GTE CORPORATION, VERIZON HAWAII INC., BELL ATLANTIC COMMUNICATIONS, INC., AND VERIZON SELECT SERVICES INC.	)	
	)	
For approval of a merger transaction and related matters	)	

APPLICATION

PARADISE MERGERSUB, INC., a Delaware corporation ("MergerSub"), GTE CORPORATION, a New York corporation ("GTE Corp."), VERIZON HAWAII INC., a Hawaii corporation ("Verizon Hawaii" or "TelCo Hawaii," as the case may be),[1] BELL ATLANTIC COMMUNICATIONS, INC., dba Verizon Long Distance, a Delaware corporation ("Verizon LD"), and VERIZON SELECT SERVICES INC., a Delaware corporation ("Verizon Select Services") (collectively, "Applicants"), by and through their respective counsel, and pursuant to Hawaii Revised Statutes ("HRS") Sections 269-17, 269-17.5 and 269-19 and Hawaii Administrative Rules ("HAR") Title 6, Chapter 61, Subchapters 6, 9, 10 and 11 and Title 6, Chapter 80, Subchapter 2, hereby respectfully

[1] For purposes of this Application, the term "Verizon Hawaii" shall be used to refer to Verizon Hawaii Inc. under its current ownership structure, while the term "TelCo Hawaii" shall be used to refer to Verizon Hawaii Inc. under new ownership following closing of the subject transaction, if this Application is approved. It should be noted, however, that upon closing, the name of Verizon Hawaii Inc. will be changed to a new name that is yet to be determined. As such, for purposes of this Application, the term "TelCo Hawaii" is being used as a proxy to provide more clarity regarding the pre-closing versus post-closing entity.

submit this Application requesting that the Hawaii Public Utilities Commission ("Commission") approve the proposed change of control over Commission-regulated lines of business and the financing obligations associated with said change, by no later than December 15, 2004.[2]

By way of an overview, the proposed change of control has two parts. First, the stock of Verizon Hawaii currently held by GTE Corp. shall be transferred to Verizon HoldCo LLC, a Delaware limited liability company ("Verizon HoldCo"), which is a newly formed holding company subsidiary of GTE Corp. Ultimately, Verizon HoldCo will be merged into MergerSub, a newly formed holding company subsidiary that is controlled by affiliates of TC Group L.L.C., dba The Carlyle Group, a Delaware limited liability company ("Carlyle"). MergerSub shall be the surviving entity following the proposed merger and shall own all of the outstanding stock of TelCo Hawaii.[3]

Second, the inter-island toll business of Verizon LD and Verizon Select Services shall be transferred to GTE Corp. as an intermediate step before ultimately being transferred to Verizon AssetCo, a subsidiary of Verizon HoldCo that will be formed shortly before closing ("Verizon AssetCo" or "AssetCo," as the case may be).[4]

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[2] Approval is being sought by December 15, 2004 to, among other things, facilitate a smooth and expeditious transition of the operations to be assumed and performed under new independent ownership as a result of the subject transaction, if this Application is approved, as well as to minimize unwarranted potential uncertainty for existing customers and employees.

[3] See footnote 1 above.

[4] For purposes of this Application, the term "Verizon AssetCo" shall be used to refer to the Verizon AssetCo entity to be formed prior to closing, while the term "AssetCo" shall be used to refer to Verizon AssetCo under new ownership following closing of the subject transaction. However, it is currently contemplated that the formal/legal name of Verizon AssetCo will be changed at the time it is formed to a name that is yet to be determined. As such, for purposes of this Application, the terms "Verizon AssetCo" and "AssetCo" are being used as proxies to attempt to provide more clarity regarding the pre-closing versus post-closing entity.

Accordingly, after the merger of Verizon HoldCo into MergerSub, MergerSub will also own all of the stock of AssetCo.

In connection with the proposed change of control, Applicants specifically request that the Commission approve all of the following:

1. The merger transaction contemplated by the Agreement of Merger dated as of May 21, 2004 ("Agreement"), a copy of which is attached hereto as Exhibit 1 (said merger transaction shall hereinafter be referred to as the "Merger Transaction");[5]

2. The transfer of the customer accounts and receivables associated with the inter-island toll business of Verizon LD and Verizon Select Services in connection with the Merger Transaction pursuant to HRS §269-19;[6]

3. The issuance of a new Certificate of Authority ("COA") to AssetCo that contains the same authorizations held by Verizon LD and Verizon Select Services under their existing respective COAs, and authorization for AssetCo to republish the rules, regulations, tariffs and rates (collectively, "Tariffs") of Verizon LD and Verizon Select Services under its own name to be effective as of the closing of the Merger Transaction;[7]

4. The interim transfer of Verizon Hawaii's issued and outstanding capital stock from GTE Corp. to Verizon HoldCo, and the subsequent merger of Verizon

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[5] See *infra*, Section C for a description of the Merger Transaction. See also *infra*, Section D.

[6] See *infra*, Section E.

[7] See *infra*, Section E. As reflected in said Section E, the existing COAs for Verizon LD and Verizon Select Services are not being transferred as part of the Merger Transaction. In addition, the existing Tariffs of Verizon LD and Verizon Select Services will remain in effect for said entities following the closing of the Merger Transaction.

HoldCo into MergerSub for the purpose of effectuating the Merger Transaction pursuant to HRS §269-17.5;[8]

5. The guaranty by TelCo Hawaii and AssetCo of the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction pursuant to HRS §269-17;[9]

6. The pledging of TelCo Hawaii's and AssetCo's respective capital stock and the grant of a security interest in and mortgages on substantially all of TelCo Hawaii's and AssetCo's respective tangible and intangible assets to secure the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction pursuant to HRS §269-19;[10]

7. Terminating the regulatory condition imposed by the Commission in Part VIII, Subpart 2 of Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345;[11] and

8. Granting such other relief as may be just and reasonable under the circumstances.[12]

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[8] See *infra*, Section F.

[9] See *infra*, Section G.

[10] See *infra*, Section G.

[11] See *infra*, Section H.

[12] The Merger Transaction does not involve the purchase, acquisition or transfer of stock from one public utility corporation to another. Therefore, HRS §269-18 is inapplicable.

In support of this Application, Applicants provide the following information:

A. COMMUNICATIONS REGARDING THIS APPLICATION

Pleadings, correspondences, and notices regarding this Application should be directed to the following:

Paradise MergerSub, Inc.
c/o The Carlyle Group
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2505
Attention: Mr. William E. Kennard

GTE Corporation, Verizon Hawaii Inc., Bell Atlantic Communications, Inc., and Verizon Select Services Inc.
c/o P.O. Box 2200
Honolulu, HI 96841
Attention: Mr. Joel K. Matsunaga

Copies of all correspondences should also be sent to Applicants' respective counsel as follows:

Alan M. Oshima, Esq.
Michael H. Lau, Esq.
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Verizon Corporate Services Group Inc.
P.O. Box 2200
Honolulu, HI 96841
Attorneys for GTE Corporation, Verizon Hawaii Inc., Bell Atlantic Communications, Inc., and Verizon Select Services Inc.

B. APPLICANTS

1. MergerSub

MergerSub is a corporation organized under the laws of the State of Delaware, with its principal place of business presently located at c/o The Carlyle

Group, 1001 Pennsylvania Avenue, N.W., Washington, D.C. 20004-2505. MergerSub is a wholly-owned subsidiary of Paradise HoldCo, Inc. ("Buyer"). Buyer is a newly formed Delaware corporation that is controlled by affiliates of Carlyle.[13] MergerSub was formed for the purpose of consummating the Merger Transaction, all as further described in Section C of this Application. MergerSub is duly organized, validly existing, and in good standing under the laws of the State of Delaware. An organizational chart depicting MergerSub, Buyer, and the ownership structure of Carlyle affiliates that are involved in the Merger Transaction is set forth in Exhibit 2 attached hereto.

2. **GTE Corp.**

GTE Corp. is a corporation organized under the laws of the State of New York with its principal office located at 1095 Avenue of the Americas, New York, New York. GTE Corp. owns all of the issued and outstanding capital stock of Verizon Hawaii. GTE Corp. is more than 95% owned by Verizon Communications Inc. The balance is owned by NYNEX Corporation, which is wholly-owned by Verizon Communications Inc.

Although GTE Corp. itself is not a regulated telephone company within the State of Hawaii or elsewhere, GTE Corp.'s local telephone subsidiaries, or operating companies, including Verizon Hawaii, are subject to public utility regulation in the states in which they operate as well as regulation by the Federal Communications Commission ("FCC") for the interstate and international services they provide to end users and inter-

[13] Carlyle is a global private equity firm with more than $18 billion under management across 23 funds. Carlyle focuses on telecommunications and media, aerospace and defense, automotive and transportation, and consumer, energy and power, healthcare, industrial, technology and business services in North America, Europe and Asia. Since its founding in 1987, Carlyle has invested in excess of $10.5 billion of equity in more than 300 transactions.

exchange carriers. GTE Corp. also holds one hundred percent (100%) of the outstanding capital stock of Verizon Select Services and Verizon Hawaii International Inc.,[14] both of which hold COAs from the Commission to provide telecommunications services in the State of Hawaii.

When GTE Corp. received an expression of interest in purchasing the assets and operations involved in the Merger Transaction, GTE Corp. was obligated to consider such an offer. Verizon Communications Inc. decided to sell these assets and operations after it reached an agreement with Buyer on a fair price and other terms (including honoring obligations to existing employees). In reaching that agreement, Buyer committed to continue and build on the excellent record that Verizon has established in Hawaii.

3. **Verizon Hawaii**

Verizon Hawaii is a corporation organized under the laws of the State of Hawaii, with its principal place of business at 1177 Bishop Street, Honolulu, Hawaii 96813. All of the issued and outstanding capital stock of Verizon Hawaii is currently owned by GTE Corp.

Verizon Hawaii is a public utility regulated by the Commission under HRS Chapter 269 and was originally chartered in 1883. Today, Verizon Hawaii provides a comprehensive slate of local and intraLATA telecommunications services on a statewide basis. According to the FCC's latest Automated Reporting Management Information Systems (ARMIS) report, Verizon Hawaii serves approximately

[14] Although the transfer of the assets or capital stock of Verizon Hawaii International Inc. is not included as part of the Merger Transaction, Buyer is currently negotiating to acquire the assets and operations of such company.

698,000 access lines statewide. Verizon Hawaii is an incumbent local exchange carrier, within the meaning of § 252 of the Federal Telecommunications Act of 1996.

4. **Verizon LD**

Verizon LD is a corporation organized under the laws of the State of Delaware. Its current address in Hawaii is c/o 1177 Bishop Street, Honolulu, Hawaii 96813. Verizon LD is a public utility regulated by the Commission, having received a COA pursuant to HAR §6-80-18 to provide resold intrastate interexchange telecommunications services in the State of Hawaii effective as of November 16, 1999. Under its COA, Verizon LD currently provides inter-island toll service statewide. Verizon LD filed its latest annual report for the year ending December 31, 2003 with the Commission on March 25, 2004, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

Verizon LD is also subject to regulation by the FCC and provides interstate toll service on a nationwide basis.

5. **Verizon Select Services**

Verizon Select Services is a corporation organized under the laws of the State of Delaware. Its current address in Hawaii is c/o 1177 Bishop Street, Honolulu, Hawaii 96813. Verizon Select Services is a public utility regulated by the Commission, having received a COA pursuant to HAR §6-80-18 to provide resold intrastate interexchange telecommunications services in the State of Hawaii effective as of January 21, 1997. Verizon Select Services filed its latest annual report for the year ending December 31, 2003 with the Commission on May 3, 2004, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

C. BACKGROUND AND DESCRIPTION OF THE MERGER TRANSACTION

On May 21, 2004, Buyer (i.e., the parent of MergerSub), MergerSub, GTE Corp. (i.e., the current owner of 100% of Verizon Hawaii's issued and outstanding capital stock) and Verizon HoldCo entered into an Agreement that sets forth the terms and conditions for the Merger Transaction.[15] See Exhibit 1. For the Commission's convenience, a chart showing the transfers that will occur as part of the Merger Transaction is attached hereto as Exhibit 3. Once all necessary conditions under the terms of the Agreement have been met, including obtaining regulatory approval, the following transactions shall occur between and among the parties:[16]

(1) GTE Corp. will transfer all of the outstanding capital stock of Verizon Hawaii to Verizon HoldCo;[17]

(2) Verizon HoldCo will form Verizon AssetCo as a Delaware corporation, whereby Verizon HoldCo will hold and own all of the outstanding capital stock of Verizon AssetCo, free and clear of any encumbrances;

(3) Verizon LD and Verizon Select Services (both public utilities regulated by the Commission), as well as other non-Hawaii regulated affiliates of GTE Corp. and subsidiaries of Verizon Communications Inc.,[18] will

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[15] It should be noted that four (4) additional subsidiaries/affiliates of GTE Corp. and/or Verizon Communications Inc. are currently public utilities regulated by the Commission under HRS Chapter 269. They are: Verizon Avenue Corp., NYNEX Long Distance Company dba Verizon Enterprise Solutions, Verizon Hawaii International Inc. and Cellco Partnership dba Verizon Wireless. The first three listed entities operate under COAs issued by the Commission while the last entity operates under a Certificate of Registration. None of these four (4) entities are involved in the Merger Transaction.

[16] See Section 5.18 of the Agreement (Exhibit 1).

[17] Contemporaneously with the closing of the Merger Transaction, the name of Verizon Hawaii will be changed to a name that is yet to be determined. See footnote 1 above.

[18] As reflected in the Merger Agreement, the non-Hawaii regulated affiliates of GTE Corp. and subsidiaries of Verizon Communications Inc. that will be having certain of their assets contributed directly or indirectly to Verizon AssetCo/AssetCo are Verizon Directories Corp., Verizon Directories Services-

transfer, indirectly, via Verizon Communications Inc. and/or GTE Corp., as depicted in Exhibit 3, their respective rights, title and interest in certain assets ("Assets") to Verizon AssetCo/AssetCo. A more detailed description of the Assets to be transferred to Verizon AssetCo/AssetCo is attached hereto as Exhibit 4; provided, however, that said description shall be subject to amendments and supplements as provided in Section 5.13 of the Agreement;[19] and

(4) GTE Corp. will then transfer to the employment of Verizon AssetCo/AssetCo each employee who is employed by GTE Corp. or its affiliate, other than Verizon Hawaii, that provides substantially all of his or her services to or for the business with respect to the Assets to be transferred to Verizon AssetCo/AssetCo.

Upon completion of the above, a Certificate of Merger will then be filed with the Secretary of State of the State of Delaware as provided in Section 2.3 of the Agreement. Upon such filing, Verizon HoldCo will be merged with and into MergerSub, and MergerSub will be the sole surviving entity and succeed to and assume all the rights and obligations of Verizon HoldCo (including owning all of the issued and outstanding capital stock of Verizon Hawaii/TelCo Hawaii and Verizon AssetCo/AssetCo,[20] respectively, with certain limited exceptions as set forth in the Agreement). MergerSub shall thereafter be a direct, wholly-owned subsidiary of Buyer,

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West Inc., Verizon Directories Sales-West Inc., GTE.Net LLC, Verizon Network Integration Corp. and GTE Communication Systems Corporation. See Section 5.18 and pages 4 to 5 of Exhibit 1.

[19] In addition to Exhibit 4, there are also certain intellectual property rights and interests being transferred to Verizon AssetCo/AssetCo as part of the Merger Transaction. A copy of the Intellectual Property Agreement is attached as Exhibit A to the Agreement (Exhibit 1).

[20] See footnotes 1 and 4 above.

and all debts, liabilities and duties imposed on Verizon HoldCo and MergerSub shall continue or become, as the case may be, the debts, liabilities and duties of MergerSub as the surviving entity. See Section 2.4 of the Agreement. In addition, subject to the Commission approving Applicants' request to issue a new COA to AssetCo as further discussed in Section E.2 below, AssetCo plans to replicate the services currently offered by Verizon LD and Verizon Select Services under their existing COAs.[21]

As set forth in Section 2.7(b) of the Agreement, the base purchase price to be paid to GTE Corp. to consummate the Merger Transaction is $1.65 billion, subject to various adjustments as provided in the Agreement. The merger consideration shall be calculated as follows: (1) $1.65 billion, plus (2) the amounts expended by Verizon Hawaii to comply with "Interim Capital Expenditure Obligations," plus (3) the "Non-Regulated Construction Work in Process Amount," minus (4) the aggregate amount of "Closing Date Indebtedness," and plus (or minus) (5) the amount that the "Closing Date Net Working Capital Amount" exceeds (or is less than) the "Target Net Working Capital Amount" (as those terms are defined in the Agreement). As further discussed in Sections D.1 and G below, the consideration required to effectuate the Merger Transaction will be funded by equity contributions from affiliates of Carlyle and through financing or credit facilities to be obtained from multiple sources. After the Merger Transaction, Verizon Communications Inc. and its subsidiaries will not be liable for, nor guarantee, any of such financing or credit facilities.

[21] Upon completion of the Merger Transaction, the remaining entities that will be regulated by the Commission as a public utility under HRS §269-1 in connection with said Merger Transaction will be TelCo Hawaii and AssetCo, both of whose issued and outstanding capital stock will be held by MergerSub.

D. APPROVAL OF MERGER TRANSACTION

In support of Applicants' request for Commission approval of the Merger Transaction, Applicants hereby represent that TelCo Hawaii and AssetCo will be sufficiently fit, willing and able to provide their respective public utility services and satisfy their respective public utility obligations and that the resulting merger is reasonable and in the public interest. In support of this, Applicants hereby provide the following:[22]

1. Financial Fitness

As further discussed in Section G below, in order to close the Merger Transaction, MergerSub will receive an equity contribution from Buyer and has also obtained certain financing and other credit commitments, as described below:

Carlyle Partners III Hawaii LP, a Delaware limited partnership, and other affiliates of Carlyle, will make a cash equity contribution to Buyer, in the form of common

[22] Applicants note that although stock sale or change of control transactions do not require specific Commission approval under HRS Chapter 269, the Commission has nevertheless exercised jurisdiction to review and approve such transactions under its general investigative powers set forth by HRS §269-7(a). See, e.g., *In the Matter of the Petition of Maunalua Associates, Inc., East Honolulu Community Services, Inc. and American Water Works Company, Inc. For a Declaratory Ruling, or in the Alternative, for Authorization to Sell Stock of East Honolulu Community Services, Inc. from Maunalua Associates, Inc. to American Water Works Company, Inc.*, Decision and Order No. 16175 filed on January 27, 1998 in Docket No. 97-0339. Applicants also note that in merger transactions, the Commission has exercised jurisdiction to review and approve such transactions under HRS §269-19 and/or under its general investigative powers under HRS §269-7(a). See, e.g., *In the Matter of the Application of GTE Corporation and Bell Atlantic Corporation For Expedited Approval to Transfer Control of GTE Corporation to Bell Atlantic Corporation*, Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345. Because the subject Merger Transaction does not involve a merger between two public utilities, it is Applicants' position that HRS §269-19 is inapplicable as it pertains specifically to the subject Merger Transaction. In any event, however, based on a review of the cited transactions, it is Applicants' understanding and position that the Commission undertakes essentially the same standards of review applicable to transfers or assignments of certificates of public convenience and necessity under HRS §269-7.5, to wit, whether the applicant is fit, willing and able properly to perform the service being applied for and whether the transaction is reasonable and in the public interest. It is also Applicants' understanding and position that the use of these standards of review does not require the Commission to undertake a rate review as set forth under HRS §269-7.5. See, e.g., *In the Matter of the Application of Citizens Communications Company, Kauai Electric Division and Kauai Island Utility Co-op For Approval of the Sale of Certain Assets of Citizens Communications Company, Kauai Electric Division and Related Matters*, Decision and Order No. 19658 issued on September 17, 2002 in Docket No. 02-0060 as it pertains to the sale of assets.

equity, in an aggregate amount equal to at least 17.5% of the total capital necessary (i) to consummate the Merger Transaction and (ii) to fund up to $100 million of the estimated capital investment in back office infrastructure and net transition expenses resulting from the Merger Transaction. The cash contribution will then be contributed by Buyer to MergerSub as common equity.

In addition to the equity contribution, affiliates of Carlyle have secured certain financial commitments which will allow MergerSub to (a) obtain up to $700 million in senior secured term financing facilities, (b) obtain a $150 million senior revolving credit facility and (c) issue up to $700 million in senior subordinated and senior unsecured high yield bonds. The terms of these financial commitments are further described in the term sheets and financing/credit facility summaries attached hereto as Exhibit 5 and incorporated herein by reference. Verizon Hawaii currently has $425 million in third-party debt and has demonstrated its ability to incur and repay indebtedness, including short-term borrowings from affiliates of Verizon Communications Inc. A portion of MergerSub's financing will be used to repay any of such indebtedness of Verizon Hawaii outstanding at the time of the closing of the Merger Transaction.

Exhibit 6 of this Application sets forth a ten-year pro forma financial projection for TelCo Hawaii based on its regulated operations.[23] As reflected in said Exhibit, TelCo Hawaii will have the financial fitness and ability to fund the continuing operations of Verizon Hawaii[24] through the revenue generated from the existing and

[23] Because Verizon LD and Verizon Select Services do not have tangible Hawaii assets other than customer accounts and receivables, no pro forma results of operations for AssetCo are included with this Application.

[24] See footnote 1 above.

proposed operations. In addition, based on these financial projections, TelCo Hawaii will be able to provide sufficient dividends to MergerSub, thereby allowing MergerSub to adequately service its financing obligations.

AssetCo will also have the financial fitness and ability following the closing of the Merger Transaction to fund its operations and assume and replicate the services and operations currently authorized and performed by Verizon LD and Verizon Select Services through the revenue generated from the Assets that it will obtain through the Merger Transaction.[25] AssetCo is also expected to provide dividends to MergerSub, which will also be utilized by MergerSub to service its financing obligations.

2. Willingness

Buyer and MergerSub's willingness to effectuate the Merger Transaction and assume control of Verizon Hawaii/TelCo Hawaii and the Assets to be acquired by Verizon AssetCo/AssetCo is evident from the amount of time, effort and resources that have been dedicated to consummating the transaction. Buyer and MergerSub have engaged in extensive negotiations with GTE Corp. throughout the nearly nine-month competitive sale process administered by GTE Corp. In furtherance of this objective, Buyer and MergerSub have expended considerable time, effort and resources in conducting due diligence, in negotiating the Agreement, obtaining the aforesaid financing and credit facility commitments and conducting numerous field audits and investigations, including developing extensive plans to create and establish in Hawaii substantially all of the major required back office functions currently handled by Verizon Hawaii's affiliates on the mainland. Given the mission critical nature of the operations and business support systems, Buyer and MergerSub intend to invest tens of millions of

[25] See footnote 23 above.

dollars of capital to design and implement state-of-the-art back office systems in the State of Hawaii. Buyer and MergerSub acknowledge the importance of ensuring a seamless transition for customers and have conducted a rigorous process to select a world-class systems integrator to replicate the full functionality of the systems currently provided by Verizon. In that connection, Buyer and MergerSub have retained Deloitte and Touche LLP and David Torline, the former Chief Information Officer of Cincinnati Bell, as consultants to assist in evaluating comprehensive proposals submitted by several systems integrators and other potential vendors. Buyer and MergerSub expect to finalize the selection of the back office service provider and to enter into a definitive contract in the near future.

In addition, in order to facilitate the transition of ownership and to ensure maintenance of service quality following the closing of the Merger Transaction, Buyer and MergerSub have entered into a transition services agreement with GTE Corp., whereby GTE Corp. has agreed to continue providing certain operations and business support for a period of up to nine months following closing. See Exhibit C of the Agreement (Exhibit 1) for a copy of the transition services agreement. Buyer and MergerSub also believe that its license of certain key operations support software from Verizon will significantly advance the implementation of the new systems.

The above efforts demonstrate that Buyer and MergerSub are willing to assume the responsibilities of taking over the ownership and control of Verizon Hawaii/TelCo Hawaii and Verizon AssetCo/AssetCo as part of the Merger Transaction.

3. **Ability**

a. Carlyle's Experience in Telecommunications.

Carlyle has a track record of successful telecommunications investments, a deep knowledge of the local telephony business, and a thorough understanding of the complex regulatory issues affecting the industry. The Carlyle partners responsible for this acquisition have exceptional experience in the telecommunications sector. For example, James A. Attwood, Jr. is a former executive vice president for Verizon and GTE. William E. Kennard is the immediate past chairman of the FCC. Dan Akerson is the former chairman and Chief Executive Officer of XO Communications and, prior to that, was chairman and Chief Executive Officer of Nextel Communications.

Carlyle's recent global telecommunications and media investments include Casema BV (a Dutch cable TV provider), Dex Media, Inc. (a U.S. directories provider), eAccess, Ltd. (a Japan-based broadband access provider), Taiwan Broadband Communications (a Taiwanese cable TV provider), and WCI Cable, Inc. (a submarine fiber-optic cable company connecting Alaska to the continental United States with terrestrial facilities in Alaska).

b. Local Management and Investors.

Recognizing the unique opportunities and responsibilities of doing business in Hawaii, Carlyle has determined that having locally based management and investors are integral components of its plans to operate MergerSub and its two wholly-owned subsidiaries TelCo Hawaii and AssetCo post-closing. Carlyle intends that all senior management of TelCo Hawaii and AssetCo will be full-time residents of Hawaii. Carlyle is also in the process of establishing a local investor group that will co-invest in

the new companies alongside Carlyle. The local investor group will be represented on the board of directors to provide guidance to Carlyle in establishing the two companies as successful, independent Hawaii-based companies. Carlyle also plans to invite a consortium of local banks to participate in providing a portion of the senior financing for the transaction.

c. Retention of Employees.

To promote stability during the transition to independent ownership, the Merger Agreement provides that employees that devote substantially all of their time to support Verizon Hawaii or to support the business with respect to the Assets to be transferred to AssetCo will have the opportunity to remain employed by either MergerSub, TelCo Hawaii or AssetCo as of the closing of the Merger Transaction in the same or comparable positions and with at least the same base pay and comparable total compensation in the aggregate (taking into account base pay, bonus, and other incentive compensation). See Sections 8.1 and 8.3 of the Agreement. Another key component of the Merger Transaction is MergerSub's agreement to assume the existing collective bargaining agreement and offer employees comparable benefits, including pension benefits. It is anticipated that these provisions in the Agreement, taken together with the necessity of relocating to Hawaii substantially all of the major back office functions now performed on the mainland, will result in an overall increase in staffing levels. Like Verizon, Buyer and MergerSub will retain the flexibility to modify staffing levels going forward. In addition, it should be noted that GTE Corp. has agreed that, for a period of time following the closing of the Merger Transaction, it and its Verizon affiliates will not solicit employees to leave TelCo Hawaii.

d. Transition Planning.

In addition to ensuring that TelCo Hawaii and AssetCo will retain Hawaii-based employees as described above, Buyer has already begun planning for the transition from support functions provided by Verizon Hawaii affiliates on the mainland (hereinafter, the "Verizon Support Functions") to self-sustained operations using support functions located in Hawaii. As mentioned in Section D.2 above, Buyer and MergerSub have obtained the commitment of GTE Corp. to work on a transition planning team[26] and have a contract in place for the continued provisioning of Verizon Support Functions for a period of up to nine (9) months following the closing.

e. Establishment of Other Hawaii-Based Functions.

As mentioned in Section D.2 above, Carlyle plans to invest significant capital to transition the new companies to independent local companies in a manner that will maintain service quality and provide a seamless transition to existing customers. Prior to the expiration of the transition services agreement discussed above, Buyer will re-establish back office functions previously phased out of Hawaii and consolidated with other Verizon operations on the mainland. Carlyle intends to eventually relocate substantially all of the major functions of the new companies to Hawaii and to staff such functions predominantly with local employees. Carlyle also plans to re-establish headquarters for the new companies in Hawaii, to rebuild a local network and information technology (IT) operations center, to augment local sales and marketing efforts, to staff locally support functions such as finance, information technology, and human resources that are currently provided on the mainland by affiliates of Verizon Hawaii, and to maintain existing call center operations.

[26] See Section 5.11(b) of the Agreement (Exhibit 1).

4. **Reasonableness and Key Public Interest Points**

a. Rates.

Buyer and MergerSub have no current intention to seek a general rate increase for regulated retail services provided by either TelCo Hawaii or AssetCo as a result of the Merger Transaction.[27]

b. Agreement to Conform to Commission's Rules and Orders.

Buyer and MergerSub commit and agree that TelCo Hawaii and AssetCo shall abide by and conform to all applicable Commission rules and orders. TelCo Hawaii will, subject to Commission order, continue to abide by all rights and obligations currently imposed on Verizon Hawaii in connection with all applicable Commission orders, rules and regulations and will continue to be so bound. Similarly, AssetCo will, subject to Commission order, agree to abide and be bound by the rights and obligations imposed upon AssetCo by the Commission in connection with the issuance of a new COA, including all applicable Commission orders, rules and regulations.

Buyer and MergerSub also agree that, upon completion of the Merger Transaction, TelCo Hawaii will continue to abide by all rights and obligations under all outstanding leases, permits, service and supply contracts and other agreements that will be assumed in accordance with the Agreement. Similarly, AssetCo will continue to abide by and will assume all of the rights and obligations under all outstanding leases, permits, service and supply contracts and other agreements

[27] Buyer and MergerSub reserve the right to seek rate increases as they deem necessary for discrete retail services (e.g., local directory assistance). See Decision and Order No. 20620 in Docket No. 03-0034.

currently held by Verizon LD and Verizon Select Services that will be assumed in accordance with the Agreement.

c. Goodwill/Acquisition Premium.

Buyer and MergerSub acknowledge the Commission's general policy not to allow recovery from utility customers of goodwill or acquisition premium amounts arising from utility merger and acquisition transactions.[28] In accordance with this policy, Buyer and MergerSub agree that neither TelCo Hawaii nor AssetCo will seek rate recovery of any goodwill amortization, acquisition premium costs or goodwill impairment charges pursuant to Generally Accepted Accounting Principles.

d. Transaction and Transition Costs.

Buyer and MergerSub also acknowledge the Commission's policy not to allow accounting deferral or recovery from utility customers of transaction and transition costs arising from utility merger and acquisition transactions.[29] In accordance with this policy, Buyer and MergerSub agree that neither TelCo Hawaii nor AssetCo will seek rate recovery of any transaction or transition costs (but excluding capital costs related to re-establishing the back office functions in Hawaii) or amortization of such costs.

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[28] For examples, see *In the Matter of the Application of BHP Hawaii Inc., Gasco, Inc. and Citizens Utilities Company Requesting Approval of the Sale of Gasco, Inc. to Citizens Utilities Company, and the Merger of Gasco, Inc. with Citizens Utilities Company, and Related Transactions, Pursuant to Haw. Rev. Stat. Sections 269-17.5, 269-18, 269-19, 269-19.5, and for a Declaratory Order Terminating Certain Regulatory Conditions Previously Applicable to Gasco, Inc. and BHP Hawaii Inc.*, Decision and Order No. 15899 filed on September 10, 1997 in Docket No. 97-0035; *In the Matter of the Application of GTE Corporation and Bell Atlantic Corporation For Expedited Approval to Transfer Control of GTE Corporation to Bell Atlantic Corporation*, Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345; and *In the Matter of the Application of Hawaiian Tug & Barge Corp., Young Brothers, Limited and Saltchuk Resources, Inc. Requesting Approval of the Sale of the Stock of Young Brothers, Limited to Saltchuk Resources, Inc., Pursuant to Hawaii Revised Statutes, §271G-4*, Decision and Order No. 17283 filed on October 20, 1999 in Docket No. 99-0231.

[29] Id.

E. APPROVAL OF TRANSFER OF ASSETS OF VERIZON LD AND VERIZON SELECT SERVICES, ISSUANCE OF COA TO ASSETCO AND REPUBLISHING OF TARIFF

1. Transfer of Assets of Verizon LD and Verizon Select Services

As mentioned in Section C of this Application, as part of the Merger Transaction, Verizon LD and Verizon Select Services (both public utilities regulated by the Commission) will transfer to Verizon Communications Inc. and GTE Corp., respectively, their respective rights, title and interest in certain Assets (but excluding their respective COAs issued by the Commission). These Assets ultimately will be transferred to AssetCo, with AssetCo being a resulting public utility regulated by the Commission following the closing of the Merger Transaction.

In connection with the above, Applicants hereby jointly request approval by the Commission of the above asset transfer as part of the Merger Transaction to the extent required by HRS §269-19 or otherwise by the Commission.[30] The closing of the Merger Transaction is conditioned on securing the Commission's approval. Other conditions precedent to closing are included in Article VI of the Agreement.

The following information, in addition to the description of Applicants and the Merger Transaction discussed in Sections B and C of this Application, respectively, as well as the Agreement (Exhibit 1), are provided in satisfaction of HAR §6-61-105:

a. Because only customer accounts and receivables and no tangible "assets" are being transferred by Verizon LD and Verizon Select Services to Verizon

[30] Under HRS §269-19, the Commission's prior approval is required for the sale, lease, assignment or other disposition of utility assets. The purpose of this statute is to safeguard the public interest. *In re Honolulu Rapid Transit Company, Ltd.*, 54 Haw. 402, 409 (1973). Some of the factors the Commission considers in determining whether the public interest is protected are whether the transaction will have a negative impact on the cost of the utility's operations, on the continued ability to serve customers, on the efficiency of operations, on the quality of personnel, and on rates. *See, Re GTE Corp. and Bell Atlantic Corp*, 197 P.U.R. 4th 337, Docket No. 98-0345, D&O No. 17377 (November 17, 1999); *Re BHP Hawaii, Inc., Gasco, Inc. and Citizens Utilities Company*, Docket No. 97-0035, D&O No. 15899 (September 10, 1997).

Communications Inc. and GTE Corp., respectively, and ultimately to AssetCo as part of the Merger Transaction, there is no book cost or original cost information to provide pursuant to HAR §6-61-105(b)(2).

b. The latest available balance sheet and income profit and loss statements of Verizon LD were filed with the Commission on March 25, 2004 as part of Verizon LD's latest annual report for the year ending December 31, 2003, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

c. The latest available balance sheet and income profit and loss statements of Verizon Select Services were filed with the Commission on May 3, 2004 as part of Verizon Select Services' latest annual report for the year ending December 31, 2003, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

d. As discussed in Section D above, following the Merger Transaction, AssetCo will have the financial fitness and ability to fund its operations and assume and replicate the services and operations currently authorized and performed by Verizon LD and Verizon Select Services under their respective COAs.

e. Buyer and MergerSub have agreed to continue the employment of the employees discussed in Section D.3 above, and, therefore, following the closing of the Merger Transaction, AssetCo will be able to provide experienced and capable operational management of the respective public utility operations. See discussion in Section D.3 above.

f. The Merger Transaction is reasonable and in the public interest. See discussion in Section D.4 above.

2. **Issuance of COA to AssetCo and Republishing of Tariff**

As noted above, certain assets of Verizon LD and Verizon Select Services will be transferred to AssetCo.[31] However, the existing COAs for Verizon LD and Verizon Select Services are not being transferred as part of the Merger Transaction. Therefore, pursuant to HAR §6-80-17(c), Applicants request that the Commission issue AssetCo a new COA. In this regard, Applicants note the following:

(a) The type of telecommunications service to be offered by AssetCo will be the same type of service currently authorized and provided by Verizon LD and Verizon Select Services under their respective COAs; namely, to provide resold intrastate interexchange services.

(b) The geographical scope of operation will be the entire State of Hawaii.

(c) Because AssetCo will not be a facilities-based carrier, no specific equipment will be employed in providing the regulated service.

(d) The initial rates and charges proposed to be imposed by AssetCo and the regulations that will govern the proposed service are identical to the rates, charges and regulations currently set forth in the existing Tariffs of Verizon LD and Verizon Select Services.

In connection with the above, Applicants request that the Commission permit AssetCo to republish the Tariffs of Verizon LD and Verizon Select Services under its own name to be effective as of the closing of the Merger Transaction.[32] This will

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[31] See footnote 4 above.

[32] The existing Tariffs of Verizon LD and Verizon Select Services will remain in effect for said entities following the closing of the Merger Transaction.

allow AssetCo to operate under the same rules, regulations, tariffs and rates set forth in the respective Tariffs of Verizon LD and Verizon Select Services.

Applicants hereby incorporate by reference the information provided in Sections D and E.1 above in support of AssetCo's financial fitness and ability to render the proposed service to be provided under the requested COA.

F. APPROVAL OF TRANSFER OF VERIZON HAWAII'S STOCK

As discussed in Section C of this Application, as part of the Merger Transaction, all of the issued and outstanding stock of Verizon Hawaii, a Hawaii corporation, will be transferred from GTE Corp., a New York corporation, to Verizon HoldCo, a Delaware limited liability company. This issued and outstanding stock will then be subsequently transferred to MergerSub, a Delaware corporation, by way of a merger between Verizon HoldCo and MergerSub, with MergerSub being the surviving entity.

In connection with the above, Applicants also seek Commission approval of the above transfers pursuant to HRS §269-17.5 because the outstanding capital stock of Verizon Hawaii will, following the Merger Transaction, be held by a Delaware corporation.[33] Applicants hereby incorporate by reference its discussions in Sections D and E of this Application in support of this request.

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[33] HRS §269-17.5 provides the following, in relevant part:

> No more than twenty-five per cent of the issued and outstanding voting stock of a corporation organized under the laws of the State [of Hawaii] and who owns, controls, operates, or manages any plant or equipment, or any part thereof, as a public utility within the definition set forth in section 269-1 shall be held, whether directly or indirectly, by any single foreign corporation or any single non-resident alien, or held by any person, unless prior written approval is obtained from the public utilities commission . . . .

For purposes of HRS §269-17.5, a foreign corporation means a corporation not organized under the laws of the State of Hawaii or a corporation in which a majority of the voting stock is held by a single corporation that is not organized under the laws of the State of Hawaii.

G. APPROVAL OF TRANSACTIONS RELATED TO FINANCING ARRANGEMENTS

As noted in Section D.1 above and as discussed below, MergerSub has obtained commitments for certain financing and credit facility arrangements. Because MergerSub (and not TelCo Hawaii or AssetCo, the entities to be regulated by the Commission following the Merger Transaction) is obtaining the financing, Applicants believe it is not necessary to obtain Commission approval to enter into the proposed financing and credit facility arrangements pursuant to HRS §269-17[34] or §269-19.[35] Instead, as will be further discussed below, Applicants request Commission approval for the following aspects of the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction:

- Applicants request Commission approval pursuant to HRS §269-17 to allow TelCo Hawaii and AssetCo to provide a guaranty of the financing and credit facility arrangements; and

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[34] HRS §269-17 provides the following, in relevant part:

> A public utility corporation may, on securing the prior approval of the public utilities commission, and not otherwise, issue stocks and stock certificates, bonds, notes, and other evidences of indebtedness, payable at periods of more than twelve months after the date thereof, for the following purposes and no other; namely: for the acquisition of property or for the construction, completion, extension, or improvement of or addition to its facilities or service, or for the discharge or lawful refunding of its obligations or for the reimbursement of moneys actually expended from income or from any other moneys in its treasury not secured by or obtained from the issue of its stocks or stock certificates, or bonds, notes, or other evidences of indebtedness, for any of the aforesaid purposes except maintenance of service, replacements, and substitutions not constituting capital expenditure in cases where the corporation has kept its accounts for such expenditures in such manner as to enable the commission to ascertain the amount of moneys so expended and the purposes for which the expenditures were made, and the sources of the funds in its treasury applied to the expenditures. . . . All stock and every stock certificate, and every bond, note, or other evidence of indebtedness of a public utility corporation not payable within twelve months, issued without an order of the commission authorizing the same, then in effect, shall be void.

[35] Under HRS §269-19, the Commission's prior approval is required for, among other things, the mortgage or other encumbrance of utility assets.

- Applicants request Commission approval pursuant to HRS §269-19 to (i) pledge all of the capital stock of TelCo Hawaii and AssetCo, and (ii) provide a perfected first-priority with respect to security interests in, and mortgages on, substantially all tangible and intangible assets of TelCo Hawaii and AssetCo.

1. **Guaranty**

As part of the senior secured term facilities that MergerSub has obtained, Buyer, MergerSub, as well as each existing and subsequently acquired or organized domestic subsidiary of Buyer, must unconditionally guarantee all obligations of MergerSub. As a result, following the closing of the Merger Transaction, TelCo Hawaii and AssetCo, as new subsidiaries of MergerSub (and ultimately of Buyer), will be required to provide this unconditional guaranty.

2. **Security and Collateral**

In consideration of the senior secured term facilities, Buyer, MergerSub, and each subsidiary guarantor, including TelCo Hawaii and AssetCo, will provide (i) a first-priority pledge of all the capital stock of MergerSub, and all other capital stock and equity interests held by Buyer, Merger Sub or any subsidiary guarantor; (ii) a perfected first-priority with respect to security interests in, and mortgages on, substantially all tangible and intangible assets of Buyer, MergerSub, and each subsidiary guarantor (including TelCo Hawaii and AssetCo), including accounts receivable, inventory, equipment, intellectual property and licenses (other than any license or permit which may not be pledged under applicable law or regulation), contract rights, other general intangibles, instruments, investment property, real property interests (other than leaseholds), intercompany notes and all proceeds and products of the foregoing. It

should be noted that substantially all of Verizon Hawaii's existing assets are now and have been pledged to secure its obligations to pay bonds issued under an existing indenture.

In addition to the information about Verizon Hawaii/TelCo Hawaii, Verizon AssetCo/AssetCo and the Merger Transaction set forth above, the financial pro forma attached as Exhibit 6 hereto, and the financing information in Sections D.1 above and this Section G, Applicants hereby incorporate by reference, pursuant to HAR §6-61-76, the latest financial statements and related information for Verizon Hawaii that was filed with the Commission on April 15, 2004, to satisfy the applicable requirements of HAR §6-61-101 and §6-61-105 for which information is available.[36]

H. ORDER REGARDING DECISION AND ORDER NO. 17377

In Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345, the Commission approved the merger of GTE Corp. with a wholly-owned subsidiary of Bell Atlantic Corporation, now known as Verizon Communications Inc. In approving that merger, which closed on June 30, 2000, the Commission imposed the following condition:

> GTE Hawaiian Tel [nka Verizon Hawaii] will account for all merger related expenses, savings, and revenue enhancements attributable to regulated Hawaii services and will report on the same on an annual basis for the first seven years after the merger or until its next rate proceeding, whichever is later. Ordering Paragraph 2 (Part VIII, Subpart 2) of Decision and Order No. 17377.

[36] Because Verizon AssetCo/AssetCo is not yet formed and as such does not presently own any assets or have any operations or income, it does not have a financial statement or other information to submit pursuant to HAR §6-61-75, §6-61-101 or §6-61-105. In addition, some of the requested information regarding Verizon Hawaii/TelCo Hawaii, such as a resolution approving its guaranty of the financing and credit facility arrangements, its pledge of stock and the providing of a first-priority security interest in and mortgages on its tangible and intangible assets, apply only to the post-closing ownership structure (TelCo Hawaii) and not to its current ownership structure, and as such will not be available until after the closing of the Merger Transaction.

In connection with the above, Applicants hereby request an order from the Commission terminating the above regulatory condition upon closing of the subject Merger Transaction because of the changes in ownership and circumstances as described throughout this Application.

I. CONCLUSION

For the reasons set forth above, Applicants hereby respectfully request that the Commission issue an order, by no later than December 15, 2004:[37]

1. Approving the Merger Transaction;

2. Approving, pursuant to HRS §269-19, the transfer of the customer accounts and receivables associated with the inter-island toll business of Verizon LD and Verizon Select Services;

3. Approving, pursuant to HAR §6-80-17(c), the issuance of a new COA to AssetCo that contains the same authorizations held by Verizon LD and Verizon Select Services under their existing respective COAs, and authorizing AssetCo to republish the Tariffs of Verizon LD and Verizon Select Services under its own name[38] to be effective as of the closing of the Merger Transaction;

4. Approving, pursuant to HRS §269-17.5, (a) the interim transfer of Verizon Hawaii's issued and outstanding capital stock from GTE Corp., a New York corporation, to Verizon HoldCo, a Delaware limited liability company, and (b) the subsequent merger of Verizon HoldCo into MergerSub, a Delaware corporation, for the purpose of effectuating the Merger Transaction;

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[37] See footnote 2 above.

[38] See footnote 4 above.

5. Approving, pursuant to HRS §269-17, the guaranty by TelCo Hawaii and AssetCo of the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction;

6. Approving, pursuant to HRS §269-19, the pledging of TelCo Hawaii's and AssetCo's respective capital stock and the grant of a security interest in and mortgages on substantially all of TelCo Hawaii's and AssetCo's tangible and intangible assets to secure the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction;

7. Terminating the regulatory condition imposed by the Commission in Part VIII, Subpart 2 of Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345; and

8. Granting such other relief as may be just and reasonable under the circumstances.

DATED: Honolulu, Hawaii, June 21, 2004.

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Blane T. Yokota
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GTE Corporation, Verizon Hawaii Inc.,
Bell Atlantic Communications, Inc., and
Verizon Select Services Inc.

VERIFICATION

STATE OF HAWAII)
) SS.
COUNTY OF HONOLULU)

ALAN M. OSHIMA, being first duly sworn, deposes and says: That he is an attorney for PARADISE MERGERSUB, INC. in the above proceeding; that the officers of PARADISE MERGERSUB, INC. are not present within the City and County of Honolulu; that he has read the foregoing Application, and knows the contents thereof; and that the same are true of his own knowledge except as to those matters stated on information and belief, and that as to those matters he believes them to be true.

ALAN M. OSHIMA

Subscribed and sworn to before me
this 21ST of June, 2004

Notary Public, State of Hawaii
Print Name: Edna Sagudang
My commission expires: June 21, 2006

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CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
250 S. King Street
Room 825
Honolulu, Hawaii 96813

4 COPIES
HAND DELIVERY

DATED: Honolulu, Hawaii, June 21, 2004.

Alan M. Oshima
Michael H. Lau
Kent D. Morihara
Oshima Chun Fong & Chung LLP

Attorneys for Applicant
Paradise MergerSub, Inc.

Leslie Alan Ueoka
Blane T. Yokota
Verizon Corporate Services Group Inc.

Attorneys for Applicants
GTE Corporation, Verizon Hawaii Inc.,
Bell Atlantic Communications, Inc., and
Verizon Select Services Inc.

Section 5.18(c)

Verizon AssetCo - Assets

Notwithstanding anything to the contrary, the contribution of assets set forth below shall include all Network Elements of the Contributing Companies but shall not include (i) any Intellectual Property or (ii) any asset that constitutes a payable or receivable between Seller and one of its Affiliates (other than the Company, the Subsidiaries and the Contributing Companies) on one hand and the Company, the Subsidiaries and the Contributing Companies on the other hand, which shall remain outstanding as provided in Section 5.9.

1. Each of Verizon Directories Corp., Verizon Directories Services – West Inc. and Verizon Directories Sales – West Inc., will contribute all their right, title and interest with respect to the following tangible assets in the State of Hawaii and other non-tangible assets (a) exclusively used in the sale of advertising in print telephone directories covering all or a portion of the State of Hawaii (but excluding directories covering Hawaii and any other state so long as any such directories predominantly cover a state (or states) other than Hawaii) and (b) the existing physical inventory of such print telephone directories:

(i) All Contracts with Telephone print directory advertisers in the State of Hawaii as of the opening of business on the Closing Date, but excluding Contracts or relationships with any certified marketing representative that is not solely related to Hawaii.

(ii) All accounts receivable as of the opening of business on the Closing Date arising from the operations of such entities in the State of Hawaii.

(iii) Inventory of current print directories and electronic copy of the current print directories covering all or a portion of the State of Hawaii (but excluding directories covering Hawaii and any other state so long as any such directories predominantly cover a state (or states) other than Hawaii).

(iv) All rights and obligations pursuant to (a) the Motor Vehicle Fleet Open-End Operating Lease Agreements, dated September 9, 2002 between D.L. Peterson Trust and Verizon Directories Corp., and (b) all service, management, maintenance and vehicle safety program agreements between PHH Vehicle Management Services, LLC and Verizon Directories Corp., with respect to the vehicles identified as subsection (v) hereof. Seller will seek consent to partial assignment pursuant to the terms of the Merger Agreement of the Agreements described in (a) and (b) above with respect to such vehicles.

(v) The vehicles pursuant to the lease agreements referenced in the preceding clause (iv)(a):

[illegible]	[illegible]	[illegible]
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2002	FORD	TAURUS
2002	FORD	TAURUS
2002	FORD	TAURUS
2002	FORD	TAURUS
2001	FORD	TAURUS
2001	DODGE	INTREPID
2001	FORD	TAURUS

(vi) The following property leases:

LESSOR	ADDRESS	COUNTY
TMS-CURCI LLC, A LIMITED LIABILITY COMPANY	711 KAPIOLANI BLVD., 8th FLOOR	HONOLULU
2969 MAPUNAPUNA INVESTORS	2969 MAPUNAPUNA PLACE	HONOLULU

(vii) The following properties:

See Annex K-1 of the Seller Disclosure Schedule.

(viii) All hardware relating to Transferred Employees in the State of Hawaii.

Notwithstanding the foregoing, no assets of Verizon Directories Corp., Verizon Directories Services – West Inc. and Verizon Directories Sales – West Inc. used in the composition, publication or printing of print white or yellow page directories or electronic directories shall be included among the above assets.

2. GTE.Net LLC will contribute all its right, title and interest with respect to the following assets used primarily in the provision of Internet access (including dial-up access) in the State of Hawaii:

(i) All Contracts between GTE.Net LLC and its customers in the State of Hawaii as of the opening of business on the Closing Date.

(ii) Master Agreement for Wholesale ISP DSL Services, as amended, dated April 1, 2004, between GTE.Net LLC d/b/a Verizon Internet Solutions and Level 3 Communications LLC.

(ii) All accounts receivable, as of the opening of business on the Closing Date of GTE.Net LLC arising from its operations in the State of Hawaii.

(iii) All hardware relating to Transferred Employees in the State of Hawaii.

(iv) All inventory and spare parts in the State of Hawaii, if any.

3. Verizon Network Integration Corporation will contribute all its right, title and interest with respect to the following assets used primarily in the provision of design, sale, installation and maintenance of data networks as well as the management of customer networks in the State of Hawaii:

(i) All Contracts between Verizon Network Integration Corporation and its customers in the State of Hawaii as of the opening of business on the Closing Date.

(ii) All accounts receivable of Verizon Network Integration Corporation arising from its operations in the State of Hawaii as of opening of business on the Closing Date.

(iii) All hardware relating to Transferred Employees in the State of Hawaii.

4. Verizon Select Services, Inc. will contribute all its right, title and interest with respect to the following tangible assets in the State of Hawaii and other non-tangible assets (i) used primarily in the provision of U.S. InterLATA toll services in the State of Hawaii or (ii) used primarily in the provision of design, sale, installation and maintenance of data and voice networks in the State of Hawaii as well as the management of customer networks and sale of installation and maintenance of customer premise equipment:

(i) All Contracts between Verizon Select Services, Inc. and its customers in the State of Hawaii as of opening of business on the Closing Date, excluding the Network Management Services Agreement, as amended, between Federated Systems Group, Inc. and GTE Data Services Incorporated, dated May 21, 1999.

(ii) Contract dated July 1, 2000 for the Voice Telecommunications Network Equipment Maintenance and Data Communications Network Equipment Maintenance by and between Verizon Select Services, Inc. (formerly known as GTE Communications Corporation) and Kaiser Foundation Hospitals.

(iii) Maintenance Agreement for Kaiser Foundation Hospitals Pursuant to the Master Services Agreement between Verizon Select Services Inc. and Verizon Hawaii, dated December 13, 1999 (as amended)

(iv) Contract dated March 15, 2004 for the transfer of non-regulated Customer Premise Equipment ("CPE") assets, accounts receivable, reserves liabilities and customers to Verizon Select Services Inc. Estimated value or receivables net of reserve as of 12/31/03 was $10,048,705. When transfer is complete Verizon Hawaii will no longer provide non-regulated CPE or CPE maintenance to customers other than federal "E-Rate" discount customers. All other offerings will be offered by Verizon Select Services Inc. or Verizon Network Integration Corporation.

(v) All accounts receivable, as of the opening of business on the Closing Date, of Verizon Select Services, Inc. arising from its operations in the State of Hawaii.

(vi) All hardware relating to Transferred Employees in the State of Hawaii.

5. Bell Atlantic Communications, Inc. will contribute all its right, title and interest with respect to the following assets in the State of Hawaii used primarily in the provision of U.S. InterLATA toll services in the State of Hawaii:

(i) All Contracts between Bell Atlantic Communications, Inc. and its customers in the State of Hawaii as of the opening of business on the Closing Date.

(ii) All accounts receivable, as of the opening of business on the Closing Date of Bell Atlantic Communications, Inc. arising from its operations in the State of Hawaii.

(iii) All hardware relating to Transferred Employees in the State of Hawaii.

6. GTE Communication Systems Corporation will contribute all its right, title and interest with respect to the following tangible assets in the State of Hawaii relating primarily to equipment calibration services and leasing or subleasing of space on equipment towers and maintenance and sale of paging equipment in the State of Hawaii:

(i) The following licenses pursuant to the agreement for the sale of paging assets, dated December 12, 2002, between Telesector Resources Group, Inc. (d/b/a/ Verizon Services

Group) formerly known as GTE Communication Systems Corp. and Weblink Wireless (recently purchased by Metrocall Inc.):

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HAWAII	S. HILO	HILO	HI	2010900	METROCALL	RSM
HAWAII	MAMANE ST & SPENCER ROAD	HONOKAA	HI	2040900	METROCALL	CO
HAWAII	MAMALAHOA HIGHWAY	KAMUELA	HI	2080900	METROCALL	CO
HAWAII	S. KOHALA	KAMUELA	HI	2155900	METROCALL	TWR
HAWAII	HAWI-NIULI ROAD	KOHALA	HI	2115900	METROCALL	CO
HAWAII	73-4156 MAMALAHOA HIGHWAY	N. KONA	HI	2070900	METROCALL	CO
HAWAII	MAMALAHOA HIGHWAY	NAALEHU	HI	2180900	METROCALL	CO
HAWAII	HUMUULA	NINOLE	HI	2165900	METROCALL	TWR
HAWAII	PUNA ROAD	PAHOA	HI	2210900	METROCALL	CO
HAWAII	84-5022 S. KONA BELT ROAD	S. KONA	HI	2035900	METROCALL	CO
HAWAII	19-4080 VOLCANO ROAD AND WRIGHT ROAD	VOLCANO	HI	2230900	METROCALL	CO
HONOLULU	92-1600 KIKAHA STREET	EWA BEACH	HI	1285900	METROCALL	TWR
HONOLULU	KOKO HEAD	HONOLULU	HI	1220901	METROCALL	TWR
HONOLULU	1021 KIKOWAENA PLACE	HONOLULU	HI	1300901	METROCALL	REPT
HONOLULU	ON TOP OF TANTALUS	HONOLULU	HI	1390900	METROCALL	TWR
HONOLULU	51-476 LIHIMAUNA ROAD	KAAWA	HI	1140900	METROCALL	CO
HONOLULU	44-354 KANEOHE BAY DRIVE	KANEOHE	HI	1375900	METROCALL	TWR
HONOLULU	92-815	MAKAKILO	HI	1265900	METROCALL	CO

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[1] Legend:

CO: Central Office
REPT: Reporting Center
RSM: Remote Switch Module
TWR: Tower / Antenna / Mast

County	Property Address	City	State	GLC	Tenant Name	USE[1]
	NOHOHALE STREET					
HONOLULU	252 KOA STREET	WAHIAWA	HI	1405900	METROCALL	CO
HONOLULU	MOKULEIA	WAIALUA	HI	1315900	METROCALL	TWR
KAUAI	54-378 KUHIO HIGHWAY	HANALEI	HI	4020900	METROCALL	CO
KAUAI	KALEPA RIDGE	HANAMAUL U	HI	4035900	METROCALL	RSM
KAUAI	PUU ROAD	KALAHEO	HI	4070900	METROCALL	TWR
KAUAI	WAIMEA, ACCESS FROM KOKEE RD	WAIMEA	HI	4090900	METROCALL	TWR
KAUAI	4004 MAKEKE ROAD	WAIMEA	HI	4095900	METROCALL	CO
MAUI	TOP OF HALEAKALA	MAKAWAO	HI	3010900	METROCALL	TWR
MAUI	24 OLINDA ROAD	MAKAWAO	HI	3050900	METROCALL	CO
MAUI	MOLOKAI	MAUNOLA	HI	5035900	METROCALL	TWR
MAUI	60 SOUTH CHURCH STREET	WAILUKU	HI	3080900	METROCALL	CO

(ii) An agreement for the sale of paging assets, dated December 12, 2002, between Telesector Resources Group, Inc. (d/b/a/ Verizon Services Group) formerly known as GTE Communication Systems Corp. and Weblink Wireless (recently purchased by Metrocall Inc.).

(iii) All hardware relating to Transferred Employees in the State of Hawaii.

(iv) All tangible assets of the Contributing Company in the State of Hawaii more particularly described as listed on Annex K-2 of the Seller Disclosure Schedule.

EXHIBIT E

Topics to be Covered by Opinion

Opinions covering the following topics will be addressed in one or more opinions to be delivered by counsel to [(i) GTE Corporation ("Seller"), (ii) [Verizon HoldCo LLC] ("Company"), (iii) Verizon Hawaii, Hawaiian Insurance Company and Verizon AssetCo (the "Subsidiaries"), (iv) [Verizon Directories Corp., Verizon Directories Services-West Inc., Verizon Directories Sales-West Inc., GTE.Net LLC, Verizon Network Integration Corporation, Verizon Select Services, Inc., Bell Atlantic Communications, Inc., Verizon Data Services Inc. and GTE Communication Systems Corporation (collectively, the "Contributing Companies") and (v) [Verizon Service Entity] ("Service Provider" and together with Seller, Company and the Contributing Companies, the "Relevant Parties")], subject in each case to standard exceptions and qualifications[1]:

1. [Each Relevant Party] is a [limited liability company] [corporation] of the State of [New York] [Delaware], with [limited liability company] [corporate] power and authority to enter into the Merger Agreement and the Ancillary Documents to which it is a party and perform its obligations thereunder.[2] Based on certificates from public officials, we confirm that [each Relevant Party] is validly existing and in good standing under the laws of the State of [New York] [Delaware].

2. The execution, delivery and performance of the Merger Agreement and the Ancillary Documents to which it is a party have been duly authorized by all necessary [limited liability company] [corporate] action of [each Relevant Party], and the Merger Agreement and the Ancillary Documents to which it is a party have been duly executed and delivered by [each Relevant Party].

3. Each of the Merger Agreement and the Ancillary Documents to which it is a party constitutes a legally valid and binding obligation of [each Relevant Party], enforceable against [each Relevant Party] in accordance with its terms, it being understood that no opinion is given as to the enforceability of any covenant not to compete or to refrain from hiring or soliciting any person.

4. The execution and delivery of the Merger Agreement and the Ancillary Documents to which it is a party, and the consummation of the Merger, on the date hereof do not:

   a. violate the provisions of the organizational documents of [any Relevant Party],

---

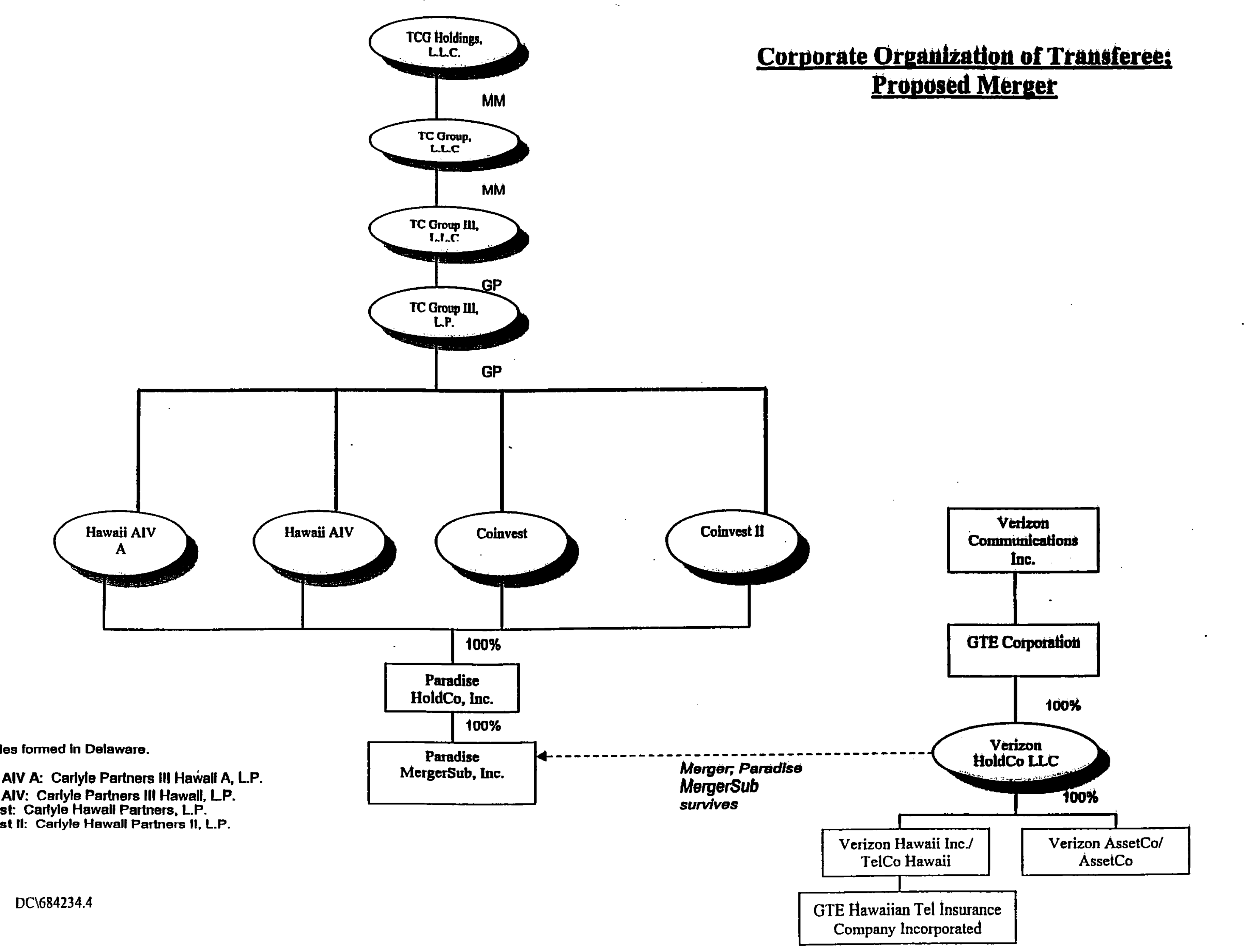
[1] Capitalized terms used by not defined herein have the meanings ascribed to such terms in the Merger Agreement.

[2] In the event any of the companies are organized under the laws of a state other than the State of New York or the State of Delaware, assumptions shall be made regarding the laws of such other jurisdiction.

b. violate any federal, [New York or Delaware] statute, rule or regulation applicable to [any Relevant Party] except that no opinion is given with respect to antitrust, FCC or intellectual property matters, or

c. require any consents, approvals, or authorizations to be obtained by [any Relevant Party], or any registrations, declarations of filings to be made by [any Relevant Party], under any federal, [New York or Delaware] statute, rule or regulation applicable to [any Relevant Party] that have not been obtained or made, subject to materiality exception and exceptions for antitrust, FCC or intellectual property matters.

Corporate Organization of Transferee; Proposed Merger



Notes:
All entities formed in Delaware.

Hawaii AIV A: Carlyle Partners III Hawaii A, L.P.
Hawaii AIV: Carlyle Partners III Hawaii, L.P.
Coinvest: Carlyle Hawaii Partners, L.P.
Coinvest II: Carlyle Hawaii Partners II, L.P.

DC\684234.4

EXHIBIT 3

Chart Depicting Proposed Transaction and Final Organization Structure

Step 1 Internal Reorganization of Verizon in Preparation of Merger

Verizon Communications Inc.
Verizon AssetCo Assets
Bell Atlantic Communications, Inc.
Non-Hawaii PUC regulated affiliates*
Verizon AssetCo Assets
GTE Corporation
Verizon AssetCo Assets
Verizon AssetCo Assets
Verizon Hawaii Inc. Stock
Non-Hawaii PUC regulated affiliates**
Verizon Select Services Inc.
Verizon Hawaii Inc.
Verizon HoldCo LLC
GTE Hawaiian Tel Insurance Company Incorporated
Verizon AssetCo
Verizon AssetCo Assets

Step 2 Merger of Verizon HoldCo LLC into Paradise MergerSub, Inc.

Verizon Communications Inc.
"Carlyle"
GTE Corporation
$
Paradise HoldCo, Inc.
Verizon HoldCo LLC
merge
Paradise MergerSub, Inc.
Verizon Hawaii Inc.
Verizon AssetCo
GTE Hawaiian Tel Insurance Company Incorporated

Post-Closing Organization Structure of Buyer

"Carlyle"
Paradise HoldCo, Inc.
Paradise MergerSub, Inc.
Verizon Hawaii Inc./ TelCo Hawaii
Verizon AssetCo/ AssetCo
GTE Hawaiian Tel Insurance Company Incorporated

* Assets of Verizon Network Integration Corp.
** Assets of Verizon Directories Corp., Verizon Directories Services-West Inc., Verizon Directories Sales-West Inc., GTE.Net LLC, and GTE Communication Systems Corporation.

F:\DOCUMENT\AMO\CARLYLE GROUP\PUC APPLICATION\EXHIBITS TO APPLICATION\Exhibit 3 (Merger Transaction Chart).doc

ATTACHMENT D

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GRAHAM & DUNN

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-

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Public Counsel
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Seattle, WA 98164-1012
(206) 464-7744

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.

CHRISTINE O. GREGOIRE
Attorney General

Simon J. ffitch
Assistant Attorney General
Public Counsel

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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. VERIZON NORTHWEST INC., Respondent.	DOCKET NO. UT-040788 REPLY TO VERIZON NW'S SUPPLEMENTAL RESPONSE TO STAFF'S MOTION TO COMPEL

I. Background

1 Commission Staff seeks production of documents surrounding a transaction whereby Verizon is selling its Hawaii telephone operations and is including directory operations in that sale.

2 Verizon NW has never stated it *cannot* provide the information requested.[1] Rather, Verizon NW is objecting that it *will not* provide the information because: 1)

[1] In fact, Verizon NW attaches to its *Supplemental Response* a copy of the Application filed with Hawaii PUC to seek approval of the sale. Verizon NW failed to provide this document in response to Staff Data Request No. 277. This is yet another instance where the Company has improperly

the Commission cannot force it to do so because the information is not possessed by Verizon NW, or an affiliate pursuant to a contract or arrangement; and 2) the information is not relevant, and will not lead to relevant evidence.

3 The relevance objection is the scope of Verizon NW's September 28 Supplemental Response, and it is therefore the scope of this Reply by Staff.

II. The Information Requested Is Relevant, or Will Lead to Relevant Evidence

4 Verizon claims it "has not raised directory valuation as an issue," *Supplemental Response at 3-4,* but Verizon NW's own testimony proves the Company is wrong.

5 In its direct testimony in this case, Verizon NW witness Mr. Trimble describes one of the issues surrounding imputation: whether "an affiliate's revenues may and should be considered when *determining the appropriate compensation due the affiliated ILEC.*" *Trimble Direct Testimony, Exhibit No. ___ (DBT-1T) at 11:8-9 (emphasis supplied).*

6 "Determining the appropriate compensation due the affiliated ILEC" involves consideration of the value the ILEC (here Verizon NW) provides to the affiliate (here Verizon Directories). The Hawaii sale documents are relevant to the

---

provided documents or information to the Commission that it refuses to provide to Commission Staff.

value an ILEC provides to its directory affiliate because that sale packages telephone operations with directory operations.

7 In other words, the market is making an unambiguous statement that directory operations have the most value in conjunction with the telephone operations, *i.e.*, the telephone operations lend value to the directory operations. If the opposite were true, the directory business would have been sold separately.

8 Staff wants to examine the relevant transaction documents to further analyze this plainly relevant issue.

9 Verizon NW's bare assertion that events in Hawaii have no relationship to Washington is also not credible. *E.g., Supplemental Response at 5-6.* While Verizon NW is entitled to its opinion, it is certainly reasonable to conclude that evidence of this actual market transaction in Hawaii is relevant to the issue whether Verizon NW provides value to its directory affiliate in this state. It would be remarkable indeed if the state of Hawaii were the only place in the world where telephone operations provide value to directory affiliates.

III. Verizon NW's Other Arguments Effectively Concede the Relevance of the Documents Requested

10 Verizon NW also contests the proposition that the value of the directory business is enhanced by its being bundled together with the sale of the Hawaii telephone company operations. According to Verizon NW, it is "equally as, or more, plausible that the buyer placed more value on non-directory assets ..." *Supplemental Response at 6.*

11 This statement by Verizon NW provides conclusive support for compelling production of the requested documents. While Verizon NW believes another explanation is "equally plausible" or "more plausible," Verizon NW's statement acknowledges it is at least "plausible" that the Hawaii transaction shows that directory operations obtain value by its association with the telephone operations. The documents requested are therefore relevant under such a "plausible" theory, and they should be produced, so that this issue can be further evaluated.

12 Verizon NW's argument reflects an attempt to allege one explanation, and then prevent the parties from evaluating what the Company concedes is a plausible, alternative explanation. That strategy should not be permitted: Verizon NW is not the "gatekeeper" of the issues.

13 This is not a "proverbial fishing expedition," as the Company thinks. *Supplemental Response at 7.* Staff is requesting relevant documents relating to a

relevant issue. Verizon NW should be ordered to produce the documents requested.

DATED this 29th day of September, 2004.

CHRISTINE O. GREGOIRE
Attorney General

DONALD T. TROTTER
Senior Counsel
Washington Utilities and
Transportation Commission
(360) 664-1189

ATTACHMENT E

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. VERIZON NORTHWEST INC., Respondent.	Docket No. UT-040788 DECLARATION OF GREGG DIAMOND

Gregg Diamond states and declares as follows:

1. I am Director, Regulatory Affairs for Verizon. My business address is Verizon, 600 Hidden Ridge, P.O. Box 15029, Irving, Texas 75015-2092. I am the regulatory rate case manager in this docket for the regulatory operations of Verizon Northwest Inc. ("VZNW").

2. Attached hereto is a copy of Staff Data Request No. 463 that requests information with respect to the planned sale of the Canadian directory operations of Verizon Communications Inc.

3. Attached hereto is Staff Data Request No. 452 that requests the identification of all corporate policies adopted by Verizon Communications Inc. that may apply to VZNW. The Company has undertaken an internal investigation to locate general corporate policies applicable to VZNW and VZNW will provide such policies to Staff.

4. Attached hereto is the Company's response to Staff Data Request No. 444, which discusses the basis of the change from a master publishing agreement arrangement to a fee for services contract arrangement, as discussed in Exhibit No. 70.

I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

DATED this 7th day of October 2004 at Seattle, Washington.

By ______________________
Gregg Diamond

m29664-541733.doc

Before the

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No. UT-040788

VERIZON NORTHWEST INC.

RESPONSE TO STAFF DATA REQUEST NOS. 461-463

INCLUDES CONFIDENTIAL MATERIAL
Per Protective Order

October 12, 2004

Docket No. UT-040788 – General Rate Case
WUTC Staff Data Requests to Verizon Nos. 461-463
October 12, 2004

DATA REQUEST NO. 463:

Please provide the following information in connection with Verizon's planned sale of its SuperPages Canada directory operations. (See the Verizon News Release dated September 8, 2004, "Verizon Signs Agreement for Bain Capital to Acquire Directory Operations in Canada"):

a. Provide a copy of the sale agreement that Verizon signed with Bain Capital.
b. Does the sale agreement include a directory publishing agreement between Bain Capital and Verizon or any of its affiliates (e.g., Verizon Information Services)? If the answer is yes, provide a copy of the publishing agreement.
c. Does the sale agreement include a non-compete agreement between Bain Capital and Verizon or any of its affiliates (e.g., Verizon Information Services)? If the answer is yes, provide a copy of the non-compete agreement.
d. Provide a copy of any offering memoranda, prospectus or other descriptions of the SuperPages Canada directory operations that were prepared by or on behalf of Verizon for consideration by potential purchasers.
e. Were any SuperPages Canada financial projections prepared by or for Verizon for submission to potential purchasers of the business? If the answer is yes, please identify and describe each set of such projections and provide complete copies of all documentation associated with same.
f. Was J. P. Morgan Securities Inc. the sole financial advisor engaged by Verizon for the SuperPages Canada sale transaction? If not, identify all other financial advisors engaged by Verizon for the sale transaction.
g. For each financial advisor identified in part c. above (including J.P. Morgan Securities Inc.), provide a copy of each valuation study, fairness opinion, market value study and financial projection for the SuperPages Canada directory operation that was prepared by the financial advisor in connection with the sale transaction.

RESPONSE:

Prepared By:
Date:
Witness:

WUTC STAFF DATA REQUEST NO. 452:

Please provide a list and description of all Corporate Policy Statements by Verizon Northwest, its parent or any of its affiliates, that are currently in effect, or in effect during the test year, that apply to or affect Verizon Northwest's Washington operations.

WUTC STAFF DATA REQUEST NO. 453:

Please provide a list and description of all internal audit projects either conducted or planned for 2004 that would apply to Verizon Northwest's Washington operations or to Verizon's Domestic Telecom business unit.

WUTC STAFF DATA REQUEST NO. 454:

For the audit years 2002 and 2003, please provide copies of the Management letters from Ernst and Young to Verizon Communications, and copies of the Verizon response to the Ernst and Young Management letters.

WUTC STAFF DATA REQUEST NO. 455:

With respect to the PICs Asset Management audit discussed in the July 16, 2002 Management Audit Committee minutes:

a. Please provide a complete copy of the audit report.
b. Please provide all memos, emails and other Verizon documents containing Verizon's analysis and response to the audit report findings.

WUTC STAFF DATA REQUEST NO. 456:

If not already provided in response to Staff Data Request No. **5**, please provide a complete copy of the audit report titled "Plug-In Cards (PICS) Asset Management," dated July 14, 2003, shown on line 10 of Attachment 280 to the Response to Staff Data Request No. 280.

WUTC STAFF DATA REQUEST NO. 457:

In WUTC STAFF DATA REQUEST NO. 388, Staff requested:

> As a follow up to Data Request No.356, please provide an additional column to the [Interactive Computer Graphics System (ICGS)] spreadsheets that describes the outside plant cable type currently represented by the column "MATERIAL CODE" for all three offices. At a minimum the cable type should include the

Before the

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No. UT-040788

VERIZON NORTHWEST INC.

RESPONSE TO STAFF DATA REQUEST NOS. 440-445

September 28, 2004

Docket No. UT-040788 – General Rate Case
Verizon Responses to WUTC Staff Data Request Nos. 440-445
September 28, 2004

DATA REQUEST NO. 444:

a. Is it Verizon's contention that the amendments made to Verizon Northwest Inc.'s publishing agreements with its directory advertising affiliates, reflecting a reduction to zero of directory advertising revenues retained by Verizon Northwest, Inc., were made because of the FCC's Third Report and Order, *In re Implementation of the Telecommunications Act of 1996,* CC Docket No. 96-115 et al., 14 FCC Record 15550 (September 9, 1999)?

b. If so, please provide all documents that support the contention that this was the reason for these amendments.

RESPONSE:

a. Verizon NW's amendments were driven by the Telecommunications Act of 1996 (96 Act) as well as the cited FCC order. The 96 Act established a pro-competitive environment for both local telecommunications and directory publishing. The cited FCC order resulted in the establishment of the market value of the services Verizon NW provides to all competitive directory providers. Verizon NW's amendments are in concert with both the objectives of the 96 Act and the implementation requirements of the cited FCC order. Also, Verizon NW's Fee for Services Agreement is consistent with rational management control objectives in that it assures the proper reflection of the actual activities performed by each entity and the proper revenues and expenses generated by each entity.

b. Verizon NW provided all documents in response to WUTC Staff Data Request No. 250.

Prepared By: Dennis Trimble
Date: September 21, 2004
Witness: Dennis Trimble

ATTACHMENT F

Service: **Get by LEXSEE®**
Citation: **123 Wn. 2d 621**

*123 Wn.2d 621, *; 869 P.2d 1034, **;
1994 Wash. LEXIS 196, ****

Waste Management of Seattle, Inc., et al, Respondents, v. The Utilities and Transportation Commission, Appellant

No. 60011-2

SUPREME COURT OF WASHINGTON

123 Wn.2d 621; 869 P.2d 1034; 1994 Wash. LEXIS 196

March 17, 1994, Decided
March 17, 1994, Filed

SUBSEQUENT HISTORY: [*1]**

As Amended by order of the Supreme Court. Second Amendment May 5, 1994.

PRIOR HISTORY:
Superior Court: The Superior Court for King County, No. 92-2-07652-7, Sally Pasette, J., on December 11, 1992, entered a judgment setting aside the administrative decision.

DISPOSITION: Holding that the administrative agency is required by RCW 81.77.160 to approve the disposal fee as part of the collection company's permanent rate, that the administrative agency cannot exclude the disposal fee costs on the ground that the fees flow to a company affiliated with the collection company, and that the administrative agency cannot compel the collection company to produce the financial records of its affiliated garbage disposal companies, the court *affirms* the trial court and *grants* judgment in favor of the collection company.

CASE SUMMARY

PROCEDURAL POSTURE: Appellant, a utilities and transportation commission, challenged an order of the Superior Court for King County (Washington), which reversed appellant's denial of respondent waste disposal company's petition for a fee increase for solid waste disposal.

OVERVIEW: Respondent waste disposal company petitioned appellant utilities and transportation commission to increase its rate for waste collection to cover a fee paid under a city ordinance for landfill disposal costs. Appellant denied the fee increase because respondent refused to produce records of two of its affiliated companies which were involved in the landfill disposal. The lower court held that respondent was required by Wash. Rev. Code § 81.77.160 to approve the disposal fee. On appeal the court affirmed and held that § 81.77.160 required appellant to include in respondent's permanent rates the fee charged by a disposal facility which respondent was required to use by local ordinance and that the records of the affiliated companies were not subject to review because respondent had not entered into any arrangement with them with respect to the transportation or disposal of waste.

OUTCOME: The court affirmed the superior court's rejection of appellant utilities and transportation commission's denial of a tariff increase and ordered approval of a fee

increase.

CORE TERMS: affiliated, disposal, solid waste, affiliate, collection, permanent, pass-through, ordinance, tariff, waste, regulated, per ton, negotiation, unregulated, ratepayers, landfill, staff, customers, collector, approve, judicial review, public service, administrative procedure, excessive profits, transportation, reasonableness, rate-making, conducting, indirect, site

LexisNexis(R) Headnotes ✦ Hide Headnotes

Governments > Legislation > Interpretation
Administrative Law > Judicial Review > Standards of Review > De Novo Review
*HN1*Construction of a statute is a question of law which a court reviews de novo under the error of law standard. The courts retain the ultimate authority to interpret a statute. Whether an agency's construction of the statute is accorded deference depends on whether the statute is ambiguous. Where an agency is charged with the administration and enforcement of a statute, the agency's interpretation of an ambiguous statute is accorded great weight in determining legislative intent. Absent ambiguity, however, there is no need for the agency's expertise in construing the statute. Furthermore, a court will not defer to an agency determination which conflicts with a statute. More Like This Headnote

Environmental Law > Solid Wastes > Disposal Standards
Environmental Law > Solid Wastes > Permits
*HN2*See Wash. Rev. Code § 81.77.160.

Governments > Legislation > Interpretation
*HN3*Statutes relating to the same subject are to be read together as constituting a unified whole, to the end that a harmonious total statutory scheme evolves which maintains the integrity of the respective statutes. A court will read such statutes as complementary, rather than in conflict with each other. More Like This Headnote

Environmental Law > Solid Wastes > Disposal Standards
Energy & Utilities Law > Utility Companies > Utility Rates
*HN4*See Wash. Rev. Code § 81.16.030.

Administrative Law > Judicial Review > Standards of Review > Standards Generally
*HN5*If the Washington Supreme Court is conducting its review on an administrative record, an assignment of error to the superior court findings is not necessary. It is well established that under the previous administrative procedure act, review by an appellate court was on the entire record of the administrative tribunal, not of the superior court. The appellate court stands in the same position as the trial court when reviewing the decision of an agency. More Like This Headnote

Administrative Law > Judicial Review > Standards of Review > Standards Generally
*HN6*The appellate tribunal will review administrative actions on the administrative, not superior court, record. More Like This Headnote

Administrative Law > Judicial Review > Standards of Review > Standards Generally
*HN7*Assignment of error to the superior court findings and conclusions is not necessary in review of an administrative action. More Like This Headnote

✦ Show Headnotes / Syllabus

COUNSEL: *Christine O. Gregoire, Attorney General*, and *Robert D. Cedarbaum, Assistant*, for appellant.

Davis Wright Tremaine, by *Stephen M. Rummage, Craig Gannett*, and *William K. Rasmussen*, for respondents.

JUDGES: En Banc. Brachtenbach, J. Andersen, C.J., and Utter, Dolliver, Durham, Smith, Guy, Johnson, and Madsen, JJ., concur.

OPINIONBY: BRACHTENBACH

OPINION: **[*624]** **[**1036]** At issue is the interpretation and application of two statutes. The first is RCW 81.77.160, a disposal fee pass-through provision which instructs the Washington Utilities and Transportation Commission (WUTC) to pass through to ratepayers disposal charges incurred at a facility which a solid waste collection company is required to use under a local comprehensive solid waste management plan or local ordinance designating disposal sites. The second is the interpretation and application of RCW 81.16.030, the affiliated interest **[***6]** provision which allows the WUTC to examine the costs of providing goods or services by an affiliated company with which a regulated company has a "contract or arrangement", before the affiliated company's charges will be allowed in the regulated company's rates.

Waste Management of Seattle, Inc. (Waste Management) filed a revision of its tariff with the WUTC in April 1991, to increase its rate for commercial solid waste collection from $ 47 per ton to $ 56 per ton. This increase covers, in part, a fee paid under a city ordinance to the City of Seattle (City) for landfill disposal costs. In its final order, the WUTC denied the rate increase because Waste Management failed to produce the financial records of two of its affiliated companies, Washington Waste Systems, Inc. (Washington Waste), and Oregon Waste Systems, Inc. (Oregon Waste), which were involved in the landfill disposal. Waste Management **[*625]** appealed to superior court. The Superior Court determined that the WUTC is statutorily required by RCW 81.77.160 to approve this disposal fee as part of the company's permanent rate, that the WUTC cannot exclude these costs on the ground that there was a flow of payments to **[***7]** affiliated companies and that RCW 81.16.030, allowing the WUTC to examine financial records of an unregulated company affiliated with a regulated company where there is a contract or arrangement between the companies, does not apply. We affirm.

[1037]** Waste Management of Seattle, Inc., collects commercial solid waste from its customers in Seattle and transports it to the Eastmont Transfer Station (Eastmont), paying Eastmont $ 56 per ton for disposal. Eastmont is an operating division of Waste Management of Seattle, Inc. Eastmont then processes the waste, places it into containers and transports it to the Union Pacific Intermodal Facility (Intermodal Facility). Eastmont pays the City $ 38.14 per ton to dispose of the waste at the Intermodal Facility, pursuant to a city ordinance. Washington Waste Systems, Inc., has a contract with the City to transport the waste in containers from the Intermodal Facility to the Columbia Ridge Landfill (Landfill) in eastern Oregon, at a cost of approximately $ 42 per ton. n1 The Landfill is operated by Oregon Waste. Washington Waste, Oregon Waste, and Waste Management are all subsidiaries of Waste Management of North America, Inc., which in turn is a **[***8]** subsidiary of Waste Management, Inc. Washington Waste, Oregon Waste, and Waste Management are affiliates, as defined by RCW 81.16.010.

- - - - - - - - - - - - - - Footnotes - - - - - - - - - - - - - - -

n1 The disposal fee charged to the solid waste companies is less than the amount the City

pays for disposal because of a subsidy. The City had paid funds to King County for the construction of a waste-to-energy facility. When this facility became unnecessary, King County returned the funds to the City and these funds are used to subsidize the rate charged by the intermodal facility.

- - - - - - - - - - - - End Footnotes- - - - - - - - - - - - -

During discovery, the WUTC's staff requested financial information from Oregon Waste and Washington Waste. Waste Management declined to provide the requested material on the grounds that the WUTC did not have the **[*626]** authority to review the records of its affiliates under these circumstances. Waste Management asserted that because there is no "contract or arrangement" between Waste Management and the affiliated companies, the WUTC did not have the right to examine the costs to the affiliates under **[***9]** RCW 81.16.030.

The WUTC granted a motion by the WUTC staff to compel production. The WUTC determined that it had the authority to examine the records of the affiliated companies both under RCW 81.16.030 and under its general rate-making authority. To preserve the privacy of records produced, the WUTC issued a protective order preventing disclosure of confidential information. Waste Management continued to refuse to comply on the grounds that the WUTC had no authority to review the records of its affiliates. It also contended that the WUTC was required to approve the disposal fees as part of its permanent rates, without engaging in substantive inquiry, under the pass-through provisions of RCW 81.77.160.

An administrative law judge (ALJ) entered a third supplemental order in January 1992, rejecting the tariff filing in its entirety. The ALJ concluded that the WUTC was not required to approve the disposal fees without review and found that the WUTC could examine the financial records of the affiliates under RCW 81.16.030. The ALJ found these records were necessary for Waste Management to meet its burden of proving just and reasonable rates.

The WUTC reviewed the order of the ALJ **[***10]** and issued its fourth supplemental order denying an increase in rates. The WUTC also concluded that Waste Management had not met its burden of proving just and reasonable rates and that it was not required to accept the disposal charges until Waste Management demonstrated that the rates were reasonable. The WUTC determined that it had authority both under RCW 81.16.030 and under its general regulatory authority to examine the financial records of the affiliated companies.

In December 1992, the superior court set aside the WUTC's order. The court concluded that the WUTC was **[*627]** required to permit a permanent pass-through of the disposal fees without substantive review, but the WUTC could review the charges to ensure that they fell under the pass-through provisions of RCW 81.77.160. Also, the WUTC may review charges where there are direct payments made and services or property provided between a regulated company and its unregulated affiliate under RCW 81.16.030. However, the court held that RCW 81.16.030 does not apply here and there is no **[**1038]** general authority under which payments to affiliated companies may be disallowed.

The WUTC was granted direct review by this court under **[***11]** RAP 4.2(a)(4).

Review of the WUTC's determination in this proceeding is governed by RCW 34.05.570. Under the provisions relevant to this case, this court shall grant relief from the WUTC's order if it determines that the order is outside the statutory authority or jurisdiction of the agency or if the agency has erroneously interpreted or applied the law. We find that the WUTC has both erroneously interpreted the law and has acted beyond its statutory authority.

The first issue is whether RCW 81.77.160 requires the WUTC to approve a permanent pass-

through of all charges for disposal of solid waste at a facility designated under a local solid waste management plan or ordinance. Waste Management argues that the WUTC must allow these charges in the company's *permanent* collection rates. The WUTC asserts that the provision provides only for a *temporary* pass-through and that the charges are still subject to substantive review to determine whether they are reasonable amounts before they will be included in the permanent rates.

[1-4] HN1Construction of a statute is a question of law which we review de novo under the error of law standard. *Pasco v. Public Empl. Relations Comm'n*, 119 Wn.2d 504, 507, 833 P.2d 381 (1992); **[***12]** *Inland Empire Distrib. Sys., Inc. v. Utilities & Transp. Comm'n*, 112 Wn.2d 278, 282, 770 P.2d 624, 87 A.L.R.4th 627 (1989). The courts retain the ultimate authority to interpret a statute. *Franklin Cy. Sheriff's Office v. Sellers*, 97 Wn.2d 317, 325-26, 646 P.2d 113 (1982), **[*628]** *cert. denied*, 459 U.S. 1106 (1983). Whether an agency's construction of the statute is accorded deference depends on whether the statute is ambiguous. Where an agency is charged with the administration and enforcement of a statute, the agency's interpretation of an *ambiguous* statute is accorded great weight in determining legislative intent. *Pasco*, at 507 (citing *Cowiche Canyon Conservancy v. Bosley*, 118 Wn.2d 801, 813-14, 828 P.2d 549 (1992)). Absent ambiguity, however, there is no need for the agency's expertise in construing the statute. *Pasco*, at 509. Furthermore, we will not defer to an agency determination which conflicts with the statute. *Cowiche*, at 815.

We find that RCW 81.77.160 unambiguously **[***13]** requires the WUTC to include in a company's permanent rates the fee charged by a disposal facility which a solid waste disposal company is required to use by a local ordinance or local comprehensive solid waste management plan.

In enacting the "waste not Washington act" in 1989, providing for major solid waste reform, the Legislature added a new statutory provision now codified at HN2RCW 81.77.160. This statute provides:

> The commission, in fixing and altering collection rates charged by every solid waste collection company under this section, shall include in the base for the collection rates:
>
> (1) All charges for the disposal of solid waste at the facility or facilities that the solid waste collection company is required to use under a local comprehensive solid waste management plan or ordinance designating disposal sites; and
>
> (2) All known and measurable costs related to implementation of the approved county or city comprehensive solid waste management plan.
>
> If a solid waste collection company files a tariff to recover the costs specified under this section, and the commission suspends the tariff, the portion of the tariff covering costs specified in this section shall be placed **[***14]** in effect by the commission at the request of the company on an interim basis as of the originally filed effective date, subject to refund, pending the commission's final order.

RCW 81.77.160.

In this case, the City has promulgated an ordinance specifying the site and cost for disposal

of solid waste. Seattle **[*629]** City Ordinance 115589 § 4, codified as Seattle Municipal Code 21.36.112 provides that:

> **[**1039]** A. Union Pacific's Seattle Intermodal Facility or successor receiving facility specified by the City is hereby designated as the receiving facility for disposal of all waste . . . . All generators, handlers, and collectors of waste shall deliver or, for example, by taking waste to a City transfer station, shall ensure delivery of all waste to Union Pacific's Seattle Intermodal Facility or successor receiving facility designated by the City, in a manner specified by the Director of Engineering.

[5-9] RCW 81.77.160 unambiguously requires that certain, specific types of disposal costs are to be passed through to ratepayers. Both parties have cited to legislative history as support for their proposed construction. Although we will note that the legislative history supports **[***15]** the reading given by Waste Management, where a statute is unambiguous, we will determine the Legislature's intent from the language of the statute alone. *In re Eaton*, 110 Wn.2d 892, 898, 757 P.2d 961 (1988). The statute does not state that the pass-through of the disposal fee is to be temporary, pending substantive review. Rather, RCW 81.77.160 states that these charges shall be included in the base for collection rates. The use of the word "shall" imposes a mandatory duty. *Our Lady of Lourdes Hosp. v. Franklin Cy.*, 120 Wn.2d 439, 446, 842 P.2d 956 (1993).

Examining the regulatory statutes in their entirety further demonstrates that RCW 81.77.160 provides for permanent, not temporary, pass-through of these costs to customers. There already exists a provision which would allow a disposal fee to be considered an operating expense for inclusion in a company's rates, subject to substantive review by the WUTC. RCW 81.77.170 provides: "For ratemaking purposes, a fee, charge, or tax on the disposal of solid waste shall be considered a normal operating expense of the solid waste collection company." **[***16]** This statute covers all costs relating to the disposal of solid waste, which are normal operating expenses allowable for inclusion in rates, subject to review for reasonableness by the WUTC. This general provision would govern the disposal fees involved **[*630]** here, except that there is another, more specific provision which applies, RCW 81.77.160. A specific statute will supersede a general one when both apply. *General Tel. Co. of Northwest, Inc. v. Utilities & Transp. Comm'n*, 104 Wn.2d 460, 464, 706 P.2d 625 (1985). Thus, where the fee or costs fall under the specific provisions of RCW 81.77.160, then the WUTC must treat these costs differently by allowing a permanent pass-through of these items to customers without conducting substantive review. That these are reasonable costs has already been determined by the Legislature in singling out these costs for mandatory inclusion in a company's rates.

However, when a company files a tariff to include these costs in its permanent rates, the WUTC still needs to examine the costs to determine whether they fall under the specific provisions of RCW 81.77.160(1) or (2). During this examination **[***17]** period, the rates will go into effect on an interim basis, if the company so requests. Once the WUTC is satisfied that these charges fall under RCW 81.77.160, then the WUTC *shall* include these charges in the company's collection rates. If the charges do not fall under RCW 81.77.160, then, according to the statute, the company will need to refund those moneys to its customers.

Regardless of their mandatory nature, the pass-through provisions of RCW 81.77.160 do not preclude review under RCW 81.16.030, referring to transactions between affiliated interests. We will not read RCW 81.77.160 in a way to render another provision inoperative. *HN3*

Statutes relating to the same subject "are to be read together as constituting a unified whole, to the end that a harmonious total statutory scheme evolves which maintains the integrity of the respective statutes." *State v. Wright*, 84 Wn.2d 645, 650, 529 P.2d 453 (1974). Thus, we will read statutes as complementary, rather than in conflict with each other. *See Cossel v. Skagit Cy.*, 119 Wn.2d 434, 437, 834 P.2d 609 (1992). RCW 81.16.030 requires the **[***18]** WUTC to examine the records of an affiliated company when a payment is made to the affiliated company under a contract or arrangement between a regulated **[*631]** company and an affiliated company. We hold that where the charges under RCW 81.77.160 also **[**1040]** fall under RCW 81.16.030, the WUTC may conduct a substantive review for the reasonableness of these charges.

Through RCW 81.16.030, the Legislature has provided the WUTC with a mechanism under which it may examine the records of an affiliate of a regulated company where there is a "contract or arrangement" between the companies. *HN4*Under RCW 81.16.030:

> In any proceeding . . . involving the rates or practices of any public service company, the commission may exclude from the accounts of such public service company any payment or compensation to an affiliated interest for any services rendered or property or service furnished, as above described, *under existing contracts or arrangements with such affiliated interest* unless such public service company shall establish the reasonableness of such payment or compensation. In such proceeding the commission shall disallow such payment or compensation, in whole or in part, in the absence **[***19]** of satisfactory proof that it is reasonable in amount. In such proceeding any payment or compensation may be disapproved or disallowed by the commission, in whole or in part, unless satisfactory proof is submitted to the commission of the cost to the affiliated interest of rendering the service or furnishing the property or service above described.

(Italics ours.) RCW 81.16.030.

It is undisputed that Oregon Waste, Washington Waste, and Waste Management are affiliated, as defined by RCW 81.16.010. The question is whether the factual situation presented by this case involves a "contract or arrangement" between Waste Management and its affiliates, within the meaning of RCW 81.16.030, which would allow the WUTC to review the records of these companies.

The Superior Court found that "Waste Management of Seattle has not entered into any contract or arrangement with either Washington Waste Systems or Oregon Waste Systems with respect to the transportation and disposal of solid waste collection by Waste Management of Seattle." Finding of fact 9; Clerk's Papers, at 397. Further, the Superior Court found that the "Commission had ample opportunity to explore whether . . . any contract **[***20]** or arrangement **[*632]** existed between Waste Management of Seattle and either of those two entities." Finding of fact 11; Clerk's Papers, at 398.

[10, 11] Waste Management argues that because the WUTC has not assigned error to these findings on appeal, the WUTC is bound by the findings of the Superior Court. However, *HN5* if we are conducting our review on the administrative record, such an assignment of error to the superior court findings is not necessary. *See, e.g., Franklin Cy. Sheriff's Office v. Sellers*, 97 Wn.2d 317, 323-24, 646 P.2d 113 (1982). It is well established that under the previous administrative procedure act, review by an appellate court was on the entire record

of the administrative tribunal, not of the superior court. *Inland Empire Distrib. Sys., Inc. v. Utilities & Transp. Comm'n*, 112 Wn.2d 278, 770 P.2d 624, 87 A.L.R.4th 627 (1988). We have held that the appellate court stands in the same position as the trial court when reviewing the decision of an agency. *Farm Supply Distribs., Inc. v. Utilities & Transp. Comm'n*, 83 Wn.2d 446, 448, 518 P.2d 1237 (1974). **[***21]**

The Legislature replaced the previous administrative procedure act with the new 1988 Administrative Procedure Act, to apply to administrative procedures begun after July 1, 1989. RCW 34.05.902. Furthermore, in 1989 the Legislature amended the provision relating to the relief the court may grant upon judicial review. A new sentence was added to RCW 34.05.574 (1).

> The court shall set out in its findings and conclusions, as appropriate, each violation or error by the agency under the standards for review set out in this chapter on which the court bases its decision and order.

Laws of 1989, ch. 175, § 28. The effective date of this change was July 1, 1989. Laws of 1989, ch. 175, § 186.

This raises the issue of whether the findings and conclusions entered by a court pursuant to RCW 34.05.574 carry any weight for appellate review. For the following reasons, we hold that *HN6*the appellate tribunal will continue to review administrative actions on **[**1041]** the administrative, not superior court, record.

[*633] First, the terms "findings and conclusions" are contained in a provision relating to the type of relief a court may grant upon review of an agency action. It is not a provision **[***22]** governing further appellate review. In light of the dearth of legislative history on this matter, we have to determine the intent of the Legislature from the statutory language alone. Taken in context, the required findings and conclusions are for the purpose of granting effective relief, such as providing guidance to an agency on remand, or for clarification as to why an agency action is upheld or reversed, or why the superior court is ordering an agency to take a certain action.

Furthermore, under RCW 34.05.001, decisions made under the previous administrative procedure act are to remain in effect to the greatest extent possible. Indeed, our courts have continued to follow the previously established rule that the appellate tribunal will look to the administrative record, and not the superior court findings or conclusions, when conducting review. *See, e.g., King Cy. v. State Boundary Review Bd.*, 122 Wn.2d 648, 672-73, 860 P.2d 1024 (1993); *Fisher v. Employment Sec. Dep't*, 63 Wn. App. 770, 822 P.2d 791 (1992).

Finally, although in nonadministrative proceedings, the finder of fact is the **[***23]** trial court, in administrative proceedings facts are established at the administrative hearing and the superior court acts as an appellate court. RCW 34.05.558. The superior court does not take evidence or hear new issues unless the matter falls within the statutory exceptions of RCW 34.05.554 and .562. Thus, the normal rationale for deferring to findings of fact by the superior court is not present here. Contrary to the assertions of Waste Management, *HN7*assignment of error to the superior court findings and conclusions is not necessary in review of an administrative action.

We will continue to adhere to the rule under the previous administrative procedure act that in reviewing adjudicative proceedings, review by an appellate court is to be on the agency record without consideration of the findings and conclusions of the superior court. The one exception is in regard **[*634]** to matters where the superior court takes additional evidence

under RCW 34.05.562 or examines an issue not raised before the agency under RCW 34.05.554. In such instances, where the information needed for review is contained in the superior court record of proceedings, not the agency record, the appellate **[***24]** tribunal will look to the superior court record.

Turning to the administrative record, the WUTC did find that "[t]his filing involves an arrangement or transaction among affiliates in which revenue from respondent's ratepayers flows to affiliates . . . ." Finding of fact 7; WUTC's Fourth Supplemental Order; Clerk's Papers, at 207-08. However, because the WUTC's finding that an indirect revenue flow is a transaction or arrangement violates the plain language of RCW 81.16.030 referring to "contracts or arrangements", we will accord it no weight.

[12] The WUTC's focus is on the flow of payments, which begins with the customers of Waste Management and ends up in the accounts of Washington Waste and Oregon Waste. This indirect flow of payments might be subject to scrutiny as an arrangement between affiliates if it were the result of negotiations or an agreement *between* the companies. However, these payments were not made under a contract between the companies, but pursuant to a city ordinance mandating that the waste be brought to the Union Pacific Intermodal Facility and that the charge of $ 38.14 per ton be paid to the City. Reading this ordinance in conjunction with the **[***25]** statute requiring a pass-through of this type of charge demonstrates that it is the governmental bodies which have set up the flow of revenue and which mandate that these costs are to be an expense of the ratepayers. Because there is no contract or arrangement between affiliated companies within the meaning of the statute, the WUTC may not proceed under RCW 81.16.030. As Edward J. Nikula, Assistant Director, Water and Transportation, Washington Utilities and Transportation Commission, agreed to in his testimony before the agency, the $ 38.14 **[**1042]** charge is "being paid entirely by Waste Management of Seattle to the City of **[*635]** Seattle, and not by Waste Management of Seattle to either Washington Waste Systems, or Oregon Waste Systems". Deposition of Nikula; WUTC Record, at 1423.

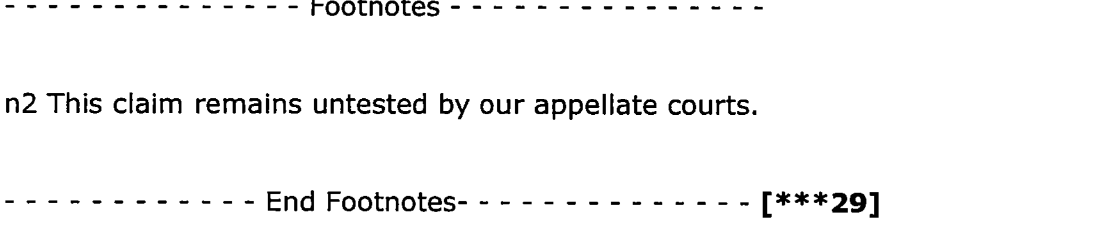
The WUTC staff claimed during the proceeding that in order to ascertain whether there is a "contract or arrangement" it needs to "examine the books and records of Washington Waste Systems and Oregon Waste Systems in order to determine . . . if a contract or arrangement exists between Waste Management of Seattle and either or both of these affiliates". Testimony of Nikula; Clerk's Papers, at 143-44. The **[***26]** only records which the WUTC staff requested and to which access was denied were financial records, not contracts. Staff Data Request Number One requested financial statements of Oregon Waste for the year ending December 31, 1990, as follows: a balance sheet, income statement, pro forma income statement, and deferred income tax balance. Data Request Number Two requested the same for Washington Waste. Staff Data Requests; WUTC Record, at 41-42. There is nothing in the records or the WUTC's arguments which lends support to the contention of the staff that the financial records of the affiliated companies would have demonstrated whether there was a contract or arrangement, and that without these financial records it was impossible for them to determine whether there was a contract or arrangement. The disposal fee involved in this rate filing was made to the City, as required by ordinance. While it is true that the financial records might demonstrate that Washington Waste or Oregon Waste enjoys high profits, as argued by the WUTC, these records are not necessary for determination of whether there is a contract or arrangement between Waste Management and its affiliates. The WUTC is **[***27]** free to scrutinize both the Seattle Municipal Code and the City's contract with Washington Waste under which the payments are made.

We finally need to determine whether, in light of the conclusion that RCW 81.16.030 does not apply, the WUTC may examine the records of the affiliated companies under its general rate-making authority to ensure that rates are **[*636]** just and reasonable. The WUTC has claimed throughout the proceedings that it may review financial records of affiliated companies under its general rate-making authority and its statutory mandate to establish

just, fair, reasonable, and sufficient rates. RCW 81.77.030; RCW 81.28.230; RCW 81.04.130. Even if the affiliated interest provision does not apply here, the WUTC argues this does not affect the WUTC's general powers under which it may review the records of Washington Waste and Oregon Waste to insure that these companies do not receive excessive profits at the expense of Waste Management's ratepayers.

The WUTC bases this claim in part on the assertion that if the WUTC were limited to reviewing the records of affiliated companies only under the affiliated interest statute, the companies could structure themselves **[***28]** in a way which would avoid the statute and the scrutiny of the WUTC. In this particular situation, where the flow of payments is pursuant to a negotiated contract with a third party and mandated by the city ordinance, it is difficult to imagine how the company could structure itself in such a way as to be able to engage in self-dealing.

The WUTC argues that the specific affiliated interest statute should not be held to supersede its general statutory authority to review the records of affiliated interests if it is determined that the specific statute does not apply. For example, the WUTC points out that because RCW 81.16.030 does not apply to parent-subsidiary relationships, the WUTC has used its general rate-making authority to review transactions between parent and subsidiary companies. n2 Likewise, the WUTC argues that if the affiliated interest statute does not apply here because there is no "contract or arrangement", then it may proceed under authority conferred in other provisions to examine the financial records of an affiliate to ensure the affiliate is not enjoying excess profits at the ratepayers' expense.



- - - - - - - - - - - - - - Footnotes - - - - - - - - - - - - - -

n2 This claim remains untested by our appellate courts.

- - - - - - - - - - - - End Footnotes- - - - - - - - - - - - - - **[***29]**

[*637] [13] [1043]** If this were true, and affiliated companies which met the definition of affiliates for purposes of RCW 81.16.030 could be scrutinized under the general powers of the WUTC, then the affiliated interest statute would be completely superfluous. This violates one of the tenets of statutory construction that "'[n]o part of a statute should be deemed inoperative or superfluous unless it is the result of obvious . . . error.'" *Cossel v. Skagit Cy.*, 119 Wn.2d 434, 437, 834 P.2d 609 (1992) (quoting *Klein v. Pyrodyne Corp.*, 117 Wn.2d 1, 13, 810 P.2d 917, 817 P.2d 1359 (1991)). We hold that where a public service company is affiliated, as defined by RCW 81.16.010, with another company not under the WUTC's jurisdiction, but where there is no contract or arrangement between the companies, the WUTC does not have the authority to examine the records of the company affiliated with the public service company.

The WUTC claims authority under its general statutory powers to examine the records of Washington Waste and Oregon Waste in order to prevent excessive profits to these **[***30]** companies at the ratepayers' expense. If the WUTC had general authority to prevent excessive profits to unregulated companies in the absence of the affiliated interest statute applying, then it should have that authority in all rate cases involving those same unregulated companies. However, the disposal charges have been accepted as reasonable for another waste collection company without any claim of authority or request to review the records of Washington Waste or Oregon Waste. Rabanco Companies, doing business as Seattle Disposal Company, operates a solid waste collection company within the city of Seattle and filed a tariff which included the disposal fee at issue here. In March 1991, the WUTC staff recommended that the entire $ 38.14 be included in Rabanco's rates and the WUTC accepted that recommendation. In considering Rabanco's work papers in support of

the rate, the WUTC staff stated in a memorandum that "[t]he data has been reviewed and $ 56.00 per ton does not appear to be excessive." Staff Memorandum; WUTC Record, at 1548. If the WUTC had **[*638]** the authority to prevent excessive profits to an unregulated entity in the absence of RCW 81.16.030, then the WUTC should **[***31]** have acted in the Rabanco filing as it did in this case. Instead, the WUTC's authority to obtain records from unregulated companies stems from RCW 81.16.030.

The WUTC has cited case authority from other jurisdictions holding that for companies to prove reasonable rates, the companies will have to disclose financial information about payments to or from affiliated companies for goods or services. The general rationale for review of transactions between affiliated companies is fear of collusion in the absence of arm's-length dealings. As stated by the Idaho Supreme Court in a rate case involving a water company claiming expenditures to an affiliate,

> [t]he reason for this distinction between affiliate and non-affiliate expenditures appears to be that the probability of unwarranted expenditures corresponds to the probability of collusion. In dealing with *non-affiliates* the pressures of a competitive market and the fact of arm's length bargaining for goods and services allows us to assume, in absence of a showing to the contrary, that such operating expenditures are legitimate.

Boise Water Corp. v. Idaho Pub. Utils. Comm'n, 97 Idaho 832, 838, 555 P.2d 163 (1976). **[***32]** *See also* *Railroad Comm'n v. Rio Grande Vly. Gas Co.*, 683 S.W.2d 783, 786 (Tex. Ct. App. 1984) (under the Public Utility Regulatory Act, a utility company must make a showing of reasonableness "with respect to payments to affiliates about which the Legislature has its suspicion and which to any reasonable mind are clearly tainted with the possibility of self-dealing"); *In re General Tel. Co.*, 17 N.Y.2d 373, 382, 218 N.E.2d 274, 271 N.Y.S.2d 216, 224 (1966) (affiliates were "dealing with themselves and enjoying profits which were 'higher than either fairness or arm's-length bargaining would dictate.'"). It is significant that all of these cases involve contracts, or direct payments or sales, between affiliated companies. *See also* *Commonwealth Gas Servs., Inc. v. Reynolds Metals Co.*, 236 Va. 362, 374 S.E.2d 35 (1988); *Montana-Dakota Utils. Co. v. Montana Dep't of Pub. Serv. Regulation*, 231 Mont. 118, **[*639]** 752 P.2d 155 (1988); *Western* **[**1044]** *Distrib. Co. v. Public Serv. Comm'n*, 285 U.S. 119, 76 L. Ed. 655, 52 S. Ct. 283 (1932). **[***33]** The WUTC has cited no case allowing examination of the records of an affiliate which involves an indirect revenue flow to an affiliated company pursuant to a negotiated contract with a third party.

The WUTC relies on *Western Distrib. Co.* for authority that a public utility commission may examine the earnings of affiliates of utility companies to prevent high profits to an affiliate, even where there is no evidence of self-dealing. The WUTC places weight on the fact that in that case, the rate between the regulated utility company and nonregulated company was first established before there was any affiliation between the companies. However, the WUTC has ignored the fact that although the companies set the amount before they were affiliated, the rate continued to be paid under a "day-to-day verbal contract". *Western Distrib. Co.*, 285 U.S. at 122. Thus, the rate was set on an ongoing basis, even after the companies became affiliated. In addition, that was not a case construing the authority of the WUTC under the laws of the State of Washington. It also involves more than an indirect flow of revenue. Instead, like **[***34]** the other cases cited by the WUTC, there was a contract between the affiliated companies.

In this case, the record is devoid of evidence that the contract under which the charges were set was the result of anything other than arm's-length negotiations between Washington

Waste and the City. In 1989, the City decided to discontinue using King County's Cedar Hills Landfill for disposal of solid waste. The City sought proposals for transportation and landfill services. A proposal evaluation committee was formed and the committee unanimously chose the Washington Waste proposal, with a "significant margin over the other two proposals". Memorandum from T. Tierney to G. Zarker (Aug. 23, 1989); WUTC Record, at 259. The committee stated that

> Washington Waste Systems offers the City the security and reliability of an existing landfill, the location and design of **[*640]** which provide environmental protection that may be unsurpassed anywhere in the nation. . . . WWSI offers long-term transportation and landfills services at an attractive price . . . .

Memorandum, *supra*; WUTC Record, at 259-60. The Mayor approved the choice of Washington Waste Systems as "superior on several **[***35]** dimensions". WUTC Record, at 262. After viewing the sites, meeting with officials, and a public hearing, the city council's Environmental Management Committee recommended that the City negotiate a contract with Washington Waste. The city council voted to accept the recommendation and negotiations began in January 1990. The contract formation process included a public hearing. The Council voted 8-to-1 to authorize signing of the final contract by the Mayor.

As the WUTC points out, there was involvement in the negotiations from officers of Washington Waste who were also officers of Waste Management. Nevertheless, the ultimate contract and the bidding process which allowed contract negotiations to begin was a competitive process. Also, although employees of Waste Management testified in favor of the contract at the public hearing, this testimony came long after negotiations had taken place and certainly after Washington Waste was awarded the bid. There is nothing in the record indicating that the City was coerced by any of the Waste Management companies to enter into the contract with Washington Waste. The WUTC director admitted in his deposition that he had no evidence that **[***36]** the contract between the City and Washington Waste was not the result of a fair and competitive process.

The extensive contract negotiation process which went on between the City and Washington Waste, and which is amply supported in the record, undercuts an argument that this contract is not based on arm's-length negotiations in a competitive market. Hence, the primary purpose for allowing review of the affiliated interest transaction is negated.

In conclusion, the WUTC does not have general authority to examine financial records of an unregulated company affiliated with a regulated company where there is no contract **[*641]** or arrangement between that company **[**1045]** and the regulated company. The WUTC is under a statutory mandate to include the charges specified under RCW 81.77.160 in a company's permanent rates once the company establishes that the charges fall under that statute. The WUTC may undertake examination of those charges under RCW 81.16.030, provided that the charges were set pursuant to a direct contract or arrangement between affiliated companies. Such a contract or arrangement is not present here.

The order of the Washington Utilities and Transportation Commission rejecting **[***37]** the tariff of Waste Management of Seattle, Inc., is set aside. We order the WUTC to approve the $ 38.14 per ton charge as part of Waste Management's permanent rates.

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ATTACHMENT G

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. VERIZON NORTHWEST INC., Respondent.	Docket No. UT-040788 SUPPLEMENTAL DECLARATION OF DALE CHAMBERLAIN

Dale Chamberlain states and declares as follows:

1. I am Assistant General Counsel for Verizon Communications Inc. My business address is Verizon, 600 Hidden Ridge, P.O. Box 152092, Irving, Texas 75015-2092. I am the Verizon transactional attorney responsible for the sale of the Verizon Hawaii properties that were sold as a combined package. I submitted a declaration dated September 22, 2004 as part of the Response of Verizon Northwest Inc.'s Motion to Compel Production of Documents and/or Information.

2. I have reviewed Order No. 9 compelling production. I know of no document that discusses the relationship between the local exchange business and the directory business as exemplifying the existence of "value" that any way was quantified or recognized in the sale of the Hawaii assets of Verizon Communications Inc.

3. I know of no sales documents that indicate that Verizon Corporation believed, as part of the Hawaii sale, that the directories business has an increased market or "sales" value because it is an affiliate of the local exchange company.

4. I do know how Verizon valued the Hawaii properties and state again, unequivocally, that Verizon's valuation contained no separate valuation for the directory operations included in the Hawaii sale.

5. As stated, I am familiar with the documents associated with the Hawaii sale, maintained in the data room. They are maintained in hard copy in that room and there is no word search capability. We do have a database of the data room documents that contains titles of documents and company names. We also have an index identifying document categories or types. In sum, beyond the database and index, the only means available to Verizon to search for documents relating to the directory operations included in the Hawaii sale would be by a manual search.

I declare under penalty of perjury under the laws of the state of Texas that the foregoing is true and correct.

DATED this 5th day of October 2004 at Irving, Texas.

By ______________________
Dale Chamberlain

CERTIFICATE OF SERVICE

I hereby certify that I have this 8th day of October 2004, served the true and correct original along with the correct number of copies, of the attached document upon the WUTC, via the method(s) noted below, properly addressed as follows:

Ms. Carole Washburn Secretary Washington Utilities and Transportation Commission P.O. Box 47250 1300 South Evergreen Park Dr. S.W. Olympia, WA 98504-7250	____ U.S. Mail, Postage Prepaid _X_ Hand Delivered ____ Overnight Mail (Federal Express) ____ Facsimile (360) 586-1150 ____ Email (records@wutc.wa.gov)

I hereby certify that I have this 8th day of October 2004, served a true and correct copy of the attached document upon parties of record, via the method(s) noted below, properly addressed as follows:

On Behalf of Public Counsel: Simon ffitch Assistant Attorney General Public Counsel 900 4th Avenue, Suite 2000 Seattle, WA 98164	____ U.S. Mail, Postage Prepaid _X_ Hand Delivered ____ Overnight Mail ____ Facsimile (206) 389-2058 ____ Email (simonf@atg.wa.gov)
Robert C. Wallis Administrative Law Judge Washington Utilities and Transportation Commission 1300 S. Evergreen Park Drive SW Olympia, WA 98504-7250	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (360) 586-8203 ____ Email (bwallis@wutc.wa.gov
On Behalf of The Washington Electronic Business & Telecommunications Coalition ("WeBTEC"): Arthur A. Butler Ater Wynne, LLP 601 Union Street Suite 5450 Seattle, WA 98101	_X_ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Facsimile (206-467-8406) ____ Email (aab@aterwynne.com)

On Behalf of AARP: Ronald L. Roseman Columbia Legal Services 2011 14th Avenue E. Seattle, WA 98112	__X_ U.S. Mail, Postage Prepaid _____ Hand Delivered _____ Overnight Mail _____ Facsimile (206-568-0138) _____ Email (ronaldroseman@comcast.net)
On Behalf of Commission Staff: Don Trotter Attorney General of Washington Utilities & Transportation Division 1400 S. Evergreen Park Drive SW P.O. Box 40128 Olympia, WA 98504-0128	_____ U.S. Mail, Postage Prepaid __X_ Hand Delivered _____ Overnight Mail _____ Facsimile (360-586-5522) _____ Email (dtrotter@wutc.wa.gov)
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I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

DATED this 8th day of October, 2004, at Seattle, Washington.

By [signature]
Nancy E. Dickerson
Legal Secretary