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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

SUPERIOR COURT OF WASHINGTON
FOR SNOHOMISH COUNTY

VERIZON NORTHWEST INC.,

Petitioner,

vs.

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Respondent.

No. 03-2-10227-8

MOTION FOR SUPERSEDEAS

Verizon Northwest Inc. ("Verizon"), pursuant to RCW 80.04.180, respectfully requests this Court to suspend an Order¹ of the Washington Utilities and Transportation Commission ("WUTC") requiring Verizon to reduce its rates on October 1, 2003 by \$32 million during the pendency of this appeal. This rate reduction was ordered even though Verizon was earning less than a 3% rate of return, the rate reduction will reduce its earnings almost to zero, and the WUTC had previously determined that it would be reasonable for Verizon to earn 9.76%. A stay pending appeal is warranted pursuant to RCW 80.04.180 because this rate reduction will cause Verizon "great" and "irreparable damage" just as the loss of \$8.3 million in *General Telephone v. WUTC*² was found to satisfy this statutory test for a stay pending appeal.

¹ *AT&T Communications of the Pacific Northwest, Inc. v. Verizon Northwest, Inc.*, Docket No. UT-020406, Eleventh Supplemental Order (W.U.T.C., Aug. 12, 2003) ("Rate Reduction Order").

² 104 Wn.2d 460, 706 P.2d 625 (1985).

MOTION FOR SUPERSEDEAS -- 1

COPY

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1 **I. RELIEF REQUESTED**

2 1. That this Court enter an order restraining and suspending the operation of the Rate
3 Reduction Order.

4 2. That, in lieu of a supersedeas bond, the Court accept Verizon's commitment to
5 repay the funds subject to this appeal in the event the Rate Reduction Order is upheld.

6 **II. STATEMENT OF GROUNDS**

7 A statement of facts is included in Verizon's Petition for Review. The facts relevant to
8 this motion are simple:

9 On August 12, 2003, the WUTC issued its Rate Reduction Order requiring Verizon to
10 reduce its rates by \$32-\$35 million per year.³ The specific rates the WUTC ordered reduced are
11 "access charges," which Verizon collects from long distance companies for the use of Verizon's
12 network. The WUTC regulates these charges as part of its statutory and Constitutional
13 obligations to ensure that all of Verizon's rates, including its access charges, are "sufficient" and
14 afford Verizon an opportunity earn a reasonable return.⁴

15 The Rate Reduction Order refused even to consider whether Verizon's resulting revenues
16 would be legally sufficient. It stated that "the status of the company's earnings is not relevant."⁵
17 The Rate Reduction Order failed to explain why Verizon's overall revenues are not relevant in
18 examining its access charges, when it expressly stated that the access charge reductions ordered
19 by the WUTC "will cause a considerable reduction in Verizon's revenues."⁶

20 _____
21 ³ The WUTC's press release describing the Rate Reduction Order states that Verizon's revenues will be reduced by
22 \$35 million per year. A copy of the press release is attached as Exhibit A. The order itself (p. 30) has a table
23 showing a reduction of about \$32 million per year. For purposes of these pleadings, Verizon uses the \$32 million
24 figure.

25 ⁴ RCW 80.36.080; see also *POWER v. WUTC*, 104 Wn.2d 798, 711 P.2d 319 (1985). As the Washington Supreme
26 Court explained in *POWER*, "there is a constitutionally based floor below which a rate ceiling set by a regulatory
agency will be reversed by a court as confiscatory. This is based on the prohibitions in the fifth and fourteenth
amendments to the United States Constitution . . ." 104 Wn.2d at 812.

⁵ Rate Reduction Order at 42, para. 140.

⁶ *Id.* at 43, para. 144.

1 The attached affidavit of Nancy Heuring, Director-Regulatory Accounting for Verizon
2 Services Organization (the Heuring Affidavit⁷), explains the impact on Verizon of the
3 \$32 million rate reduction required by the WUTC. This access charge decrease amounts to a
4 reduction of 8.5% of Verizon's \$378 million in revenue collected from services subject to the
5 WUTC's jurisdiction in 2002.⁸ Verizon's earnings from these services in 2002 were only 2.42%,
6 and this access charge reduction would reduce its earnings to 0.28%; by contrast, its rate of
7 earnings authorized by the WUTC is 9.76%.

8 Moreover, to put the magnitude of this revenue reduction in further context, a \$32 million
9 rate reduction would be equal to 24% of the capital investment Verizon made in services subject
10 to the WUTC's jurisdiction in 2002, 41.5% of the amount Verizon spent in 2002 to maintain and
11 repair the network it used to provide those services, and 3.5 months of payroll expense in 2002
12 for Verizon's employees in Washington.⁹

13 Even if the Rate Reduction Order is overturned on appeal, Verizon could not recover the
14 revenue lost while the appeal is pending. As a result of bankruptcies, competition, and general
15 economic conditions, Verizon would not be able to recover the lost revenue from the more than
16 130 long distance companies which pay Verizon access charges in Washington.¹⁰ Nor could
17 Verizon recover the lost revenue by filing a rate case because of the more than one year required
18 to prepare a filing and process the case.¹¹

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23 ⁷ The Heuring Affidavit is attached as Exhibit B.

24 ⁸ Heuring Affidavit at para. 7.

25 ⁹ *Id.* at para. 8.

26 ¹⁰ *Id.* at para. 10.

¹¹ *Id.* at para. 12.

1 As required by the Rate Reduction Order, Verizon filed tariffs implementing the reduced
2 rates on August 22, 2003. Verizon did so under protest. The reduced rates are scheduled to take
3 effect October 1, 2003.¹²

4 The Rate Reduction Order does not allow Verizon to increase other rates to offset the
5 access charge reductions. Thus, Verizon will begin losing revenue the very first day the reduced
6 rates take effect.

7 Given that the reductions are both irreparable and great, Verizon requests that the court
8 stay the effectiveness of the Rate Reduction Order pending appeal.

9 **III. STATEMENT OF ISSUES**

- 10 1. Should the Court restrain or suspend the Rate Reduction Order pursuant to RCW
11 80.04.180?
- 12 2. Should the Court accept as security in lieu of a bond, Verizon's commitment to
13 refund any rates collected if Verizon's appeal should be denied in a final order?

14 **IV. EVIDENCE RELIED UPON**

15 This Motion is supported by the facts identified in the WUTC's Rate Reduction Order and
16 Heuring Affidavit.

17 **V. ARGUMENT**

18 **A. Standard for Supersedeas – General Tel**

19 The governing legal standard for granting a stay pending appeal of a WUTC order is set
20 forth in the supersedeas statute.¹³ Unlike other situations where temporary relief is sought, no
21 showing of a likelihood of success on the merits is required. Instead, pursuant to the statute,
22 Verizon needs to show only that it will suffer “great or irreparable damage” if the order is not
23 stayed pending appeal. Specifically, the statute provides:

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¹² Rate Reduction Order at 43, para. 146.

26 ¹³ RCW 80.04.180.

1 (1) the pendency of any writ of review shall not of itself stay or suspend the
2 operation of the order of the Commission, but the Superior Court in its discretion
3 may restrain or suspend, in all or in part, the operation of the Commission's order
4 pending the final hearing and determination of the suit.

5 (2) no order so restraining or suspending an order of the Commission relating to
6 rates, charges, tolls or rentals . . . shall be made by the Superior Court otherwise
7 and upon three days' notice and after hearing. If a supersedeas is granted, the
8 order granting the same shall contain a specific finding, based upon evidence
9 submitted to the court making the order, and identified by reference thereto, that
10 great or irreparable damage would otherwise result to the petitioner, and
11 specifying the nature of the damage.

12 The Washington Supreme Court applied this statute in *General Telephone v. WUTC*
13 (*"General Tel"*).¹⁴ In that case, the WUTC awarded Verizon's predecessor a rate increase of
14 \$4.8 million, and an appeal was filed claiming an additional \$8.3 million. A motion was filed for
15 supersedeas seeking an interim rate increase of \$8.3 million based upon the affidavit of a general
16 accounting manager explaining that "great and irreparable harm" would be suffered if the interim
17 increase were not allowed.¹⁵ The lower court granted the motion, and the Washington Supreme
18 Court affirmed.

19 In affirming the lower court, the Supreme Court rejected the WUTC's arguments that to
20 obtain a stay pending appeal, the likelihood of success on the merits must be demonstrated:

21 A likelihood of "success on the merits," as a prerequisite showing, is not a
22 requirement in this case. The supersedeas order is governed by statute, not by
23 the requirements for an equitable injunction. The statute mentioned nothing
24 about the establishment of a probability of success on the merits.¹⁶

25 Instead, the Supreme Court held that to obtain a stay pursuant to the governing statute,
26 only two things had to be established: (1) that the loss will be irreparable, and (2) that the loss
will be "material and considerable," which the Court defined as "substantial in absolute terms or

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25 ¹⁴ 104 Wn.2d 460, 706 P.2d 625 (1985).

26 ¹⁵ 104 Wn.2d at 462.

¹⁶ *Id.* at 470.

1 significant to the company given the circumstances.”¹⁷ (Although the statute requires the
2 petitioner to show either irreparable or great harm, the Supreme Court held that the utility must
3 show both “because irreparability can be met so easily by utilities that appeal.”¹⁸)

4 The Supreme Court applied this two-prong test and affirmed the lower court’s findings.
5 Specifically, the Court found that the harm was irreparable because of the “prohibition against
6 retroactive rate collection.” This prohibition was described in the supporting affidavit and
7 unchallenged by the WUTC. The Supreme Court also affirmed the lower court’s finding that the
8 harm was “great” because the \$8.3 million was substantial in absolute terms and because the
9 WUTC failed to present any evidence to the contrary.¹⁹

10 **B. Verizon is Entitled to a Supersedeas Order**

11 Verizon easily satisfies the Supreme Court’s two-prong test in *General Tel.* It will suffer
12 “irreparable” harm, and the harm will be “great.”

13 First, the damage is irreparable under the prohibition against retroactive rate collection, a
14 position the Supreme Court adopted in *General Tel.*²⁰ Moreover, even if Verizon has a legal
15 right to retroactive rate collection, Verizon will not be able to recover all the lost revenues if
16 successful on appeal because of (1) increased “uncollectibles” due to carrier bankruptcies and
17 general economic conditions and (2) increased competition for access services. As explained in
18 the Heuring Affidavit, even if Verizon could either “backbill” carriers for the access services
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20 _____
21 ¹⁷ *Id.* at 472. In discussing the second prong – the “greatness” requirement – the Supreme Court developed several
22 factors lower courts could consider: the nature of the damage; the size of the damage in absolute terms; the certainty
23 that the damage will occur; the effect that the damage will have on the petitioner; the petitioner’s ability to recover
24 from or minimize the danger; any potential harm to nonparties; and other factors that may be unique to the case. The
25 Supreme Court explained that lower courts could apply “any or all of these factors” to reach a decision. *General Tel.*,
26 104 Wn.2d at 472. Here, Verizon has addressed all relevant factors.

24 ¹⁸ *Id.*

25 ¹⁹ *Id.* at 472-74.

26 ²⁰ Verizon is unaware of any reported decision in Washington holding that it would, as a matter of law, be entitled to
retroactive rate collection.

1 Verizon provided at the lower rates or collect a prospective surcharge for the lost revenue, which
2 it cannot, Verizon would not recover all its lost revenue due to carrier bankruptcies, competition,
3 and general economic conditions. In short, the harm is irreparable.²¹

4 Second, there can be no doubt that the \$32 million reduction is "material and
5 considerable." As a threshold matter, the WUTC has already acknowledged this fact in its Rate
6 Reduction Order: "We recognize, however, that implementing access charge reductions will
7 cause a *considerable* reduction in Verizon's revenues" ²² Furthermore, the Washington
8 Supreme Court held that a \$8.3 million loss was "considerable" in *General Tel*; therefore, a
9 \$32 million loss must also be "considerable."

10 Although Verizon is only required to show *either* that the loss is considerable "in absolute
11 terms" *or* is "significant to the company given the circumstances," the facts support both
12 standards. As discussed in the Hearing Affidavit, \$32 million is considerable both in absolute
13 terms and to Verizon, amounting to 8.5% of its \$378 million in total annual intrastate revenues in
14 Washington for the period ending December 31, 2002. Moreover, a \$32 million reduction (1)
15 constitutes 24% of the amount of capital investment Verizon made in services subject to the
16 WUTC's jurisdiction in 2002; (2) constitutes 41.5% of the amount Verizon spent in 2002 in
17 Washington on intrastate maintenance and repair of its network and facilities; and (3) is equal to
18 3.5 months of payroll expense for Verizon's employees in Washington. These facts clearly
19 establish that the \$32 million reduction is not only "considerable" in absolute terms but also is
20 significant to Verizon.

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23 ²¹ Even if the harm were not irreparable, Verizon satisfies the requirements of RCW 80.04.180 because the harm is
24 "great." The statute requires a showing of either irreparable harm or great harm, not both. As discussed above, in
25 *General Tel* the Supreme Court required the utility to prove that the harm was both irreparable and great because
26 "irreparability can be met so easily by utilities that appeal." 104 Wn.2d at 472. In other words, the Supreme Court
believed the utility should be required to show that the harm is "great" because irreparability was a non-issue in that
case. Thus, so long as a utility satisfies the "greatness" requirement, it satisfies RCW 80.04.180. This court,
however, need not address this issue because Verizon has shown both irreparable and great harm.

²² Rate Reduction Order at 43, para. 144 (emphasis added).

1 Finally, the Rate Reduction Order appears to suggest that Verizon can prevent or mitigate
2 its losses by filing a rate case.²³ A rate case, however, is no remedy for the harm. As noted in the
3 Heuring Affidavit, a rate case is a major undertaking that would require more than a year to file
4 and litigate before the WUTC, without counting any subsequent appeals. In view of the length of
5 time before a rate case can be concluded and the requirement that rates can only be set
6 prospectively, a rate case cannot possibly prevent or even mitigate Verizon's losses from
7 reducing its access charges. Quite simply, Verizon will lose significant money and not be able to
8 recover it.

9 **C. The Court Should Accept Verizon's Commitment to Repay as Sufficient Security**
10 **in Lieu of a Bond**

11 In *General Tel*, the Supreme Court approved the supersedeas order in which no bond had
12 been required.²⁴ Rather, the supersedeas was supported by the affidavit of the telephone
13 company's general accounting manager that Verizon would track revenues received by virtue of
14 the supersedeas, and refund them if the company did not prevail on appeal.²⁵

15 The Heuring Affidavit satisfies the same standards. She explains that if Verizon's request
16 for a supersedeas order is granted, Verizon will carefully track the difference between Verizon's
17 current access charges and the charges established by the Rate Reduction Order. If Verizon's
18 appeal is unsuccessful, Verizon will pay the affected carriers all amounts owed plus interest as
19 required by law. As discussed in the Heuring Affidavit, the cost of a bond is approximately
20 \$640,000 per year, and there is no reason Verizon should be required to incur this expense.

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25 ²³ Rate Reduction Order at 43, para. 144.

26 ²⁴ 104 Wn.2d at 462.

²⁵ *Id.*

1 **VI. CONCLUSION**

2 Verizon respectfully requests the Court to stay the Rate Reduction Order pending appeal
3 because it satisfies the governing statutory requirements in RCW 80.04.180 for a supersedeas.
4 Moreover, the Court should not require it to post a bond because it will repay the rate reductions
5 collected during the appeal if the order is sustained on appeal.

6
7 Respectfully submitted this 27th day of August, 2003.

8 GRAHAM & DUNN PC

9
10 By *Judith A. Endejan*
11 Judith A. Endejan
12 WSBA# 11016
13 Email: jendejan@grahamdunn.com
14 Attorneys for Verizon Northwest Inc.

EXHIBIT A

Endejan, Judith A.

From: Marilyn Meehan [mmeehan@wutc.wa.gov]
Sent: Tuesday, August 12, 2003 3:41 PM
Subject: State regulators require Verizon to reduce access charges

The Washington Utilities and Transportation Commission
Contact: Marilyn Meehan, (360) 664-1125

Aug. 12, 2003
UT-020406

State regulators require Verizon to reduce access charges paid by long-distance companies

OLYMPIA, WA. - Saying access charges paid by long-distance companies are too high for completing a Verizon customer's in-state toll calls, state regulators today told Verizon to lower the rates.

The Washington Utilities and Transportation Commission (WUTC) ordered Verizon to reduce the fees it charges AT&T, Sprint, MCI and other long-distance carriers for carrying in-state toll calls on the local phone company's network. Verizon's customers who have the company as their in-state long-distance service provider also could see rates go down. The commission is requiring Verizon to file new access charge rates by Oct. 1.

Verizon has 10 calendar days to file for reconsideration of the case with the commission, or the company could appeal the ruling to any county Superior Court in which it provides service in Washington.

The lowering of access charges would not directly affect customer rates, but reduced charges could ultimately result in lower long-distance prices since the toll carriers, including Verizon, pass through these costs to consumers. Access fees are generally a long-distance company's single largest cost. Interstate long-distance rates are not affected by the commission's decision.

Under the commission's order, Verizon will be required to lower access charges by about \$35 million a year, or roughly 50 percent. Currently, Verizon, the state's second largest local phone company, collects about \$69 million annually in access fees in Washington.

The decision stems from a complaint filed by AT&T on April 3, 2002. In March 2003 Verizon, AT&T, MCI and the commission staff proposed a settlement. The proposed settlement would have reduced Verizon's access fees and raised other rates, including residential and business rates. The proposed settlement was withdrawn, and the WUTC ruled that the current proceeding would be limited to AT&T's contention that Verizon's access charges were too high.

Verizon, formerly known as GTE, serves 700,000 customers in cities such as Redmond, Kirkland, Everett, Westport, Wenatchee, Kennewick, Pullman, Chelan, Richland, Naches, Westport, Lynden, Anacortes, Mount Vernon and Camas-Washougal.

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EXHIBIT B

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SUPERIOR COURT OF WASHINGTON
FOR SNOHOMISH COUNTY

VERIZON NORTHWEST INC.,

Petitioner,

vs.

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Respondent.

) No.

) AFFIDAVIT IN SUPPORT OF MOTION
) FOR SUPERSEDEAS

STATE OF TEXAS)

COUNTY OF DALLAS)

) ss
)

Nancy Heuring, being duly sworn upon oath deposes and says:

1. I have personal knowledge of the facts set forth herein, and I am competent to testify thereto as a witness. I am employed by Verizon Services Organization, Inc. as Director-Regulatory Accounting with responsibilities for Verizon's telephone operating companies, including Verizon Northwest Inc. ("Verizon" or "the Company"),¹ the Petitioner in this case. My business address is 600 Hidden Ridge, Irving, Texas 75038.

2. I received a Bachelor of Arts degree in Accounting from Illinois Wesleyan University and a Masters in Business Administration with a concentration in telecommunications from the University of Dallas in 1995. I am a Certified Public Accountant and a Certified Management Accountant.

¹ Verizon Northwest provides local exchange service in Washington, Oregon, and Idaho. In this affidavit, when I use the term "Verizon" or "the Company," I mean only Verizon Northwest's intrastate operations in Washington State.

1 3. I have worked for subsidiaries of the former GTE Corporation since 1981 in
2 various managerial positions. I assumed my current position in June 2000 when GTE and Bell
3 Atlantic merged to form Verizon Corporation. My principal duties include directing and
4 supervising the preparation of accounting information associated with financial and regulatory
5 filings.

6 4. The purpose of my affidavit is to submit evidence to the court showing that
7 Verizon will suffer both great and irreparable damage if the Order issued by the Washington
8 Utilities and Transportation Commission ("WUTC") on August 12, 2003 requiring Verizon to
9 reduce its access charges is not stayed pending appeal. A copy of that order is attached to
10 Verizon's Petition for Review.

11 5. The Order, which is the subject of Verizon's Petition for Review, requires
12 Verizon to reduce certain intrastate access rates effective October 1, 2003 without any increases
13 in any other Verizon rates to offset these reductions, even though Verizon presented evidence
14 that its current rate of return is significantly lower than its Commission-authorized rate of return.

15 6. According to the WUTC's own press release, the Order will reduce Verizon's
16 revenues by approximately \$35 million per year. (A copy of this press release is attached as
17 Exhibit A to Verizon's Motion for Supersedeas.) Also, the Order itself contains a table (Table 1)
18 the Commission prepared that shows a reduction of about \$32 million per year. (Order at
19 page 30, line 33, column (F)). For the remainder of my affidavit, I will use the \$32 million figure
20 from Table 1 instead of the \$35 million figure in the Commission's press release.²

21 7. The \$32 million reduction is substantial in absolute terms. It also is great,
22 significant, material and considerable when considering the company's circumstances; indeed, I
23 completely agree with the Commission that its Order will cause "a *considerable* reduction in
24

25 ² The actual damages Verizon will incur depend on the number of access "minutes of use" (mous) Verizon actually
26 provides to long distance carriers once the lower rates take effect. In other words, the total number of access mous is
not constant because it depends on customer demand, which changes from year-to-year. For example, the actual
mou data for the twelve months ending December 31, 2002, produces a reduction of approximately \$31.9 million.

1 Verizon's revenues" (Order at page 43, para. 144) (emphasis added). For example,
2 Verizon's total annual intrastate revenues for Washington State for the period ending
3 December 31, 2002 was \$378 million, and a \$32 million reduction equates to an 8.5% reduction
4 in intrastate revenues. It also equates to more than a 36% reduction in Verizon's total intrastate
5 access revenues.

6 8. The Commission-ordered reduction also is great, significant, material and
7 considerable when considered in light of the following:

- 8 • A \$32 million reduction constitutes 24% of the amount of intrastate capital
9 investment Verizon made in Washington in 2002;
- 10 • A \$32 million reduction constitutes 41.5% of the amount Verizon spent in
11 2002 in Washington on intrastate maintenance and repair of its network
12 and facilities; and
- 13 • A \$32 million reduction is equal to 3.5 months of payroll expense for
14 Verizon's Washington employees.

15 9. Furthermore, Verizon is subject to "rate of return" regulation in Washington, and
16 its current authorized rate of return, as established by the WUTC, is 9.76%. If Verizon's
17 revenues are decreased by \$32 million, its intrastate rate of return drops by 2.14 percentage
18 points. As the attached "Separated Results Summary" shows, the intrastate return Verizon
19 actually achieved in 2002 was 2.42%. A \$32 million rate reduction would decrease this intrastate
20 return to 0.28%.

21 10. The revenue reduction mandated by the Order, if allowed to go into effect, will be
22 irreparable. Verizon's Motion for Supersedeas discusses the "prohibition on retroactive rate
23 collection." But even assuming Verizon has the legal right to recoup this lost revenue after a
24 court decision in the Company's favor in this case, Verizon would not be able to collect all it
25 would be owed for two reasons. First, assuming Verizon could "backbill" carriers for the access
26 services Verizon provided at the lower rates, all the carriers would not be able to pay. In recent
years, the amount of debt Verizon and its affiliates are owed but have been unable to collect from

1 carriers (“uncollectibles”) has increased due to bankruptcies and general economic conditions.
2 Today, Verizon provides intrastate access services to approximately 131 carriers in Washington
3 State. I do not believe Verizon could recover all its lost revenue (including interest) from all
4 these carriers.

5 11. Second, assuming Verizon has the power to assess a *prospective* surcharge on
6 carrier access bills (e.g., on a going-forward basis, carriers are charged 10 cents per mou instead
7 of 5 cents), the Company could not recover all its lost revenue due to increased competition.
8 Carriers and customers continue to bypass Verizon’s local network to avoid access charges, and a
9 significant increase of Verizon’s access charges will exacerbate this problem.

10 12. Also, if Verizon were required to file a rate case, it would not be able to do so
11 before at least March 1, 2004,³ and such a case could take up to one full year to complete
12 (excluding appeals). Thus, I do not agree with the Commission’s apparent assumption that
13 Verizon could “increase other rates” to ensure adequate earnings (*see* Order at page 43, para.
14 144). Quite simply, Verizon will lose significant money and not be able to recover it.

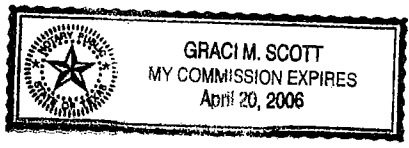
15 13. Verizon will provide a full refund with accrued interest at the amount provided for
16 by law to affected long distance carriers if Verizon does not prevail upon appeal.

17 14. Verizon requests the court to accept the Company’s promise as security in lieu of
18 requiring a bond. A bond is very expensive; in order to obtain a bond sufficient to cover the
19 estimated amounts at issue, Verizon would have to pay an annual premium of approximately
20 \$640,000. Thus, if the appeal takes three years to complete, the bond will cost almost \$2 million.

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26 ³ Preparing a rate case is a significant undertaking. It involves not just calculating an overall revenue requirement,
but also calculating a price for each regulated service and multiplying it by expected demand.

Nancy Heuring
Nancy Heuring

SUBSCRIBED AND SWORN TO before me this 25 day of August, 2003.



Graci M. Scott
(Signature)

GRACI M. SCOTT
(Please print name legibly)

NOTARY PUBLIC in and for the State of
Texas, residing at Dallas County. My
commission expires: April 20, 2006.

VERIZON NORTHWEST INC
SEPARATED RESULTS SUMMARY
STATE OF WASHINGTON - COMBINED
TWELVE MONTHS ENDED DECEMBER 2002
(Dollars in Thousands)

	12 MTD Dec-02 Intrastate	Access Charge Reduction	Results After Access Charge Reduction
OPERATING REVENUES			
Local Network Service	260,063		260,063
Network Access Revenues	88,122	(32,000)	56,122
Long Dist Netwk Revenues	23,430		23,430
Miscellaneous Revenues	19,353		19,353
Uncollectibles	13,443		13,443
Total Operating Revenues	377,524	(32,000)	345,524
OPERATING EXPENSES			
Plant Specific Operations	52,562		52,562
Plant Non-Spec Operations	24,473		24,473
Customer Operations	47,852		47,852
Corporate Operations	70,523		70,523
Depreciation & Amort	126,768		126,768
Other Income & Expenses	(158)		(158)
Juris Diff - Depr/IDC	0		0
Total Operating Expenses	322,020	0	322,020
Operating Taxes Other than Inc	19,319		19,319
EBIT	36,185	(32,000)	4,185
INCOME TAXES			
State Income Tax	0		0
Net Federal Income Tax	12,665	(11,200)	1,465
Total Income Taxes	12,665	(11,200)	1,465
NET OPERATING INCOME	23,521	(20,800)	2,721
INVESTMENT (AVG)			
Telecomm Plant in Service	1,865,983		1,865,983
Other Assets (SFAS 87)	130,326		130,326
Juris Assets-TPIS	0		0
Depr & Amort Reserve	738,149		738,149
Deferred Income Taxes	272,202		272,202
Other LT Liab - SFAS 106,112	13,342		13,342
RATE BASE	972,615	0	972,615
Rate Base ROR	2.42%		0.28%

As reported in the December 31, 2002 Quarterly Surveillance Report