

Exhibit No. ___ (BAE-7)
Docket No. UT-040788
Witness: Betty A. Erdahl

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

VERIZON NORTHWEST INC.,

Respondent.

DOCKET NO. UT-040788

**EXHIBIT TO TESTIMONY
OF
BETTY A. ERDAHL**

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

**Calculations Supporting Staff Adjustment P12
Wage and Salary Pro Forma**

November 22, 2004

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
 2004 Washington General Rate Case
 Pro forma Adjustment
 (Thousands of Dollars)

**Calculation of Staff's Pro forma Adjustment P12
 Wages and Salaries**

Expense proforma. The proforma adjustments reflect the full year impact of headcount reductions during the test year as well as other known &

Line No.	Description	Account Code	CAM Factor	Infrastate Factor	Amount Inc (Dec)	Intrastate Amount Inc (Dec)
1	Expense Proforma					
2						
3	Plant Specific Operations	61XX - 64XX	0.070070653	76.3905%	1,344	955
4	Plant Non-Spec Operations	65XX	0.071519482	75.2073%	1,000	698
5	Customer Operations	66XX	0.068748106	80.2877%	1,927	1,441
6	Corporate Operations	67XX	0.108838001	77.6898%	1,102	763
7	Total from WP P12.1.3, column labeled "increase", line 20			77.78104%	5,373	3,857
8						
9						
10	Reduction for headcount					
11	Plant Specific Operations	61XX - 64XX	0.070070653	76.3905%	(2,153)	(1,530)
12	Plant Non-Spec Operations	65XX	0.071519482	75.2073%	(784)	(548)
13	Customer Operations	66XX	0.068748106	80.2877%	(1,940)	(1,450)
14	Corporate Operations	67XX	0.108838001	77.6898%	(3,091)	(2,140)
15	Total from WP P12.1.1, column (I), last row labeled Summary Total				(7,968)	(5,667)
16						
17						
18	Total Proforma Adjustment for pay increase and headcount reduction					
19	Plant Specific Operations	61XX - 64XX	0.070070653	76.3905%	(809)	(575)
20	Plant Non-Spec Operations	65XX	0.071519482	75.2073%	216	151
21	Customer Operations	66XX	0.068748106	80.2877%	(12)	(9)
22	Corporate Operations	67XX	0.108838001	77.6898%	(1,989)	(1,377)
23	Proforma adjustment for 3.7% increase and reduction in force				(2,595)	(1,811)

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Proforma Adjustment
(Thousands of Dollars)

Calculation of Staff's Pro forma Adjustment P12.1.1
Wages and Salaries

source	(a)	Books EMR WA (b)	Books SACS WA (c)	CAM Factor (d)	Intrastate Factor (e)	Intrastate Amount SACS (f)	S & W EMR WA (g)	S & W SACS WA (h)	Intrastate Amount SACS (i)	Reduction in headcount (J)	3.7% incr. Salary Base (K) I + J
		Co WP WP12.1.2	Co. Sch S1	1 - (c/d)	f / c	Co. Sch L1	Co WP WP12.1.2	g x (1-d)	h x e		
1 <u>Salary/Wage</u>											
2 Plant Specific Operations	0.27025	79,539	73,966	0.070071	0.763905	56,503	26,848	24,967	19,072	(962)	18,099
3 Plant Non-Spec Operations	0.09841	28,962	26,891	0.071519	0.752073	20,224	19,979	18,550	13,951	(23)	13,225
4 Customer Operations	0.24345	71,651	66,725	0.068748	0.802877	53,572	38,503	35,856	28,788	(597)	27,260
5 Corporate Operations	0.38789	114,163	101,738	0.108838	0.776898	79,040	22,006	19,611	15,236	(793)	14,443
6 Total		294,316	269,320	0.084929	0.777287	209,339	107,336	98,220	76,345	(3,971)	72,399
7											
8											
9 source		Salary/Wage	Co. Sch	1 - (c/d)	f / c	e x c	f times	g x (1-d)	h x e		
10		times p/b %	S1 less CAM				s / p %				
11											
12 <u>Pension and Other Benefits Detail</u>											
13 Plant Specific Operations		31,467	29,262	0.070071	0.763905	22,354	10,622	9,877	7,545	(392)	7,153
14 Plant Non-Spec Operations		11,468	10,639	0.071519	0.752073	8,001	7,904	7,339	5,519	(287)	5,222
15 Customer Operations		28,347	26,398	0.068748	0.802877	21,194	15,233	14,185	11,389	(592)	10,797
16 Corporate Operations		45,165	40,250	0.108838	0.776898	31,270	8,706	7,758	6,028	(314)	5,714
17 Total		116,437	106,548	0.084929	0.777287	82,819	42,464	38,858	30,204	(1,571)	28,695
18											
19 Pension /Benefits percentage of SAW		0.39562									
20 source is Co WP P12.1.7											
21											
22 <u>Other Employee Related Expense Detail</u>											
23 Plant Specific Operations		2,505	2,329	0.070071	0.763905	1,779	845	786	601	(34)	569
24 Plant Non-Spec Operations		912	847	0.071519	0.752073	637	629	584	439	(23)	416
25 Customer Operations		2,256	2,101	0.068748	0.802877	1,687	1,212	1,129	907	(47)	859
26 Corporate Operations		3,595	3,204	0.108838	0.776898	2,489	693	618	480	(25)	455
27 Total		9,268	8,481	0.084929	0.777287	6,592	3,380	3,093	2,404	(122)	2,305
28											
29 Other percentage of SAW											
30 source is Co WP P12.1.7		0.03149									
31											
32 <u>Summary:</u>											
33 Plant Specific Operations		113,511	105,558	0.070071	0.763905	80,636	38,315	35,630	27,218	(1,416)	25,802
34 Plant Non-Spec Operations		41,332	38,376	0.071519	0.752073	28,862	28,512	26,473	19,910	(1,036)	18,874
35 Customer Operations		102,254	95,224	0.068748	0.802877	76,453	54,948	51,170	41,084	(2,437)	38,647
36 Corporate Operations		162,924	145,191	0.108838	0.776898	112,799	31,405	27,967	21,743	(4,053)	20,612
37 Total		420,021	384,349	0.084929	0.777287	298,750	153,180	141,261	109,954	(9,972)	104,235
38									109,954		
39											
40											
41											
42											
43	(a)										
44											
45											
46 Reduction in head count											
47 <u>Salary/Wage</u>											
48 Total		(5,583)	(5,109)	0.084929	0.777287	(3,971)	(5,583)	(5,109)	(3,971)		
49											
50 <u>Pension and Other Benefits Detail</u>											
51 Total		(2,209)	(2,021)	0.084929	0.777287	(1,571)	(2,209)	(2,021)	(1,571)		
52											
53 <u>Other Employee Related Expense Detail</u>											
54 Total		(176)	(161)	0.084929	0.777287	(125)	(176)	(161)	(125)		
55											
56 <u>Summary:</u>											
57 Total		(7,968)	(7,291)			(5,667)	(7,968)	(7,291)	(5,667)		

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Salary & Wages and Employee Related Pro forma Adjustments

Calculation of Staff's Pro forma Adjustment P12.1.3
Wages and Salaries

<u>Line No.</u>		Intrastate Amount SACS	Percent Increase 3.700%	Increase S & W		
	<u>Salary/Wage</u>					
1	Plant Specific Operations	18,080		669		
2	Plant Non-Spec Operations	13,225		489		
3	Customer Operations	27,290		1,010		
4	Corporate Operations	14,443		534		
5	Total	73,039	WP P12.1.1, col. (K)	2,702	70.0717%	3,765
	<u>Pension and Other Benefits Detail</u>					
6	Plant Specific Operations	7,153		265		
7	Plant Non-Spec Operations	5,232		194		
8	Customer Operations	10,797		399		
9	Corporate Operations	5,714		211		
10	Total	28,896		1,069	27.7218%	1,489
	<u>Other Employee Related Expense Detail</u>					
11	Plant Specific Operations	569		21		
12	Plant Non-Spec Operations	416		15		
13	Customer Operations	859		32		
14	Corporate Operations	455		17		
15	Total	2,300		85	2.2066%	119
	<u>Summary:</u>					
16	Plant Specific Operations	25,802		955		
17	Plant Non-Spec Operations	18,874		698		
18	Customer Operations	38,947		1,441		
19	Corporate Operations	20,612		763		
20	Total	104,235		3,857		5,373

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Pension & Benefits Proforma Adjustment

Calculation of Staff's Pro forma Adjustment P12.1.4
Wages and Salaries

Revised - Sept. 2004
 Revised
Regulated

1	Medical & Dental Costs			
2	A	TY Medical & Dental Costs (From WP P12.1.6)	6,195,208	
3	B	Removed		
4	C	Removed		
5	D	TP WA ST Medical Cost Increase	4.5%	
6	E	Removed		
7	F	Removed		
8	G=A*D	Medical Cost change Impact	278,784	
9	H	Removed		
10	I=G+H	Total Change	278,784	
11	J=A+I	TP Medical & Dental Costs	6,473,992	
12			278,784	
13				
14	Savings Plan			
15	A	TY Savings Plan Costs (From WP P12.1.6)	971,444	
16	B	TY Mgmt & Assoc Basic Wage	32,527,417	
17	C=A/B	TY Savings Plan to Basic Wage Ratio	3.0%	
18	D	TP Mgmt & Assoc Basic Wage	2,305,837	
19	E=C*D	TP Savings Plan Costs	1,013,900	
20			42,456	
21				
22	Payroll Tax			
23	A	TY Payroll Tax Costs (From WP P12.1.6)	2,101,868	
24	B	TY Salary & Wage Expense	48,965,503	
25	C=A/B	TY Savings Plan to Basic Wage Ratio	4.3%	
26	D	TP Salary & Wage Expense	44,930,935	
27	E=C*D	TP Payroll Tax Costs	1,928,683	
28			(173,186)	
29				
30	Pension			
31		TY Pension (From WP P12.1.6)	(8,481,412)	
32		TP Pension (From WP P12.1.6)	(2,645,000)	
33			2,836,412	
34				
35	Opeb			
36		TY Opeb (From WP P12.1.6)	87,776,624	
37		TP Opeb (From WP P12.1.6)	11,247,117	
38			2,469,503	
39				
40	A	TY Allocated P&B (From WP P12.1.6)	18,892,245	
41	B	Yr/Yr Change in P&B Costs	30.2%	
42	C=A*(1+B)	TP Allocated P&B	24,601,928	
43			5,709,683	
44				
45	Total Pension & Benefits Adjustment		11,163,652	
46				
47				
48	Summary			
49				
50	Regulated Pension & Benefits (From WP P12.1.6, 1.7, 1.8, 1.9, 2.0, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 3.0, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 4.0, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 5.0, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9, 6.0, 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 7.0, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7.9, 8.0, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 9.0, 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8, 9.9, 10.0)	40,840,065	WP P12.1.6, In 26	
51	Plus: In-Period Adjustment	(2,211,284)	6,520,966	R9-02 adj. - 1,919
52	Proforma Adjustment	11,163,652	0,079,130	CAM Factor
53	Proforma Pension & Benefits	49,792,433	0,079,130	Regulated
54			40,840,065	Regulated part of R9-02
55	Change - Proforma Adjustment	8,952,368		
56	Change %	21.92%		

Verizon Northwest Inc. - Washington Operations
Salaries & Wages (Regulated Accounts Only)
12 month-to-date as of September 30, 2003

Calculation of Staff's Pro forma Adjustment P12.1.5

<u>Line No.</u>		<u>Q4 02</u>	<u>Q3 YTD 03</u>	<u>12MTD Sep 03</u>
1	MANAGEMENT	3,319,850	9,226,246	12,546,096
2	Basic	1,614,439	4,802,174	6,416,613
3	6001000000 Mgmt Exempt/Nonexempt	2,127,422	4,901,070	7,028,492
4	6006000000 Accr Sal Exp-Mgmt	(512,982)	(98,897)	(611,879)
5				
6	Incentive Compensation	304,653	(81,770)	222,883
7	6008000000 Accrued VIP Exp	324,487	(48,070)	276,417
8	6009000000 Accrued STIP Exp	(19,834)	(33,700)	(53,534)
9				
10	Stock Compensation	-	36,053	36,053
11	6054000000 Stock Comp Exp	-	36,053	36,053
12				
13	Sales Incentive Compensation	99,394	206,179	305,573
14	6051000000 Sales Incentive Comp	99,394	206,179	305,573
15				
16		1,301,364	4,263,610	5,564,974
17	6001000400 Salary-Misc	963,605	2,876,213	3,839,818
18	6001000600 Wk Stpge-Base Pay		(491)	(491)
19	6001000700 Wk Stpge-OT & Ppay		30,376	30,376
20	6005000000 Salary Cont Pay	6,946	36,739	43,685
21	6005000100 Salary Cont Pay-NBW		492,705	492,705
22	6006000300 Svc Act Deferral-SAB 101	406,735	794,466	1,201,200
23	6007000000 Accr Vacation Exp	(75,922)	33,602	(42,320)
24				
25	ASSOCIATE	15,073,738	21,345,670	36,419,407
26	Basic	13,542,962	12,667,866	26,210,828
27	6002000000 Hrly-Productive	8,450,536	14,546,254	22,996,790
28	6002000100 Hrly-Non Productive	5,569,101	(1,421,264)	4,147,837
29	6006000200 Accr Sal Exp-Assoc	(476,675)	(457,124)	(933,799)
30				
31	Overtime	494,216	1,299,850	1,794,066
32	6003000000 Premium Pay	223,897	416,431	640,328
33	6004000000 Overtime Pay	270,319	883,419	1,153,738
34				
35	Incentive Compensation	506,903	371,318	878,220
36	6008000100 Accrued TPA Exp	506,903	371,318	878,220
37				
38	Other Pay	529,656	7,006,637	7,536,293
39	6005000000 Salary Cont Pay	529,656	(119,154)	410,502
40	6005000100 Salary Cont Pay-NBW		7,125,791	7,125,791
41				
42				
43	ALLOCATIONS	12,832,577	45,654,725	58,487,302
44	6001000100 Sum-Com Cost Labor	7,194,593	29,245,004	36,439,597
45	6001000200 Corp Prorate-Labor	5,637,984	16,409,721	22,047,705
46				
47				
48	Total S&W	31,226,164	76,226,641	107,452,805

Verizon Northwest Inc. - Washington Operations
 Pension & Benefits (Regulated Accounts Only)
 12 month-to-date as of September 30, 2003

Calculation of Staff's Pro forma Adjustment P12.1.6

Line No.	Category	SAP	Acct Descr	Q4 02	Q3 YTD 2003	12 MTD Sep 03
1	PENSION	6107000000	Pension Expense	4,301,610	6,717,686	11,019,296
2						
3	OPEB	6108000000	OPEB Expense	749,765	2,570,636	3,320,401
4		6109000000	SERP Expense	4,318	5,757	10,076
5						
6						
7	HEALTH & WELFARE					
8	Medical	6102000000	Medical Insurance	762,942	2,290,546	3,053,489
9	Dental	6103000000	Dental Insurance	65,028	272,183	337,211
10	Workman Comp	6112000000	Workman's Comp	65,759	231,441	297,200
11	ST Disability	6115000000	ST Disability Insurance		530,731	530,731
12	LT Disability	6105000000	Disability Insurance	171,697	168,084	339,781
13	Life Insurance	6104000000	Life Insurance	8,176	20,286	28,462
14	Other Benefits	6106000000	Group Ins-Other		12	12
15		6140000000	Oth Employee Benefit	557,815	1,050,506	1,608,321
16						6,195,208
17						
18	SAVING PLAN	6110000000	Savings & Investment	203,310	768,134	971,444
19						
20	PAYROLL TAXES	6101000000	Payroll Taxes	514,937	1,586,932	2,101,869
21						
22	OTHER	6101000100	Sum-Com Cost Benefit	2,327,737	11,693,462	14,021,198
23		6101000200	Corp Prorate-Benefit	854,159	4,016,888	4,871,047
24						18,892,245
25	Allocated Pension & Opeb - Calculated					
26	Total P&B			10,587,253	31,923,286	42,510,539

Verizon Northwest - Washington
2004 Washington General rate Case
Annualized Impact of In-Period Headcount Reductions from 10/1/2003 to 9/30/2004

Calculation of Staff's Pro forma Adjustment P12.1.7

Line No.	Sep. 2002	Oct. 2002	Nov. 2002	Dec. 2002	Jan. 2003	Feb. 2003	Mar. 2003	Apr. 2003	May 2003	Jun. 2003	Jul. 2003	Aug. 2003	Sept. 2003	Total
1	1,980	1,981	1,952	1,932	1,894	1,883	1,863	1,837	1,835	1,806	1,783	1,777	1,771	1,869
2			(29)	(20)	(36)	(11)	(20)	(26)	(2)	(29)	(23)	(6)	(6)	(209)
3	57,437	57,437	57,437	57,437	57,437	57,437	57,437	57,437	57,437	57,437	57,437	57,437	57,437	57,437
4	11.5	10.5	9.5	8.5	7.5	6.5	5.5	4.5	3.5	2.5	1.5	0.5	0.5	1.5
5	55,044	(1,457,457)	(909,415)	(1,546,005)	(394,878)	(622,231)	(684,454)	(43,078)	(485,819)	(275,218)	(43,078)	(14,359)	(6,420,948)	(6,420,948)
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														
16														
17														
18														
19														
20														
21														
22														

Source = Company P12 WPs
 13- Month average Headcount
 Total Regulated Salary/Wages
 Average of BAU separation

Staff does not pull out these alloc. amounts - because Co. just adds them back in.
 To WP P12.1.1, Line 48
 To WP P12.1.1, Line 51
 To WP P12.1.1, Line 54

- Notes
- The adjustment reflects the impact of BAU, or normal attrition, during the test year, assuming these will not be backfilled.
 - Average salary computed by dividing annual, regulated salary/wages by average headcount for the period.
 - The headcount reductions reflect actual, reported headcount as received from Payroll.
 - Reductions in the month are assumed to be mid-month, with half a month's cost reduction impact.
 - The allocated salary impact was calculated by using the ratio of booked allocated salary to booked total salary and applying this ratio to the direct salary reductions calculated.
 - The allocated pension/benefit impact was calculated by using the ratio of booked pension/benefits to booked total salary and applying this ratio to the total salary reduction calculated.

Verizon Northwest - Washington
Ratios used in Test Year Impact of Headcount Reductions

Regulated Operations **Calculation of Staff's Pro forma Adjustment P12.1.8**

Total Regulated Salary/Wages	Reg Exp. <u>107,336</u> WP P12.1.1	
Less: Allocated		0.00% of Direct Salary/Wage
Direct Regulated Salary/wages	107,336	
Avg. Headcount	1,869	13-Month Average
Avg Reg. Salary per Employee (w/o benefits loading)	57,437	
Total Pension/Benefits As % of Salary/Wages	<u>42,464</u> WP P12.1.1, line 17	39.56%
Total Other Employee Related As % of Salary/Wages	<u>3,380</u> WP P12.1.1, line 27	3.15%

Note 1: Nonoperating amount of \$29,263 added to \$42,481,276 shown on WP P12.1.2