

Exhibit No. ___ C (PMS-11-C)
Docket No. UT-040788
Witness: Paula M. Strain
REDACTED VERSION

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
PAULA M. STRAIN
REGARDING REVENUE REQUIREMENTS

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Description and Revisions to Restating Adjustments (pp. 1-4)
Staff Restating SR23 – Directory Revenues (p. 5)
Staff Restating SR24 – Shared Regulated Expenses (p. 6)

November 22, 2004

REDACTED VERSION

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Staff Description and Revisions to Restating Adjustments
(Thousands of Dollars)

Exhibit No. C (PMS-11C), Page 1
Docket No. UT-040788
Witness: Paula Strain
November 22, 2004

(a)	(b)	(c)	(d)	(e)	(f)
Adjust. Description No.	Account Code	Verizon Intrastate Amount Inc (Dec)	Difference Staff Adjustment	Staff Intrastate Amount Inc (Dec)	Staff Witness
Restating Adjustments to Operating Revenues:					
1 R1-03				REDACTED VERSION	
2		5085	1,578	1,578	
3	To remove out of period interconnection billing adjustments				
4 R2-03		5085	239	239	
5	To remove FCC mandated rate adjustments related to prior periods				
6 R11-03		5085	(2,398)	(2,398)	
7	To remove Cellular Directory Assistance Revenues misclassified to Verizon NW				
8 R12-03		5060	1,982	1,982	
9	To recognize deferred service activation fees in revenues per SAB 101				
10 R5-02		5240	236	236	
11	To remove the effect of a WUTC-ordered rate reduction booked in the test year that related to prior period revenues				
12 R6-02		5263	971	971	
13	To remove the effect of a WUTC-ordered collocation rate change booked in the test year that related to prior periods				
14 R15-02		5240	(857)	(857)	
15	To remove out of period Deferred Activation Fees Revenue Recognition				
16 SR17	Line Sharing Imputation ***CONFIDENTIAL ***				Zawislak
17					
18 SR19	OSS Transition Revenue Removal *CONFIDENTIAL*				Zawislak
19					
20 SR23	Imputation of Directory Revenue	5230	37,530	37,530	Strain
21					
22					
23					
24					
25					
26					
27	Total of Restating Adjustments to Operating Revenues	1,752	40,291	42,043	
28					

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Staff Description and Revisions to Restating Adjustments
(Thousands of Dollars)

Exhibit No. C (PMS-11C), Page 2
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Witness: Paula Strain
November 22, 2004

(a)	(b)	(c)	(d)	(e)	(f)	
Adjust. No.	Description	Account Code	Verizon Intrastate Amount Inc (Dec)	Difference Staff Adjustment	Staff Intrastate Amount Inc (Dec)	Staff Witness
	Restatements to Operating Expenses:					
R5-03	To remove account reconciliation writeoff related to prior periods	6728	(804)		(804)	
R8-03	To remove accrual basis Other Post Employment Benefits (OPEB) Amounts and replace with Pay As You Go (PAYGO) Amounts	61XX-64XX 65XX 66XX 67XX	(2,196) (1,332) (2,099) 7,012		(2,196) (1,332) (2,099) 5,919	Erdahl
R9-03	To remove the portion of an accrual adjustment pertaining to prior periods	6540	6,716		6,716	
R12-03	SAB 101 true-up	62XX 64XX	931 581		931 581	
R13-03	Billing Adjustment	6124	(189)		(189)	
	Billing Adjustment	6623	(818)		(818)	
	Billing Adjustment	6728	(2)		(2)	
R14-03	Billing Adjustment	6124	(564)		(564)	
	Billing Adjustment	6724	226		226	
R15-03	To remove aircraft and other expenses not allowed for ratemaking purposes	6722 6113	(201) (117)	(2,060)	(2,261) (117)	Erdahl
R8-02	To remove the portion of an adjustment to correct a coding error that pertains to prior periods	6534	437		437	
R10-02	To remove a Sales and Use Tax adjustment not pertaining to the test year.	7240	1,007		1,007	
R11-02	To remove an RTU license fee adjustment booked in December 2002 that pertained to months prior to the test year	6724	(706)		(706)	
R12-02	To remove a Billing adjustment for Software Expense that pertained to months prior to the test year	6724	(2,225)		(2,225)	

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VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Staff Description and Revisions to Restating Adjustments
(Thousands of Dollars)

Exhibit No. C (PMS-11C), Page 3
Docket No. UT-040788
Witness: Paula Strain
November 22, 2004

(a)	(b)	(c)	(d)	(e)	(f)
Adjust. No.	Account Code	Verizon Intrastate Amount Inc (Dec)	Difference Staff Adjustment	Staff Intrastate Amount Inc (Dec)	Staff Witness
REDACTED VERSION					
Restatements to Operating Expenses (continued):					
R13-02	65XX	3,974		3,974	
To remove the portion of an entry correcting Occupational Distribution costs that pertains to months prior to the test year					
R14-02	6124 6623 6724 6728	526 356 (478) 1		526 356 (478) 1	
To remove the portion of a Billing Adjustment from Verizon Data Services that pertained to months prior to the test year					
SR18					Zawisiak
To Remove Sales & Marketing Expenses Incurred on Behalf of Affiliates ***CONFIDENTIAL***					
SR19					Zawisiak
Remove OSS Transition Costs ***CONFIDENTIAL***					
SR20	6722		(2,943)	(2,943)	Erdahl
To remove extraordinarily high test year insurance expense and restate at current year levels					
SR21	6728		(5,733)	(5,733)	Erdahl
To Remove gain on pension asset booked to operating expense					
SR22	65XX		(2,823)	(2,823)	Griffith
To Remove depreciation expense on Missing Plant					
SR24	61xx-63xx 65xx 66xx 67xx		(210) (293) (347) (154)	(210) (293) (347) (154)	Strain Strain Strain Strain
To restate Oct-Dec 2002 allocated shared expenses using updated allocation factor from Jan-Sept 2003					
Total Restating Adjustments to Operating Expenses		10,036	(56,097)	(46,061)	

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VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Staff Description and Revisions to Restating Adjustments
(Thousands of Dollars)

Exhibit No. C (PMS-11C), Page 4
Docket No. UT-040788
Witness: Paula Strain
November 22, 2004

	(a)	(b)	(c)	(d)	(e)	(f)
Adjust. No.	Description	Account Code	Verizon Intrastate Amount Inc (Dec)	Difference Staff Adjustment	Staff Intrastate Amount Inc (Dec)	Staff Witness
	Restatements to Rate Base:					
R9-02	To remove the portion of Verizon NW pension settlement loss booked to Washington in error	1410	1,292	(1,292)		Erdahl
R8-03	To remove accrual basis Other Post Employment Benefits (OPEB) amounts and replace with Pay As You Go (PAYGO) Amounts	2XXX 4310	(2,123) 17,990		(2,123) 17,990	Erdahl Erdahl
R16-03	To adjust Deferred Income Taxes for 2004 Reconciliation Items (reduction to deferred taxes, increase to rate base)	434X	35,223		35,223	Kermode
SR21	To remove pension asset from rate base	1410		(134,136)	(134,136)	Erdahl
SR22	To remove missing plant from Plant in Service	22XX 3XXX 434X		(29,276) 14,532 (1,657)	(29,276) 14,532 (1,657)	Griffith Griffith Griffith
SR26	To adjust Deferred Income Taxes to Partial Flowthrough Basis	434X		25,530	25,530	Kermode
	Total Restating Adjustments to Rate Base		52,382	(126,299)	(73,917)	

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VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
 2004 Washington General Rate Case
 Staff Directory Imputation Calculation
 (Whole Dollars)

Exhibit No. ___-C (PMS-11-C), Page 5
 Docket No. UT-040788
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 November 22, 2004

Staff Adjustment SR23

Line #	Description	Test Year	Source/Comments
1	Annualized Test Year EBIT	1,783,916,000	Exhibit 43, page 5
2	Directory Investment Base (Current Assets + Fixed Assets Less Deferred Tax)	1,066,063,000	Exhibit 43, page 5
3	Pre-tax Imputed Return on Investment	10.19%	See Calculation Below
4	Imputed Operating Income	108,594,876	In 3 x In 5
5	Excess Operating Income	1,675,321,124	In 1 - In 7
6	Washington Revenues as % of Domestic Revenues	2.24%	Exhibit 43, page 9
7	Washington Imputed Operating Income 100% Intrastate	37,529,933	In 9 x In 11
8	NOI Adjustment - 100% Intrastate	23,837,220	In 13 / In 26
9	Calculation of Pre-Tax Rate of Return		
10	Weighted Cost of Debt	3.55%	Ex. No. ___ (JAR-3)
11	Federal Income Tax Rate	35.00%	
12	Tax effect of Interest Deduction	1.24%	In 18 * In 19
13	Equity Ratio	45.00%	Ex. No. ___ (JAR-3)
14	Allowed ROE	9.25%	Ex. No. ___ (JAR-3)
15	Allowed ROR (Post-tax)	7.71%	Ex. No. ___ (JAR-3)
16	Less FIT effect of interest	-1.24%	In 20
17	ROR for Gross-Up	6.47%	In 23 + In 24
18	Net-to-Gross	1.574426	Gross Up factor
19	Pre-Tax ROR	10.19%	In 25 * In 26

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS
2004 Washington General Rate Case
Staff Restating Adjustment to Shared Regulated Expenses
(Thousands of Dollars)

Exhibit No. ___-C (PMS-11-C), Page 6
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November 22, 2004

Staff Adjustment

Staff Adjustment SR24

Line No.	Description	Account Code	CAM Factor	Intrastate Factor	Amount Inc (Dec)	Intrastate Amount Inc (Dec)
1	Purpose of Adjustment: to restate the October-December 2002 allocations to reflect the updated allocation percentage determined for 2003					
2						
3						
4	Plant Specific Expenses	61xx-63xx				210
5						
6	Plant Non-Specific Expenses	65xx				293
7						
8	Customer Operations	66xx				347
9						
10	Corporate Operations	67xx				154
11						
12	Total					<u>1004</u>
13						
14						
15						
16	Per Attachments 212(b) and 212(c) to Verizon Response to Staff DR #212:		Att. 212(b)		Att. 212(c)	
17			Oct-Dec 02		Jan-Sep 03	
18	Total Verizon Shared Regulated Expenses		21,742,749		67744295	
19						
20	Total Shared Expenses Allocated to Washington		12,853,408		33740039	
21						
22	Percent of Shared Regulated Expense Allocated to Washington (line 19 / line 17)		<u>59.12%</u>		<u>49.80%</u>	
23						
24	October - December 2002 Expenses		21,742,749			
25	Times 2003 Shared Allocation Factor		0			
26	Normalized Level of Shared Expenses to Washington for 2002 months		10,828,974			
27						
28	Difference - line 27 - line 21		(2,024,434)			
29	Less Amount applicable to non-operating expenses - Acct. 7370, 7510, 7530, 7540		1,020,688			
30						
31	Staff Adjustment to Operating Expenses		<u>(1,003,746)</u>			