

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS  
 2004 Washington General Rate Case  
 Intrastate Results of Operations and Revenue Requirement  
 (Thousands of Dollars)

Line	(a) Description	(b) Adjusted Intrastate	(c) P17 Acc. Depr	(d) SP23 DSL Plant	(e) SR19 OSS	(f) P13 ISWC	(g) SR20 Insurance	(h) = (b.g) Adjusted Intrastate	(i) Revenue Requirement	(j) = (h+i) Results w/ Revenue Req.
1	<b>Operating Revenues:</b>									
2	Local Network Service	261,067			(15)			261,052	222,216	483,268
3	Network Access Revenues	50,474						50,474		50,474
4	Long Dist Netwk Revenues	18,374						18,374		18,374
5	Miscellaneous Revenues	14,443			(158)			14,285		14,285
6	Uncollectibles	(7,096)						(7,096)	(5,078)	(12,174)
7										
8	<b>Total Operating Revenue</b>	<b>337,262</b>	<b>0</b>	<b>0</b>	<b>(173)</b>	<b>0</b>	<b>0</b>	<b>337,089</b>	<b>217,138</b>	<b>554,227</b>
9										
10	<b>Operating Expenses:</b>									
11	Plant Specific Operations	57,581						57,581		57,581
12	Plant Non-Spec Operations	25,088						25,088		25,088
13	Access	6,229						6,229		6,229
14	Customer Operations	53,957						53,957		53,957
15	Corporate Operations	63,940		(141)	(360)		(2,451)	60,988		60,988
16	Other Income & Expenses	(172)						(172)		(172)
17	Taxes Other Than Income Taxes	17,026						17,026		17,026
18										
19	<b>Total Operating Expenses Before Depreciation</b>	<b>223,649</b>	<b>0</b>	<b>(141)</b>	<b>(360)</b>	<b>0</b>	<b>(2,451)</b>	<b>220,697</b>	<b>0</b>	<b>220,697</b>
20										
21	Depreciation	171,811						171,811		171,811
22										
23	<b>Total Operating Expenses</b>	<b>395,459</b>	<b>0</b>	<b>(141)</b>	<b>(360)</b>	<b>0</b>	<b>(2,451)</b>	<b>392,507</b>		<b>392,507</b>
24										
25	<b>Earnings Before Interest and Taxes (EBIT)</b>	<b>(58,198)</b>	<b>0</b>	<b>141</b>	<b>187</b>	<b>0</b>	<b>2,451</b>	<b>(55,419)</b>	<b>217,138</b>	<b>161,719</b>
26										
27	Federal Income Tax	(26,849)	0	49	65	0	858	(25,876)	75,998	50,122
28										
29	<b>Net Operating Income</b>	<b>(31,349)</b>	<b>0</b>	<b>92</b>	<b>122</b>	<b>0</b>	<b>1,593</b>	<b>(29,543)</b>	<b>141,140</b>	<b>111,597</b>
30										
31	<b>Rate Base (Average):</b>									
32	Telecomm Plant in Service	1,854,450		(1,370)				1,853,080		1,853,080
33	Other Assets (SFAS 87)	137,927						137,927		137,927
34	Investor Supplied Working Capital	4,534				(25,196)		(20,662)		(20,662)
35	Depr & Amort Reserve	786,403	(41,931)	(677)				743,795		743,795
36	Deferred Income Taxes	227,471	6,914	(128)				234,258		234,258
37	Other LT Liab	33,553						33,553		33,553
38										
39	<b>Total Rate Base</b>	<b>949,483</b>	<b>35,017</b>	<b>(565)</b>	<b>0</b>	<b>(25,196)</b>	<b>0</b>	<b>958,739</b>	<b>0</b>	<b>958,739</b>
40										
41	Return on Rate Base (ROR)	-3.30%						-3.08%		11.64%

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<b>Line</b>	<b>(a) Description</b>	<b>(b) @11.64%</b>	<b>(c) Reference</b>
1	Adjusted Intrastate Average Rate Base	958,739	Col. H, Ln 39
2	Rate of Return	11.64%	
3	Required Net Operating Income (Ln 1 * Ln 2)	111,597	
4	Adjusted Intrastate Net Operating Income	(29,543)	Col. H, Ln 29
5	Income Deficiency / (Excess) (Ln 3 - Ln 4)	141,140	
6	Revenue Conversion Factor	1.574442	L3, Col. B, Ln 10
7	Revenue Requirement Deficiency / (Excess) (Ln 5 * Ln 6)	222,216	