

VERIZON NORTHWEST INC. - WASHINGTON OPERATIONS  
 2004 Washington General Rate Case  
 Company's Revision to Staff Embedded Deferred Tax Factor  
 Test Year - October 2002 to September 2003  
 Intrastate Amounts (Thousands of Dollars)

Exhibit No. \_\_\_\_ (NWH-21)  
 Docket No. UT-040788  
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Line	(a)	(b)	(c)	(d)	(e)	(f)	(g)
<b>At 11.4% Deferred Tax Rate</b>							
		<b>SR22</b>	<b>P17</b>	<b>SP23</b>	<b>SP24</b>	<b>Total</b>	
1	Rate Base (Average):						
2	Telecomm Plant in Service	(29,276)	(4,196)	(1,370)	(167,794)		PMS-10c, PMS-12c
3	Other Assets (SFAS 87)						
4	Investor Supplied Working Capital						
5	Depr & Amort Reserve	(14,532)	(35,266)	(677)	(92,577)		PMS-10c, PMS-12c
6	<b>Deferred Income Taxes at 11.4%</b>	(1,681)	3,542	(79)	(8,575)	(6,793)	NWH-20, Line 17
7	Other LT Liab						
8							
9	<b>At 18.51% Deferred Tax Rate</b>						
10							
11	Rate Base (Average):						
12	Telecomm Plant in Service	(29,276)	(4,196)	(1,370)	(167,794)		PMS-10c, PMS-12c
13	Other Assets (SFAS 87)						
14	Investor Supplied Working Capital						
15	Depr & Amort Reserve	(14,532)	(35,266)	(677)	(92,577)		PMS-10c, PMS-12c
16	<b>Deferred Income Taxes at 18.51%</b>	(2,729)	5,751	(128)	(13,923)	(11,029)	(L13-L16)*18.51%
17	Other LT Liab						
18							
19	<b>Deferred Tax Correction</b>	<b>(1,048)</b>	<b>2,209</b>	<b>(49)</b>	<b>(5,348)</b>	<b>(4,236)</b>	L17 - L6
20							
21	Revenue Requirement Impact					514	At 7.71%

**Calculation of Embedded Deferred Tax Rate**

	Staff	As Corrected by Company	
Telecomm Plant in Service	1,856,344	1,856,344	NWH-2
Depr & Amort Reserve	0	(756,207)	NWH-2
<b>Net Plant</b>	<b>1,856,344</b>	<b>1,100,137</b>	
Deferred Income Taxes	211,635	203,657	DPK-1T, P.16 *
Embedded Deferred Tax rate	11.40%	18.51%	L5/L3

\* The balance of \$211,635 shown on DPK-1T reduced in the Staff Errata filing on January 14, 2005 (Adjustment SR26).

Note 1 The Staff Exhibits, PMS-10c and PMS-12c, mentioned above are sourced from the Staff Errata filing, as revised on January 14, 2005.

Note 2 The revenue requirement impact is calculated as: (4,236 x 7.71%) \* 1.574442

Note 3 Refer to NWH-20 for the other deferred tax corrections related to inappropriate application of 11.4% rate