

Verizon Northwest Inc. submits the following comments on the white paper, "Treatment of Income Taxes in Utility Ratemaking," prepared by the Public Utility Commission of Oregon Staff ("OPUC Staff").

Verizon strongly recommends the continued use of the traditional "stand-alone" method for calculating the income tax expense incorporated into a regulated utility company's rate making process. As indicated by the OPUC, this method meets the normalization requirements of the Internal Revenue Code (related to Accelerated Depreciation) and is consistent with the fundamental principles of basing utility rates on utility "stand-alone" costs only, thereby avoiding cross subsidization between regulated and non-regulated operations. Since the ratepayers do not bear the financial risks of the non-regulated operations, it would be improper to consider these costs.

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