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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 197/ UI 197(1)/UI 197(2)/UI 197(3)

In the Matter of the Applications of VERIZON)	
NORTHWEST, INC. for an Order Approving)	ORDER
an Agreement with Verizon Advanced Data)	
Inc. (Schedules 5, 5.1, 8, 12 and 13))	
)	
)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On March 1, 2002, Verizon Northwest, Inc. (Verizon) filed applications with the Public Utility Commission of Oregon (Commission) for an order approving an agreement with Verizon Advanced Data Services Inc. and Verizon Advanced Data – Virginia Inc. (collectively "VADI") for services in connection with Fast Packet Advanced Data Services regarding Schedules 5 and 5.1,¹ Schedule 8,² Schedule 12,³ and Schedule 13.⁴

Based on a review of the applications and the Commission’s records, the Commission finds that the applications satisfy applicable statutes and administrative rules. At its Public Meeting on August 20, 2002, the Commission adopted Staff’s recommendations memos with noted changes to the Proposed Commission Motions. Staff’s recommendation reports are attached as Appendices A (Schedules 5 and 5,1), B (Schedule 8), C (Schedule 12) and D (Schedule 13), and incorporated by reference.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists under ORS 757.015.

¹ UI 197--Referenced in Staffing Report attached as Appendix A
² UI 197(1) -- Referenced in Staffing Report attached as Appendix B
³ UI 197(2) -- Referenced in Staffing Report attached as Appendix C
⁴ UI 197(3) – Referenced in Staffing Report attached as Appendix D

Applicable Law

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

CONCLUSIONS

1. The Companies are public utilities subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The applications should be granted, with certain conditions and reporting requirements.

ORDER

IT IS ORDERED that the applications of Verizon Northwest Inc. for an order approving an agreement with Verizon Advanced Data Services Inc. and Verizon Advanced Data — Virginia Inc. , an Affiliated Interest, for services in connection with Fast Packet Advanced Data Services Products, is granted, subject to the conditions and reporting requirements, as further stated in Appendices A, B, C, and D.

Made, entered, and effective _____.

BY THE COMMISSION:

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. CA8

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: AUGUST 20, 2002**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: August 12, 2002

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Marion Anderson

SUBJECT: VERIZON NORTHWEST INC.: (Docket No. UI 197) Application for Approval of an Agreement with Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., for Services in Connection with Fast Packet Advanced Data Products (Schedules 5 and 5.1)

STAFF RECOMMENDATION:

The Commission should approve this contractual provision of services with the following conditions:

1. Verizon Northwest Inc., shall provide the Commission access to all books of account, as well as all documents, data and records of Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., that pertain to transactions between the two.
2. The Commission reserves the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. Verizon Northwest Inc., shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

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4. Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., shall maintain records to show, upon Commission request, the cost of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., goods and services provided to Verizon Northwest Inc. The return component used in the calculation shall be Verizon Northwest Inc.'s, currently authorized Oregon overall rate of return multiplied by the portion of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc.'s, net assets used for those provisions.

DISCUSSION:

This application was filed on March 1, 2002, pursuant to ORS 759.390. Verizon Northwest Inc., (Verizon) and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., (VADI) are wholly owned subsidiaries of Verizon Communications Inc., and thereby affiliated entities under ORS 759.010(3). Verizon estimates an annual payment of \$1,200,000 to VADI for "read and write" access to specified VADI systems with secure login identifications and passwords. This estimate is a combination of interstate and intrastate costs as no segregation was possible.

The agreement's rationale is excerpted as follows: "As part of the Bell Atlantic/GTE merger, Verizon Northwest Inc., was required by the FCC to spin off its advanced services into a separate subsidiary (VADI). The FCC has since allowed Verizon to accelerate the reintegration of VADI back into Verizon Northwest Inc. Verizon Northwest Inc. has repurchased the assets used to provide advanced services to enable Verizon Northwest Inc., to once again offer those services to its customers. This contract is necessary to allow Verizon Northwest Inc., employees access to certain VADI national systems used in providing fast packet services." Order No. 02-122 approved the aforementioned assets repurchase under Docket UI 193.

The demonstration of public interest compliance in this matter is based on OAR 860-027-0052(3)(e) through OAR 860-027-0040(1)(j). Since no competitive procurement process was utilized, Verizon made the following response to a staff query: "VADI provides various support services to Verizon to facilitate the provision of advanced data services for Verizon customers. Because VADI provides these services to all of the Verizon ILECs across the county, VADI can achieve economies of scale that could not be achieved if Verizon Northwest's Oregon ILEC were to attempt to purchase the same services from another vendor for the Oregon ILEC's 2200 circuits (number of fast packet intrastate circuits in Oregon). Additionally, Verizon does not believe that there are any vendors that would provide these services in Oregon. Specifically,

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Reintegration Service Schedule 5, which provides read and write access to various VADI systems--essentially allowing Verizon to perform various administrative functions essential to providing advanced data services to customers. Verizon does not believe there are any vendors that would provide this type of service for only 2200 circuits."

Verizon's reasons for not using a competitive procurement process are reasonable, in my opinion. The application appears to be fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Verizon Northwest Inc.'s purchase of services under Schedules 5 and 5.1 in connection with Fast Packet Advanced Data Services from Verizon Advanced Data Inc. and Verizon Advanced Data – Virginia Inc. be approved subject to the conditions stated in this memorandum, effective December 1, 2001.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: AUGUST 20, 2002**

REGULAR _____ **CONSENT** **EFFECTIVE DATE** _____

DATE: August 12, 2002

TO: John Savage through Marc Hellman and Rebecca Hathorn

FROM: Marion Anderson

SUBJECT: VERIZON NORTHWEST INC.: (Docket No. UI 197 (1)) Application for Approval of an Agreement with Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., for Services in Connection with Fast Packet Advanced Data Products (Schedule 8)

STAFF RECOMMENDATION:

The Commission should approve this contractual provision of services with the following conditions:

3. Verizon Northwest Inc., shall provide the Commission access to all books of account, as well as all documents, data and records of Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., that pertain to transactions between the two.
4. The Commission reserves the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. Verizon Northwest Inc., shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

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4. Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., shall maintain records to show, upon Commission request, the cost of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., goods and services provided to Verizon Northwest Inc. The return component used in the calculation shall be Verizon Northwest Inc.'s, currently authorized Oregon overall rate of return multiplied by the portion of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc.'s, net assets used for those provisions.

DISCUSSION:

This application was filed on March 1, 2002, pursuant to ORS 759.390. Verizon Northwest Inc., (Verizon) and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., (VADI) are wholly owned subsidiaries of Verizon Communications Inc., and thereby affiliated entities under ORS 759.010(3). Verizon did not have a cost estimate for this transitional use of certain VADI employees while the underlying assets transfer was accomplished.

The agreement's rationale is excerpted as follows: "As part of the Bell Atlantic/GTE merger, Verizon Northwest Inc., was required by the FCC to spin off its advanced services into a separate subsidiary (VADI). The FCC has since allowed Verizon to accelerate the reintegration of VADI back into Verizon Northwest Inc. Verizon Northwest Inc. has repurchased the assets used to provide advanced services to enable Verizon Northwest Inc., to once again offer those services to its customers. This contract is necessary to allow Verizon Northwest Inc., employees access to certain VADI national systems used in providing fast packet services." Order No. 02-122 approved the aforementioned assets repurchase under Docket UI 193.

The demonstration of public interest compliance in this matter is based on OAR 860-027-0052(3)(e) through OAR 860-027-0040(1)(j). Since no competitive procurement process was utilized, Verizon made the following response to a staff query: "Reintegration Service Schedule 8, concerning loaned employees, was only in effect for 23 days to allow VADI employees to continue doing work for Verizon while the asset transfer was taking place. Again, it is unlikely that Verizon would have achieved any efficiencies by contracting with a third party for those employees for such a short period of time. The costs of training such temporary employees alone would likely have made the cost of dealing with a third party vendor unrealistic when VADI had existing employees who were already trained to do the job."

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Verizon's reasons for not using a competitive procurement process are reasonable, in my opinion. The application appears to be fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Verizon Northwest Inc.'s purchase of services in connection with Fast Packet Advanced Data Services from Verizon Advanced Data Inc. and Verizon Advanced Data – Virginia Inc. be approved subject to the conditions stated in this memorandum, effective December 1, 2001.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: AUGUST 20, 2002**

REGULAR _____ **CONSENT** **EFFECTIVE DATE** _____

DATE: August 12, 2002

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Marion Anderson

SUBJECT: VERIZON NORTHWEST INC.: (Docket No. UI 197 (2)) Application for Approval of an Agreement with Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., for Services in Connection with Fast Packet Advanced Data Products (Schedule 12)

STAFF RECOMMENDATION:

The Commission should approve this contractual provision of services with the following conditions:

5. Verizon Northwest Inc., shall provide the Commission access to all books of account, as well as all documents, data and records of Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., that pertain to transactions between the two.
6. The Commission reserves the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
7. Verizon Northwest Inc., shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

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4. Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., shall maintain records to show, upon Commission request, the cost of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., goods and services provided to Verizon Northwest Inc. The return component used in the calculation shall be Verizon Northwest Inc.'s, currently authorized Oregon overall rate of return multiplied by the portion of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc.'s, net assets used for those provisions.

DISCUSSION:

This application was filed on March 1, 2002, pursuant to ORS 759.390. Verizon Northwest Inc., (Verizon) and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., (VADI) are wholly owned subsidiaries of Verizon Communications Inc., and thereby affiliated entities under ORS 759.010(3). Verizon estimates an annual payment of \$420,000 to VADI for the grant of a limited, revocable, non-exclusive right and license to access and use certain assets and supporting systems and facilities that will be retained in VADI. This estimate is a combination of interstate and intrastate costs as no segregation was possible.

The agreement's rationale is excerpted as follows: "As part of the Bell Atlantic/GTE merger, Verizon Northwest Inc., was required by the FCC to spin off its advanced services into a separate subsidiary (VADI). The FCC has since allowed Verizon to accelerate the reintegration of VADI back into Verizon Northwest Inc. Verizon Northwest Inc. has repurchased the assets used to provide advanced services to enable Verizon Northwest Inc., to once again offer those services to its customers. This contract is necessary to allow Verizon Northwest Inc., employees access to certain VADI national systems used in providing fast packet services." Order No. 02-122 approved the aforementioned assets repurchase under Docket UI 193.

The demonstration of public interest compliance in this matter is based on OAR 860-027-0052(3)(e) through OAR 860-027-0040(1)(j). Since no competitive procurement process was utilized, Verizon made the following response to a staff query: "Reintegration Service Schedule 12, gives Verizon a right to access and use systems used to support provisioning advanced services throughout the Verizon footprint. Again, these systems are already existing and Verizon does not believe that another vendor would develop/provide such systems for 2200 circuits at a lower price."

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Verizon's reasons for not using a competitive procurement process are reasonable, in my opinion. The application appears to be fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Verizon Northwest Inc.'s purchase of services in connection with Fast Packet Advanced Data Services from Verizon Advanced Data Inc. and Verizon Advanced Data – Virginia Inc. be approved subject to the conditions stated in this memorandum, effective December 1, 2001.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: AUGUST 20, 2002**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: August 12, 2002

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Marion Anderson

SUBJECT: VERIZON NORTHWEST INC.: (Docket No. UI 197 (3)) Application for Approval of an Agreement with Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., for Services in Connection with Fast Packet Advanced Data Products (Schedule 13)

STAFF RECOMMENDATION:

The Commission should approve this contractual provision of services with the following conditions:

8. Verizon Northwest Inc., shall provide the Commission access to all books of account, as well as all documents, data and records of Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., that pertain to transactions between the two.
9. The Commission reserves the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. Verizon Northwest Inc., shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

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4. Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., shall maintain records to show, upon Commission request, the cost of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., goods and services provided to Verizon Northwest Inc. The return component used in the calculation shall be Verizon Northwest Inc.'s, currently authorized Oregon overall rate of return multiplied by the portion of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc.'s, net assets used for those provisions.

DISCUSSION:

This application was filed on March 1, 2002, pursuant to ORS 759.390. Verizon Northwest Inc., (Verizon) and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., (VADI) are wholly owned subsidiaries of Verizon Communications Inc., and thereby affiliated entities under ORS 759.010(3). Verizon estimates an annual payment of \$3,190,000 to VADI for the creation and maintenance of customer service records, and the performance of various billing functions. This estimate is a combination of interstate and intrastate costs as no segregation was possible.

The agreement's rationale is excerpted as follows: "As part of the Bell Atlantic/GTE merger, Verizon Northwest Inc., was required by the FCC to spin off its advanced services into a separate subsidiary (VADI). The FCC has since allowed Verizon to accelerate the reintegration of VADI back into Verizon Northwest Inc. Verizon Northwest Inc. has repurchased the assets used to provide advanced services to enable Verizon Northwest Inc., to once again offer those services to its customers. This contract is necessary to allow Verizon Northwest Inc., employees access to certain VADI national systems used in providing fast packet services." Order No. 02-122 approved the aforementioned assets repurchase under Docket UI 193.

The demonstration of public interest compliance in this matter is based on OAR 860-027-0052(3)(e) through OAR 860-027-0040(1)(j). Since no competitive procurement process was utilized, Verizon made the following response to a staff query: "Reintegration Service Schedule 13, billing information, again, these systems are used on a nationwide basis. If Verizon were to contract for these billing services from another vendor for 2200 circuits it is unlikely that it would be less costly and it would also mean that a number of Verizon customers would get two bills for advanced services--one for interstate services and one for intrastate services--again costing more money and being more confusing to customers."

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Verizon's reasons for not using a competitive procurement process are reasonable, in my opinion. The application appears to be fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Verizon Northwest Inc.'s purchase of services in connection with Fast Packet Advanced Data Services from Verizon Advanced Data Inc. and Verizon Advanced Data – Virginia Inc. be approved, subject to the conditions stated in this memorandum, effective on the date that Verizon Northwest Inc., begins to provide those advanced services.