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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 207

In the Matter of)	
)	ORDER
VERIZON NORTHWEST)	
)	
Application for an Order Approving an)	
Agreement with Verizon Network Funding)	
Corporation for Financial Services.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On September 12, 2002, Verizon Northwest (Verizon) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to OAR 860-027-0040, requesting approval of an Agreement with Verizon Network Funding Corporation (Verizon Network). Verizon and Verizon Network are both wholly owned subsidiaries of Verizon Communications, Inc., and, therefore, are affiliated interests under ORS 757.015.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on May 7, 2003, the Commission adopted Staff's recommendation and approved the agreement with conditions. Staff's recommendation report is attached as Appendix A 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.

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 Company is a public utility 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 application should be granted, with certain conditions and reporting requirements.

ORDER

IT IS ORDERED that:

- 1) The application of Verizon Northwest to enter into an affiliated transaction with Verizon Network Funding Corporation is approved, effective June 1, 2002.
- 2) 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 Network Funding Corporation that pertain to transactions between the two.
- 3) The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation, as well as the reasonableness of Verizon Northwest Inc.'s capital costs, capital structure, commissions, and expenses incurred for security issuances.
- 4) In the next rate proceeding, the capital costs, including imbedded expenses, and capital structure must be shown to be just and reasonable.

- 5) 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.
- 6) Upon receiving any loan(s) from Verizon Network Funding Corporation, Verizon Northwest Inc. shall demonstrate that the rate(s) it achieves on the loan(s) is consistent with the Commission's affiliated interest transfer pricing policy and is the lesser of cost or market. The demonstration shall be submitted as soon as possible after each loan and include a statement of purpose of the loan providing accounting details, i.e., how the loan was booked.
- 7) Verizon Northwest Inc. shall be required to file a separate supplemental application to this docket for any short-term investments in Verizon Network Funding Corporation above the intrastate threshold of \$100,000 prescribed by ORS 759.390(7).

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.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: MAY 7, 2003**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: April 22, 2003

TO: John Savage through Marc Hellman and Rebecca Hathorn

FROM: Marion Anderson and Thomas Morgan

SUBJECT: VERIZON NORTHWEST INC.: (Docket No. UI 207) Application for Approval of an Agreement with Verizon Network Funding Corporation for financial services.

STAFF RECOMMENDATION:

The Commission should approve this contract for financial services provided to Verizon Northwest Inc. by its non-regulated affiliate, Verizon Network Funding Corporation, 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 Network Funding Corporation 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 as well as the reasonableness of Verizon Northwest Inc.'s capital costs, capital structure, commissions, and expenses incurred for security issuances. In the next rate proceeding, the capital costs, including imbedded expenses, and capital structure must be shown to be just and reasonable.
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.

STAFF RECOMMENDATION: (continued)

4. Upon receiving any loan(s) from Verizon Network Funding Corporation, Verizon Northwest Inc. shall demonstrate that the rate(s) it achieves on the loan(s) is consistent with the Commission's affiliated interest transfer pricing policy and is the lesser of cost or market. The demonstration shall be submitted as soon as possible after each loan and include a statement of purpose of the loan providing accounting details, i.e., how the loan was booked.
5. Verizon Northwest Inc. shall be required to file a separate supplemental application to this docket for any short-term investments in Verizon Network Funding Corporation above the intrastate threshold of \$100,000 prescribed by ORS 759.390(7).

DISCUSSION:

Verizon Northwest Inc. (Verizon) and Verizon Network Funding Corporation (Verizon Network), as wholly owned subsidiaries of Verizon Communications, Inc., are affiliated interests as defined by ORS 757.015. The execution date appearing on the contract is June 1, 2002. This filing was made on September 12, 2002.

This confidential contract includes but is not limited to short-term loans (day to day) and the provision of financial management services by Verizon Network to Verizon. The resulting services charge will be made monthly. There is also a section covering short-term investments by Verizon in Verizon Network. Staff has submitted several clarifying data requests to Verizon and is satisfied with the details and calculation methodologies of the contract with the noted conditions.

PROPOSED COMMISSION MOTION:

Verizon Northwest Inc.'s agreement for financial services with Verizon Network Funding Corporation be approved subject to the conditions stated in this memorandum, effective June 1, 2002.

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APPENDIX A
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