

ORDER NO. 99-540

ENTERED SEP 17 1999

This is an electronic copy. Appendices and footnotes may not appear.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 178

In the Matter of the Application of GTE)
Northwest Incorporated for Approval of a) ORDER
Services Agreement with GTE Consolidated)
Services, Incorporated, an Affiliated Interest.)

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On July 13, 1999, the Commission received an application from GTE Northwest Incorporated (Company), filed pursuant to ORS 759.375 and ORS 759.390, requesting authority to engage in certain affiliated interest transactions with GTE Consolidated Services, Incorporated.

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 September 7, 1999, the Commission adopted Staff's recommendation to approve the application with conditions. Staff's recommendation is attached as Appendix A and is incorporated by reference.

OPINION

Jurisdiction

ORS 759.005 defines a "telecommunications utility" as anyone providing telecommunications service to the public in Oregon. The Company is a telecommunications utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists under ORS 759.015.

Applicable Law

ORS 759.390 requires telecommunications utilities to seek approval of contracts with affiliated interests within 90 days of execution of the contract. The intent of the statute is to protect ratepayers from the abuses which may arise from less than arm's length transactions. *Portland General Electric Company*, UF 3739, Order No. 81-737 at 6. Failure to file within the 90-day time limit may preclude the utility from recovering costs incurred under the contract. *See* ORS 759.390.

ORS 759.390(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.

Ratepayers should not be harmed by approval of this application.

CONCLUSIONS

1. The Company is a telecommunications 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.

ORDER

IT IS ORDERED that the application of GTE Northwest Incorporated for authority to engage in certain affiliated interest transactions with GTE Consolidated Services, Incorporated is granted, subject to conditions stated in Appendix A.

Made, entered, and effective _____.

BY THE COMMISSION:

Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070. A party may appeal this order pursuant to ORS 756.580.

UI 178.doc

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: SEPTEMBER 7, 1999**

REGULAR AGENDA__ **CONSENT AGENDA** **X** **EFFECTIVE DATE** _____

DATE: August 19, 1999
TO: Bill Warren through Marc Hellman and Mike Myers
FROM: Marion Anderson
SUBJECT: UI 178 - GTE Northwest, Incorporated (GTE-NW) Application for Approval of a Services Agreement with GTE Consolidated Services, Incorporated (GTE-CS), an Affiliated Interest

SUMMARY RECOMMENDATION:

I recommend approval with conditions.

DISCUSSION:

GTE-NW AND GTE-CS are wholly owned subsidiaries of GTE Corporation. This ownership establishes the affiliated interest relationship under ORS 757.015.

GTE-CS was incorporated on October 30, 1998. Its creation and this agreement with the GTE Telephone Operating Companies are the result of "...the desire to move existing functions into a new national organization within GTE that would "house" consolidated functions". The consolidation will be phased in through statements of work between the parties. The initial term of the contract ends December 31, 1999 with year-to-year renewal. It is estimated that this contract will cost \$2,300,000 annually at the total Oregon level. However, there is no expected material financial impact on Oregon expenses because these costs are already charged under Docket No. UI 112 Commission orders.

PERTINENT ISSUES:

I have investigated the following issues to determine if the agreement is fair and reasonable, and not contrary to the public interest.

1. Scope of Services

The services to be provided upon request are shown on Attachment A (Exhibit B to the contract) and will be provided through three GTE-CS divisions: The Center of Excellence for Telemarketing, The National Billing Organization and Network Integration Services.

2. Transfer Pricing Methods and Cost Allocations and 3. Determination of Public Interest Compliance

3. The approvals conferred in Docket No. UI 112 for these areas are fully transferable to this contract. Furthermore, the application posits: a. "...lower sales costs through leveraged buying power...". b. lower billing cost with increased efficiency. c. centralized fault, performance and configuration management of customer networks.

4. Records Availability, Audit Procedures and Reporting Requirements

I believe that Detailed Recommendation Condition 1 affords the Commission adequate access to records and provides for the auditing of transactions between GTE-NW and GTE-CS.

CONCLUSIONS:

Based on an investigation and review of this application, my conclusions are as follows:

1. GTE Northwest, Incorporated, is a regulated telecommunications company subject to the jurisdiction of the Public Utility Commission of Oregon.
2. An affiliated interest relationship exists between GTE Northwest, Incorporated, and GTE Consolidated Services, Incorporated.
3. The application appears to be fair and reasonable and not contrary to the public interest.

DETAILED RECOMMENDATION:

Based on the preceding discussion and conclusions, I recommend that this application presenting the agreement between GTE Northwest, Incorporated, and GTE Consolidated Services, Incorporated be approved with the following conditions:

1. GTE Northwest, Incorporated shall provide the Commission access to all books of account, as well as all documents, data and records of GTE Northwest, Incorporated, and GTE Consolidated Services, Incorporated that pertain to transactions between the two.

ORDER NO. 99-540

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. GTE Northwest, Incorporated 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.
4. GTE Northwest, Incorporated and GTE Consolidated Services, Incorporated shall maintain records to show, upon Commission request, the cost of GTE Consolidated Services, Incorporated's goods and services provided to GTE Northwest, Incorporated. The return component used in the calculation shall be GTE Northwest, Incorporated's currently authorized Oregon overall rate of return multiplied by the portion of GTE Consolidated Services, Incorporated's net assets used for provisions to GTE Northwest, Incorporated.
5. The effective approval date for accounting purposes is January 1, 1999.

Attachment A

cc: Phil Nyegaard

Attachment A

Management of inbound and outbound teleservices and face-to-face sales programs. This includes budget stewardship, program management, reporting, invoice review and reconciliation, and teleservices/agency vendor selection and management.

Management of the billing capability of the GTE Telephone Operating Companies, including accumulation and processing of billing data, production and distribution of bills, billing inquiry investigation and corrective action, fraud monitoring and investigation, payment processing and collection and settlement of intercompany or external billings and collections.

Provision of services delivery capability, including the systems and resources necessary to provide complete end-to-end telecommunication solutions to customers through GTE Consolidated Services, Incorporated Network Integration Services.

Provision of fault, performance and configuration management of customer communications network services and equipment for three service categories:

Carrier Connectivity Management

LAN/WAN Management

Desktop/Server Management

To support the sales and delivery of managed services, Network Integration Services will provide network audits, maintenance coordination and service implementation support. Support will be provided for customer network engineering and network architecture recommendations.