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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 93 (24)

In the Matter of the Supplemental Application of)	
GTE Northwest Incorporated for Approval of)	ORDER
Amendment No. 1 to the General Purchase)	
Agreement with AG Communications Systems)	
Corporation, an Affiliated Interest.)	

DISPOSITION: SUPPLEMENTAL APPLICATION APPROVED WITH CONDITIONS

On August 30, 1999, the Commission received a supplemental application from GTE Northwest Incorporated (Company), filed pursuant to ORS 759.375 and ORS 759.390, requesting approval to amend the first of five agreements with AG Communications Systems Corporation (AGCS) that received Commission approval in Order No. 95-1264.

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 October 5, 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 between GTE Northwest Incorporated and AG Communications Systems Corporation exists under ORS 759.010.

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 between GTE Northwest Incorporated and AG Communications Systems Corporation.
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 supplemental application of GTE Northwest Incorporated for authority to engage in certain affiliated interest transactions with AG Communications Systems Corporation is granted, subject to the 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.

Appendix A

ITEM NO. CA 5

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: OCTOBER 5, 1999**

REGULAR AGENDA__ CONSENT AGENDA X EFFECTIVE DATE _____

DATE: September 14, 1999

TO: Bill Warren through Marc Hellman and Mike Myers

FROM: Marion Anderson

SUBJECT: UI 93 (24) - GTE Northwest, Incorporated (GTE-NW) Supplemental Application for Approval of Amendment No. 1 to the General Purchase Agreement with AG Communications Systems Corporation (AGCS)

SUMMARY RECOMMENDATION:

Staff recommends approval with conditions.

DISCUSSION:

This filing was made on August 30, 1999. It amends the first of five agreements that received Commission approval in Order No. 95-1264, dated November 30, 1995. Although not specifically discussed in the staff recommendation underlying that order, GTE Communications Systems Corporation was and remains the intermediary for purposes of general purchases for all of the GTE affiliates.

The affiliated interest relationships are established under ORS 759.010 in that GTE Corporation has 100% equity positions in GTE-NW and GTE Communications Systems Corporation. The GTE Corporation equity position in AGCS is 19.99%. Under a joint venture agreement with AT&T, the latter position has declined by sale from an initial 51% and will be liquidated on the first business day following December 31, 2003.

PERTINENT ISSUES:

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

1. Scope of Services

The confidential amendment extends the approved expiration date for the agreement from September 30, 1999 to December 31, 1999. Recognition is made of the merger agreement with Bell Atlantic. Requirements attached to any sale of switching properties are delineated. The conditions of regulatory considerations are modified. Finally, AGCS has agreed to comply with the Y2K remediation dictates appearing in the added Exhibit H.

2. Transfer Pricing Methods

Due to the lack of system interchangeability, once the initial switching investment was made, no alternative suppliers existed. Detailed Recommendation Condition 1 allows staff to develop necessary information as needed.

3. Public Interest Compliance

The extension of term provides continuity for an approved arrangement and the other contractual modifications in this supplemental application provide ratepayer benefit.

4. Records Availability, Audit Procedures and Reporting Requirements

I believe that Detailed Recommendation Conditions 1 and 4 afford the Commission adequate access to records and provide for the auditing of transactions between GTE-NW and AGCS.

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 AG Communications Systems Corporation.
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 the supplemental application presenting the amendment to existing agreements between GTE Northwest, Incorporated, and AG Communications Systems Corporation be approved with the following conditions:

1. GTE Northwest, Incorporated, shall provide Staff access to all books of account, as well as all documents, data and records of GTE Northwest, Incorporated, and AG Communications Systems Corporation that pertain to transactions between them.

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 supplemental order (or other appropriate format) in this docket.
4. Condition 4 of Order No. 98-042 (carried over to all orders from Order No. 93-238 in this docket) remains in effect.