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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UP 182

In the Matter of the Application of VERIZON)	
NORTHWEST, INC. for Approval to Transfer)	ORDER
Intrastate Advanced Data Services Assets to)	
VERIZON ADVANCED DATA, INC.)	

DISPOSITION: APPLICATION GRANTED WITH CONDITIONS

On September 5, 2000, the Commission received an application from Verizon Northwest, Inc. (Verizon), filed pursuant to ORS 759.375 and OAR 860-027-0025, requesting authorization and approval to transfer certain of its intrastate assets associated with Advanced Data Services (Advanced Services) to Verizon Advanced Data, Inc. (VAD), a structurally separate subsidiary of Verizon Communications. The Advanced Services at issue are Frame Relay Service, Transport LAN Connect (TLC), and Asynchronous Transfer Mode (ATM).

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 December 5, 2000, the Commission adopted the Staff's recommendation to approve the requested assets transfer. Staff's recommendation is attached as Appendix A and is incorporated by reference.

Additionally, the Commission notes that, as Staff discussed in its report, this docket is related to tariff filings in which Verizon requests to abandon Advanced Services.

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.

Applicable Law

ORS 759.375 provides that, a telecommunications utility doing business in Oregon shall first obtain Commission approval for any transaction to sell, lease, assign or otherwise dispose of property of such telecommunications utility necessary or useful in the performance of its duties to the public or any part thereof of a value in excess of \$100,000.

OAR 860-027-0025 specifies the information a public utility must submit when it makes application for authority to sell, lease, assign, mortgage, merge, consolidate or otherwise dispose of or encumber its property. This application contains the necessary information.

The proposed transfer of assets involves property, which has a value in excess of \$100,000. The assets to be transferred include all hardwired central office assets, plug-ins and terminating equipment located in Verizon's central offices currently dedicated to Verizon's provision of intrastate Advanced Services. Commission approval of the accounting treatment for this transaction does not constitute approval for ratemaking purposes.

CONCLUSIONS

1. The Company is a telecommunications utility subject to the jurisdiction of the Public Utility Commission of Oregon.
2. The Company's proposed assets transfer transaction meets the requirements of ORS 759.375.
3. The application should be granted.

ORDER

IT IS ORDERED that the application of Verizon Northwest, Inc., for authorization and approval to transfer Advanced Services assets to Verizon Advanced Data, Inc., 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 party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. CA3

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 5, 2000**

REGULAR AGENDA X CONSENT AGENDA EFFECTIVE DATE

DATE: November 28, 2000

TO: Bill Warren through Marc Hellman, Mike Myers and Bryan Conway

FROM: Tom Riordan and Bill Wordley

SUBJECT: UP 182 - Application by Verizon Northwest (Verizon) for approval to transfer assets to Verizon Advanced Data Inc. (VAD)

SUMMARY RECOMMENDATION:

We recommend approval of the requested assets transfer with the conditions noted in the detailed recommendation.

DISCUSSION:

Verizon filed this application on September 1, 2000, pursuant to ORS 759.375 and OAR 860-027-0025. Verizon requests authorization from the Commission to transfer certain of its intrastate assets associated with Advanced Data Services (Advanced Services) to VAD, a structurally separate subsidiary of Verizon Communications. The assets are currently used by Verizon to provide intrastate Advanced Services to its customers. The Advanced Services that Verizon provides on an intrastate basis are Frame Relay Service, Transport LAN Connect (TLC), and Asynchronous Transfer Mode (ATM). The transfer of assets is necessary to enable Verizon to meet one of the Merger Conditions set forth in the Federal Communications Commission's (FCC) June 16, 2000 approval of the merger of Bell Atlantic and GTE (FCC Order No.00-221) which requires that Advanced Services be provided through a separate affiliate. Verizon must therefore cease its provision of Advanced Services including Frame Relay Service, TLC, and ATM. These Advanced

Services will hereafter be provided by VAD, the structurally separate affiliate that Verizon Communications has established to meet the FCC's requirement.

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In its application, Verizon states that the requested transfer is in the public interest. The assets will be transferred at net book or fair market value, whichever is higher, and there is no conceivable harm to ratepayers, consumers or competitors. Benefits of Verizon transferring its assets associated with the intrastate services go primarily to the general public and are consistent with the Commission's goal of promoting competition and operational parity for all parties. Verizon suggests, to ensure the seamless provision of Advanced Services to customers, it is necessary to complete the transfer in a smooth and orderly manner. Verizon requests an expeditious approval of its petition in order to have VAD operational within 180 days of the merger between Bell Atlantic and GTE, which occurred on June 30, 2000.

The assets to be transferred include all hardwired central office assets, plug-ins and terminating equipment located in Verizon's central offices currently dedicated to Verizon's provision of intrastate Advanced Services. These hardwired assets are primarily permanently mounted already-fixed shelves and racks as well as data switches, multiplexers, routers, fuse panels, fan trays and fan units, including plug-ins used in conjunction with hardwired assets to provision Advanced Services. Plug-ins consist of line cards, controllers, alarms, channel units, and adapters. The aggregate estimated net book value of this plant and equipment is \$4,615,990.

Verizon expects to transfer the assets to VAD at net book value. The parties, however, have retained an independent firm (Mitchell & Titus) to perform a calculation of the fair market value of the assets, and will true up the purchase price to the greater of the net book or fair market value.

In addition to this asset transfer request, Verizon has also made two other filings regarding Advanced Services. In Advice No. 724 Verizon asks to abandon Advanced Services and remove them from tariff 11, and in Advice No. 725 Verizon asks to abandon these services and remove them from tariff 12.

Staff Comments:

Staff reviewed Verizon's application and other relevant information the company provided in response to staff's requests. The Asset Purchase Agreement between unrelated parties, VAD and Verizon, clearly reflects that the terms and conditions are the result of an arms-length transaction. The terms and conditions appear necessary and reasonable. Staff reviewed the contract between Verizon Communications and Mitchell & Titus authorizing the work to calculate the fair market value of the assets to be transferred.

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A key point is that the fair market value calculation is done at an individual asset level. The transfer price will be at the higher of net book value and fair market value compared at an individual asset level. The result was that for Oregon, fair market value as calculated by Mitchell & Titus is higher than net book value for some individual assets. Consequently, the aggregate transfer price will be \$5,411,266 which is somewhat higher than the aggregate net book value of \$4,615,990. After reviewing completed fair market calculations for three former GTE states (including Oregon) done by Mitchell & Titus and provided to staff by Verizon, staff has determined that the calculations were accurately made and that the relationship between transfer price and net book value is approximately the same.

DETAILED RECOMMENDATION:

Staff recommends that the Commission approve Verizon's application to transfer Advanced Services assets to Verizon Advanced Data Inc., subject to the following conditions:

1. Verizon shall book the asset transfer at \$5,411,266. The transfer price in excess of net book value shall be booked to the accumulated depreciation accounts in accordance with USOA practices. Verizon shall file with the Commission, as soon as available, copies of the final journal entries recording the transaction.
2. Verizon shall agree that Commission approval of the asset transfer to Verizon Advanced Data Inc., an unregulated affiliate, does not result in the Advanced Services being deregulated in Oregon.

3. The Commission reserves the right to impute, in any rate proceeding or earnings review under an alternative form of regulation, all intrastate revenues associated with the provision of Advanced Services by Verizon Advanced Data Inc.

The order should note that approval of the accounting treatment for this asset transfer does not constitute approval for ratemaking purposes.