ORDER NO. 01-228

ENTERED MAR 13 2001

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 116(5)

In the Matter of the Supplemental Application of VERIZON NORTHWEST, INC. (fka GTE NORTHWEST INCORPORATED) for Approval of Amendment No. 5 regarding Modified Agreements for Publishing and Information Provisioning with VERIZON INFORMATION SERVICES INCORPORATED (fka GTE INFORMATION SERVICES INCORPORATED), an Affiliated Interest.	)	ORDER

DISPOSITION: SUPPLEMENTAL APPLICATION APPROVED WITH CONDITIONS

On August 17, 2000, the Commission received a supplemental application from Verizon Northwest, Inc., formerly known as GTE Northwest Incorporated (VNW), filed pursuant to ORS 759.010, an amendment to the contract for provisioning agreements relating to subscriber and directory assistance listing information with Verizon Information Services Incorporated, formerly known as GTE Information Services Incorporated (VIS), an affiliated interest.

At its Public Meeting on March 6, 2001, 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 Verizon Northwest, Inc. and Verizon Information Services Incorporated 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. Verizon Northwest, Inc. is a telecommunications utility subject to the jurisdiction of the Commission.

2. An affiliated interest relationship exists between Verizon Northwest, Inc. and Verizon Information Services Incorporated.

3. The agreement is fair, reasonable, and not contrary to the public interest.

4. The application should be granted, with conditions, as noted in Staff's March 6, 2001, Public Meeting memo. The Commission expressed a significant concern over the Verizon proposed treatment of directory revenues.

ORDER

IT IS ORDERED that the supplemental application reflecting the pricing and application amendments to the existing contract between Verizon Northwest, Inc. and Verizon Information Services Incorporated is approved, subject to the conditions stated in Appendix A. *Approval of this supplemental application does not indicate Commission agreement with the new apportionment of directory revenues between Verizon Northwest, Incorporated, customers and shareholders.*

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.

ORDER NO. 01-228
ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: MARCH 6, 2001

REGULAR AGENDA _X_ CONSENT AGENDA___ EFFECTIVE DATE________

DATE: February 15, 2001

TO: Bill Warren through Marc Hellman and Mike Myers

FROM: Marion Anderson

SUBJECT: UI 116 (5) – Verizon Northwest, Inc. (formerly GTE Northwest, Inc.) (VNW) Application for Approval of the Modified Agreements for Publishing and Information Provisioning with Verizon Information Services Incorporated (formerly GTE Information Services Incorporated) (VIS), an Affiliated Interest

SUMMARY RECOMMENDATION:

I recommend approval with conditions.

DISCUSSION:

This filing was made on August 17, 2000. In an informational filing under docket UI 178, VNW stated the following: "GTE Information Services Incorporated (GTEISI) is comprised of two operating divisions; GTE Directories Corporation – provides sales, publishing and other related telephone directory services and GTE New Media Services – develops and markets online Yellow Pages and shopping services over the Internet. GTEISI is a wholly owned subsidiary of GTE." The Verizon name change is made under the blanket corporate revision. All entities involved are wholly owned subsidiaries of the same parent organization and are thereby affiliated interests under ORS 759.010.

The projected total Oregon annual service cost of the filing is $1,420,500, of which $62,250 is attributable to information provisioning. The remaining $1,358,250 is attributable to the new publishing agreement. The revisions bring concurrence with the new national publishing and information provisioning agreement applicable to external (non-affiliated) agreements. However, the proposed fee for service contractual basis significantly differs from the historical treatment of this matter by the Commission.

The original authorization for affiliated telephone directory service provision was made under Order No. 70-445, which dictated utility retention of 54% of the net directory advertising revenues. Subsequent modifications are as follows: 77-675 refined the definition of net directory advertising revenues and covered foreign advertising billing expenses by remitting 2.673% of the gross foreign directory advertising billings to the affiliate; 85-678 refined the overall agreement; 92-1767 changed the revenue retention base, shifted some costs to the affiliate, and created an incentive payments formula for the affiliate; 93-1200 reminded the company that it must provide prior notice of future changes to the agreement, established new reporting requirements, and specified the Oregon utility authorized rate of return be used for calculation purposes; 96-309 prescribed application of the existing conditions to the inclusion of the absorbed Contel/Mast entity; 00-230 extended the contract's term.

DISCUSSION: (continued)

It is additionally noted that the revenue contribution treatment in this docket is congruent with the revenue contribution treatment in Order No. 94-69 of QWEST.

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 following comparative analysis shows the changes noted between the new and existing directory publishing agreements: GTE Information Services Incorporated replaces GTE Directories Service Corporation and its subsidiaries; reference to the yellow pages advertising directory is omitted; marketer reference is omitted; the quotation “Whereas, the Directory Company and the Telephone Company for their mutual benefit desire, on the terms set forth herein, to jointly pursue, develop, maximize and share revenues from white and yellow page directory advertising” is omitted; all definitions are new; scope exclusivity, agent assignment and release specification are omitted. New Publisher’s Obligations, Carrier's Obligations, License, and Commercial Terms sections complete the new contract, replacing the former sections.

   The new information provisioning agreement covers subscriber and directory assistance listing information.

2. Transfer Pricing Methods and Cost Allocations
   Per the November 8, 2000 VNW response to a staff data request, a comparative analysis of 1999 Oregon ratepayers' retention of directory revenue under the existing yellow pages revenue sharing arrangement and under the proposed arrangement was furnished. The following is excerpted from that letter: "In 1999, Oregon retained $11,976,000 of directory revenue under the yellow page revenue sharing arrangement. Under the proposed agreement, the projected 1999 receipts are $43,000 for the sale of listing and $71,000 for billing and collection revenues." The application states: "The pricing for these contracts was done in accordance with GTE Network Services' accounting procedures, financial policies, Cost Allocation Manual, The Federal Communications Commission's (FCC) Rules and Regulations, Part 32 and Part 64, and Docket 96-150."

3. Determination of Public Interest Compliance
   The Commission has stated its concerns for ratepayer equitable compensation in the transfer of directory publishing rights from the utility to a non-regulated affiliate. The new arrangement does not meet that standard.

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 VNW and VIS.

CONCLUSIONS:

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

1. Verizon 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 Verizon Northwest, Incorporated, and Verizon Information Services Incorporated.

3. The application appears to inequitably allocate revenues derived from the transfer of rights associated with the publishing of Oregon directories between Verizon Northwest, Incorporated, ratepayer and shareholders.

DETAILED RECOMMENDATION:

Based on the preceding discussion and conclusions, I recommend that the supplemental application presenting these amendments be approved with the following conditions:

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

2. The Commission will adjudge the reasonableness of the treatment accorded directory-advertising revenues under this contract during the next rate case or alternate form of regulation proceeding. *Approval of the supplemental application does not indicate Commission agreement with the new apportionment of directory revenues between Verizon Northwest, Incorporated, customers and shareholders. [emphasis added]*

3. Verizon Northwest, Incorporated, shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost.