

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: December 18, 2001

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** January 1, 2002

DATE: December 10, 2001

TO: Phil Nyegaard

FROM: Terry Lambeth through Cynthia Van Landuyt

SUBJECT: Verizon Northwest, Inc.: Accept the Annual Budget of Expenditures for 2002

STAFF RECOMMENDATION:

The Commission should accept the 2002 Budget of Expenditures for Verizon Northwest, Inc., for accounting purposes only and reserve ratemaking treatment.

DISCUSSION:

On November 1, 2001, Verizon filed its annual budget of expenditures, pursuant to ORS 759.100. Unless the Commission rejects the budget by December 30, 2001, "the proposed budget is presumptively fair and reasonable and not contrary to public interest" (ORS 759.100(3)).

Officers' Salaries and Other Compensation. Verizon has budgeted \$5.2 million for total compensation to 15 officers during 2002, including \$2.0 million for bonuses. Verizon budgeted \$4.8 million for 14 officers in 2001. In past rate proceedings, staff has generally recommended that officers' incentives and bonuses be disallowed unless the utility can show that bonuses are just and reasonable. Oregon operations in 2002 will be charged about \$.1 million for officers' total compensation, including bonuses.

Memberships and Dues. Verizon has budgeted \$0.2 million for Oregon contributions and memberships. Verizon will charge these amounts to Account 7370. This account may or may not be included for setting rates. In past rate proceedings, staff has generally recommended that memberships and dues in commercial and trade organizations be disallowed unless the utility can show the expenses are just and reasonable. Verizon has also budgeted \$0.02 million for chambers of commerce and economic development. Verizon will charge these payments to Account 6722.

Pensions. The 2002 budget shows that Verizon will credit total company operations with \$18.0 million for negative pension expense. The company has recorded negative pension expenses since 1994.

Political Advertising and Contributions. The 2002 budget lists no political contributions and political advertising, which is the same as 1992-2001.

Affiliated Interests. Verizon has budgeted at least \$89 million for charges allocated to Oregon from five affiliates, as follows. The total is uncertain because Verizon did not include amounts for yellow pages. Verizon budgeted more than \$85 million for charges from five affiliates in 2001, and \$105 million from six affiliates in 2000. Verizon did not provide all the amounts for 1998, 1999, or 2001.

Millions

- \$40.4 Verizon Centralized General Office Prorate (payments to nine affiliated operating companies for staff services). Verizon budgeted \$52.4 million for 2001 and \$49.6 million for 2000. The company did not provide amounts for 1998 or 1999.
- 28.5 Verizon Services Group (auditing and staff services). Verizon budgeted \$19.6 million for 2001, \$25.5 million for 2000, and \$1.6 million for 1998. The company did not provide amounts for 1999.
- 3.6 GTE Consolidated Services Inc. (auditing and staff services). This affiliated interest is a new listing for 2002.
- NA GTE Communications Systems Corp. Verizon budgeted \$4.7 million for 2001 and \$5.4 million for 2000. The company did not provide amounts for 1998 and 1999.
- 8.0 Verizon Data Services (computer service). Verizon budgeted \$4.7 million for 2001 and \$9.5 million \$11.1 million for 2000. The company did not provide the amounts for 1998 or 1999.
- NA Verizon Directories Corporation. Verizon budgeted \$7 million for 1998 and 2000. The company did not provide amounts for 1999 or 2001.
- 1.3 Verizon Information Services Incorporated (information pages). This is a new listing for 2002.
- 0.1 Verizon Select Services (interconnection service). This is a new listing for 2002.
- 4.8 Verizon Logistics (products and services). This is a new listing for 2002.
- 2.0 AG Communications Systems Corporation. Verizon budgeted \$3.9 million for 2001 and \$5.2 million for 2000. The company did not provide amounts for 1998 and 1999.

The Commission should accept the budget for accounting purposes only and reserve rate-making treatment. Commission approval of Verizon's budget should not imply or promise the inclusion of the budgeted costs in any rate proceeding. For example, utilities often pay bonuses and other employee incentives, and they record them as operating expenses under Federal Communications Commission rules and in accordance with generally accepted accounting principles. For Oregon revenue requirements, however, bonuses and incentives would be treated as shareholder expenses or reduced to a "normal" annual level.

PROPOSED COMMISSION MOTION:

The 2002 Annual Budget of Expenditures of Verizon Northwest, Inc., be accepted for accounting purposes, and the ratemaking treatment be reserved for these items until the company's next general rate case or toll/access charge filing.