

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 19, 2002

REGULAR _____ CONSENT X EFFECTIVE DATE February 20, 2002

DATE: January 31, 2002

TO: John Savage through Phil Nyegaard through Cynthia Van Landuyt

FROM: Janet Fairchild

SUBJECT: VERIZON NORTHWEST, INC.: (Advice No. 776) Introduces DS1 and DS3 transport for SONET services.

STAFF RECOMMENDATION:

Staff recommends the Commission allow Verizon Northwest, Inc.'s January 15, 2002 filing to go into effect February 20, 2002.

DISCUSSION:

On January 15, 2002, Verizon Northwest, Inc (Verizon) filed Advice No. 776 in its Intrastate Access Service Tariff, P.U.C. OR. 12, to be effective February 20, 2002. The filing was made under ORS 759.175, *Filing Rate Schedules with the Commission*. The stated purpose of the filing is to introduce DS1 and DS3 riders to the Intrastate Access Tariff.

DS1 and DS3 riders convert optical signals to electronic signals and thus facilitate transport on a customer's Optical Network facility for SONET service between two Customer Defined Locations (CDL).

Staff Review: Staff reviewed Verizon's filing to determine if it was reasonable and consistent with applicable statutes and regulations and with prior Commission orders. Staff reviewed Verizon's Interstate Access Tariff and other portions of its Intrastate Access Tariff to verify that the proposed pricing for the new service does not result in rate arbitrage between the intrastate and interstate jurisdictions.¹

¹ Rate arbitrage may occur when there is significant rate disparity between the interstate and intrastate tariffs. The customer has incentive to declare the service will be used in the jurisdiction with the lower rates although it may not match how the service is actually used.

Staff also reviewed confidential cost support information submitted with the filing to ensure that proposed rates were adequate to cover the cost of providing the proposed service.

Customer/Revenue Impact: Verizon proposes a \$70 monthly recurring charge per DS1 rider and a \$240 monthly recurring charge for DS3 rider. According to its filing, Verizon anticipates it will have 50 DS1 units and 4 DS3 units in service in the first year the service is offered. This will result in estimated monthly recurring charge revenues of \$42,000 (50 units X12 months X\$70) for DS1 units and \$11,520 (4 units X12 months X \$240) for DS3 units.

Staff Conclusions: Verizon's filing appears consistent with applicable statutes, regulations and Commission directives. Proposed rates appear adequate to cover the cost of providing the service and filing rates for the DS1 and DS3 riders in the Intrastate Access Tariff facilitates a proper allocation of interstate and intrastate services.

Currently, SONET service is offered only in Verizon's Interstate Access tariff. SONET rings are used to connect Customer Defined Locations in Oregon with locations outside the State. Verizon's proposed revision allows its customers to use an interstate SONET transport ring to facilitate high speed instate communications, while ensuring a proper allocation of intrastate and interstate costs and revenues. Verizon states that the proposed intrastate rider rates are the same as those imbedded in the interstate SONET rate.

In accordance with ORS 759.185, *Hearing on Reasonableness of Rates; Procedures; Exceptions*, and ORS 759.185, *Suspension of Rates Pending Hearing; Time Limitations; Revenue Collected Subject to Refund; Interim Rates*, the Commission could suspend the filing for further investigation. If the Commission suspended the filing it could allow the proposed rates, or a lesser rate to go into effect on an interim basis, subject to refund. However, for the reasons stated above, Staff recommends that the Commission approve Verizon's filing as submitted.

PROPOSED COMMISSION MOTION:

Verizon Advice No. 776, introducing DS1 and DS3 riders to the Intrastate Access Tariff be allowed to go into effect February 20, 2002.