

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: JUNE 18, 2002**

REGULAR **CONSENT** **EFFECTIVE DATE** _____

DATE: June 10, 2002

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Marion Anderson

SUBJECT: VERIZON NORTHWEST INC.: (Docket No. UI 93 (36)) Supplemental application for approval of a contract with AG Communications Systems Corporation (AGCS) for a pooled software purchase agreement.

STAFF RECOMMENDATION:

I recommend that the supplemental application presenting the agreement between VNW and AGCS be approved with the following conditions:

1. VNW shall provide Staff access to all books of account, as well as all documents, data and records of VNW and AGCS 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. VNW 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. VNW shall maintain a record of expenditures made for non-regulated software obtained under this contract.
5. Condition 4 of Order No. 98-042 (carried over to all orders from Order No. 93-238 in this docket) remains in effect.

DISCUSSION:

The affiliated interest relationships are established under ORS 759.010 in that Verizon Communications has 100% and 10% equity positions in VNW and AGCS, respectively. AT&T transferred its ownership interest in AGCS to Lucent Technologies in 1996. The 10% AGCS equity position of Verizon Communications is scheduled for transfer to Lucent on the first business day following December 31, 2003.

This agreement gives VNW the right to purchase licenses for deployment in its network of "a software pool that encompasses all existing feature software that has not previously been bought out." The total State of Oregon's estimated annual costs resulting from this contract are 2002 - \$123,000; 2003 - \$150,000; and 2004 - \$100,000. Woody Birko, PUC telecommunications engineer, reviewed the technical aspects of the contract and stated "Two software packages, VMS Tollsaver-Basic, and VMS Tollsaver Toggle, include voice-messaging services that are typically not regulated." Associated costs should be isolated for rate case purposes. Further, "the other software packages are necessary to assure ongoing viability of the GTD-5 switching systems. The definitions, scope and right to audit sections seem reasonable." VNW has requested that the entire agreement be designated confidential.

Due to the lack of system interchangeability, once the initial switching investment was made, no alternative suppliers existed. Therefore staff does not apply the competitive procurement provisions of OAR 860-027-0040 to this docket.

PROPOSED COMMISSION MOTION:

Verizon Northwest Incorporated's request for authority to purchase the pooled software licenses listed in the contract's Attachment A from AG Communications Systems Corporation for deployment in its network is hereby granted.