

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

REGULAR ____ CONSENT X 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 (37)) Supplemental application for approval of a contract with AG Communications Systems Corporation (AGCS) for a GTD-5 switching 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. 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.

As stated in the contract's cover letter, "This agreement provides pricing for hardware which encompasses all known major hardware that will be added to the GTD-5 switches in Verizon's network. It sets the price for this hardware through year-end 2003. It also extends these prices through 2004 if volume purchases meet or exceed 150M during the two-year period of 2002/2004. The purchases include all software and hardware purchased by Verizon during that period." The total State of Oregon's estimated annual costs resulting from this contract are 2002 - \$2,000,000; 2003 - \$2,300,000; and 2004 - \$2,500,000. Woody Birko, PUC telecommunications engineer, reviewed the technical aspects of the contract and stated "these equipment packages appear to be related to equipment necessary to the provision of regulated service. These hardware arrangements are necessary to grow existing GTD-5 switches. The definitions, scope, GTD-5 Property Repositioning and Decommissioning, and Century compliance terms in Attachment B 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 make purchases from AG Communications Systems Corporation under this GTD-5 switching agreement is hereby granted.