

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: AUGUST 20, 2002**

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

DATE: August 12, 2002

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Marion Anderson

SUBJECT: VERIZON NORTHWEST INC.: (Docket No. UI 197 (1)) Application for Approval of an Agreement with Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., for Services in Connection with Fast Packet Advanced Data Products (Schedule 8)

STAFF RECOMMENDATION:

The Commission should approve this contractual provision of services with the following conditions:

1. Verizon Northwest Inc., shall provide the Commission access to all books of account, as well as all documents, data and records of Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., that pertain to transactions between the two.
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. Verizon Northwest Inc., 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 a supplemental order (or other appropriate format) in this docket.

4. Verizon Northwest Inc., and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., shall maintain records to show, upon Commission request, the cost of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., goods and services provided to Verizon Northwest Inc. The return component used in the calculation shall be Verizon Northwest Inc.'s, currently authorized Oregon overall rate of return multiplied by the portion of Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc.'s, net assets used for those provisions.

DISCUSSION:

This application was filed on March 1, 2002, pursuant to ORS 759.390. Verizon Northwest Inc., (Verizon) and Verizon Advanced Data Inc., and Verizon Advanced Data – Virginia Inc., (VADI) are wholly owned subsidiaries of Verizon Communications Inc., and thereby affiliated entities under ORS 759.010(3). Verizon did not have a cost estimate for this transitional use of certain VADI employees while the underlying assets transfer was accomplished.

The agreement's rationale is excerpted as follows: "As part of the Bell Atlantic/GTE merger, Verizon Northwest Inc., was required by the FCC to spin off its advanced services into a separate subsidiary (VADI). The FCC has since allowed Verizon to accelerate the reintegration of VADI back into Verizon Northwest Inc. Verizon Northwest Inc. has repurchased the assets used to provide advanced services to enable Verizon Northwest Inc., to once again offer those services to its customers. This contract is necessary to allow Verizon Northwest Inc., employees access to certain VADI national systems used in providing fast packet services." Order No. 02-122 approved the aforementioned assets repurchase under Docket UI 193.

The demonstration of public interest compliance in this matter is based on OAR 860-027-0052(3)(e) through OAR 860-027-0040(1)(j). Since no competitive procurement process was utilized, Verizon made the following response to a staff query: "Reintegration Service Schedule 8, concerning loaned employees, was only in effect for 23 days to allow VADI employees to continue doing work for Verizon while the asset transfer was taking place. Again, it is unlikely that Verizon would have achieved any efficiencies by contracting with a third party for those employees for such a short period of time. The costs of training such temporary employees alone would likely have made the cost of dealing with a third party vendor unrealistic when VADI had existing employees who were already trained to do the job."

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Verizon's reasons for not using a competitive procurement process are reasonable, in my opinion. The application appears to be fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Verizon Northwest Inc.'s purchase of services in connection with Fast Packet Advanced Data Services from Verizon Advanced Data Inc. and Verizon Advanced Data – Virginia Inc. be approved subject to the conditions stated in this memorandum, effective December 1, 2001.

UI 197 (1)