

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 18, 2003**

REGULAR **CONSENT** **EFFECTIVE DATE** January 1, 2004

DATE: December 9, 2003

TO: Lee Sparling

FROM: Terry Lambeth through Cynthia Van Landuyt and Phil Nyegaard

SUBJECT: VERIZON NORTHWEST INC.: Accept the Annual Budget of Expenditures for 2004.

STAFF RECOMMENDATION:

The Commission should accept the 2004 Budget of Expenditures for Verizon Northwest Inc. for accounting purposes only and reserve ratemaking treatment.

DISCUSSION:

On November 4, 2003, Verizon filed its annual budget of expenditures, pursuant to ORS 759.100. Unless the Commission rejects the budget by January 2, 2004, "the proposed budget is presumptively fair and reasonable and not contrary to public interest" (ORS 759.100(3)).

Officers' Salaries and Other Compensation. Verizon budgeted \$6.1 million for total compensation to 13 officers during 2004, including \$2.3 million for incentives and bonuses. Verizon budgeted \$5.4 million for 14 officers in 2003. 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 2004 will be charged about \$0.2 million including bonuses for officers' total compensation, which is about the same as the 2003 level.

Memberships and Dues. Verizon 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 also budgeted \$16,000 for chambers of commerce and economic development. Verizon will charge these payments to Account 6722.

Pensions. The 2004 budget shows that Verizon will record negative pension expense. The company has recorded negative pension expenses since 1994.

Political Advertising and Contributions. The 2004 budget lists no political contributions and political advertising, which is the same as 1992-2003.

Affiliated Interests. Verizon budgeted at least \$98 million for charges allocated to Oregon from its affiliates, as follows. The total is uncertain because Verizon did not include amounts for yellow pages. Verizon budgeted at least \$103 million for affiliated interest charges allocated to Oregon in 2003, at least \$89 million in 2002, and at least \$85 million in 2001.

Millions

- \$43.3 Verizon Centralized General Office Prorate (payments to affiliated operating companies for staff services). Verizon budgeted \$54.1 million for 2003, \$52.4 million for 2002, and \$52.4 million for 2001.
- 21.2 GTE Consolidated Services Inc. (auditing and staff services). Verizon budgeted \$14.4 million for 2003 and \$3.6 million for 2002. This affiliated interest was a new listing in 2002.
- 16.9 Verizon Data Services (computer service). Verizon budgeted \$15.9 million for 2003, \$9.0 million for 2002, and \$4.7 million for 2001.
- 14.5 Verizon Corp. Services Group (auditing and staff services). Verizon budgeted \$11.2 million for 2003, \$28.5 million for 2002, and \$19.6 million for 2001.
- NA Verizon Directories Corporation. Verizon budgeted \$7 million for 2000. The company did not provide amounts for subsequent years.
- 3.3 Verizon Logistics (products and services). Verizon budgeted \$5.3 million for 2003 and \$4.8 million for 2002. This affiliated interest was a new listing in 2002.
- 1.1 AG Communications Systems Corporation (equipment purchases). Verizon budgeted \$1.5 million for 2003, \$2.0 million for 2002, and \$3.9 million for 2001.
- 0.7 Verizon Credit (financing for Verizon fleet vehicles). This affiliated interest is a new listing for 2004.
- 0.2 Verizon Wireless (wireless service). Verizon budgeted \$0.1 million for 2003. Verizon had budgeted \$0.1 million for Verizon Select Services in 2002.

Millions

\$ 0.0 Verizon Long Distance. Verizon budgeted \$0.2 million for 2003, when it was a new listing.

NA Verizon Information Services Incorporated (information pages). Verizon budgeted \$1.3 million for 2002. This affiliated interest was only listed in 2002.

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 2004 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.