

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 23, 2004**

REGULAR **CONSENT** X **EFFECTIVE DATE** December 9, 2004

DATE: November 10, 2004

TO: Lee Sparling through Phil Nyegaard and Irv Emmons

FROM: David Sloan

SUBJECT: VERIZON NORTHWEST INC: (Advice No. SC19-04) Makes special contract arrangements between Verizon Northwest Inc. and a confidential customer for data base management.

STAFF RECOMMENDATION:

Staff recommends that the Commission take no action with regard to this contract. Pursuant to ORS 759.250(5), if the Commission does not act within ninety (90) days of the filing, the contract is deemed approved.

DISCUSSION:

Verizon Northwest Inc. (Verizon or Company) filed Advice No. SC19-04 on September 9, 2004. Pursuant to ORS 759.250, the Commission has 90 days from the date of filing to terminate the effectiveness of a special contract. For this contract that date is December 9, 2004. The contract will result in annual revenues of \$18,576.

Description of the services: The filing is a special contract between the Company and the confidential customer for the provision of an HP3000 minicomputer with enhanced 9-1-1 (E911) software for automatic location information (ALI) retrieval. The HP3000 is located in Verizon's McMinnville central office. Upon receipt of an E911 call by the confidential customer, a database request called an ALI dip goes to the HP3000 computer. The HP3000 receives the automatic number identification and searches internally for the customer address information associated with that telephone number and delivers that customer record information to the confidential customer for presentation to the associated E911 call taker.

Description of the contract: The filing is a 12-month special contract for Verizon to provide an Enhanced Emergency Number Telephone Service system for use in the confidential customer's provision of E911 service to its designated E911 Public Safety

Answering Points (PASPs). This is a continuation of services originally provided, pursuant to a 60-month agreement filed as SC6-96, which was presented to the Commission at its August 19, 1996 Public Meeting. The services were subsequently continued pursuant to a 12-month agreement, SC03-02, presented to the Commission at its June 18, 2002 Public Meeting, and an 18-month agreement, SC03-03, with a termination date of September 27, 2004. SC03-03 was not presented at a Public Meeting since the rates, terms and conditions were the same as SC03-02. However, in the current filing, SC19-04, the monthly recurring charge for the data base management service is reduced from \$1,606.42 to \$1,548.00. Therefore, the filing is again being presented at a Public Meeting. The agreement is effective September 28, 2004 and will expire September 27, 2005.

Attachment A to the Agreement details the customer's liability for early termination of service. If the customer terminates or discontinues the service for any reason, other than lack of funding, prior to the expiration of the one-year term, the customer will pay to the Company an amount equal to fifty percent of the monthly charge, times the number of months remaining in the term. Initial service nonrecurring charges associated with this service were amortized over the life of the original 60-month agreement filed as SC6-96.

ORS 759.250 and Staff Procedures for Reviewing Special Contracts: ORS 759.250 allows telecommunications utilities to enter into special contracts with customers without being subject to standard tariff filing procedures under ORS 759.175. In addition, special contracts are not subject to hearings (ORS 759.180) or suspension (ORS 759.185). ORS 759.250 outlines the requirements for Commission approval of telecommunications special contracts. First, the contract service must have limited availability, respond to a unique customer requirement, or be subject to competition. Second, prices must exceed the long-run incremental cost of providing the service.

Telecommunications utilities are required to file special contracts no later than 90 days following the effective date of the contract. Contracts must not exceed five years. Furthermore, the law states that the Commission shall issue an order on the filed contract within 90 days of the filing. If the Commission does not act within 90 days of the filing, the contract is deemed approved. Staff understands that if a telecommunications utility does not proffer sufficient evidence to support the contract, under ORS 759.250, the staff may recommend that the Commission reject the contract.

Two areas of importance in assessing special contracts were identified in PUC Order No. 92-651 in docket UM 254, a generic docket to consider procedures and guidelines for special contract filings. These are the reasonableness of the contract rates and

discrimination. Statutes that address these areas are ORS 759.210, classification of service and rates, and ORS 759.260, unjust discrimination.

Staff's analysis regarding conformance with ORS 759.210 is twofold. First, staff determines if a special contract rate class is developed by the telecommunications utility for one or more of the following reasons: a) the quantity of the contract service used; b) the purpose for which the contract service is used; c) whether price competition or a service alternative exists; d) the contract service being provided; e) the conditions of contract service; f) or other reasonable considerations. Second, staff determines if the special contract results in revenue sufficient to ensure just and reasonable rates for remaining customers (a "prudence review").

To determine conformance with ORS 759.260, staff determines if the special contract avoids unjust discrimination. This is basically a judgment call, which depends on the outcome of the analyses discussed in the preceding paragraph. ORS 759.260 does not restrict the Commission from subsequent scrutiny of the reasonableness of special contracts for ratemaking purposes.

Conclusions: Staff has investigated this special contract. Staff concludes that the contract for provision of an HP3000 minicomputer with enhanced 9-1-1 software responds to a unique customer requirement for which the customer is willing to make a term commitment. The contract rate exceeds the LRIC of providing the service to the customer. The contract service is available to other similarly situated customers at the same prices stated in the contract.

ORS 759.250 does not restrict the Commission from subsequent scrutiny of the reasonableness of special contracts for ratemaking purposes under ORS 759.210 and ORS 759.260. Based upon the special contracts guidelines adopted by the Commission in Order No. 92-651 in Docket No. UM 254, staff finds that this contract for the provision of an HP3000 minicomputer with enhanced 9-1-1 software does not raise issues concerning the reasonableness of rates or unjust discrimination.

PROPOSED COMMISSION MOTION:

The Commission take no action with regard to this filing. Pursuant to ORS 759.250, if the Commission does not act within 90 days of the filing, the special contract is deemed approved.