

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 9, 2007**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** Upon Approval

DATE: September 26, 2007

TO: Public Utility Commission

FROM: Jim Stanage

THROUGH: Lee Sparling, Dave Booth, and Dave Sloan

SUBJECT: VERIZON NORTHWEST INC: (Advice No. SC07-05) Makes special contract arrangements between Verizon and a confidential customer for Integrated Services Digital Network-Primary Rate Interface (ISDN-PRI).

SUMMARY RECOMMENDATION:

Staff recommends that the Commission take no action.

DISCUSSION:

Verizon Northwest, Inc. (Verizon) filed Advice No. SC07-05 on July 17, 2007. The purpose of the filing is to seek approval of a thirty-six month special contract with a confidential customer for Integrated Services Digital Network- Primary Rate Interface Service (ISDN-PRI). Verizon has asked staff not to divulge the contract customer's name. The contract filing would become effective upon approval by the Commission. Pursuant to ORS 759.250, the Commission has ninety (90) days from the date of filing to terminate the effectiveness of a special contract

The ISDN-PRS is being provided under the contract at a monthly rate of \$324.00 per unit, which represents a 45 percent discount off the regularly tariffed rate of \$585.00. The contract includes services provided to the customer in Oregon as well as several other states. The company will give the discounted prices to any similarly situated customer requesting it. The contract will generate annual net revenues of approximately \$4,000.

ISDN is a digital architecture that provides an integrated voice/data capability to the customer premises facility, utilizing the public switched network. ISDN Primary Rate Service (ISDN-PRI) consists of 23 bearer (B)-channels and one data (D)-channel, for a total transmission rate of 1.544 Megabits per second (Mbps). It is designed for

transmission through a DS1 facility. Each 64 kilobits per second (kbps) B-channel carries user information such as voice calls, circuit-switched data, or video. The D-channel is a 64 kbps channel that is used to carry the control or signaling information.

The Private Line Service Contract

This special contract is for a service that is subject to competition. Verizon has no special contract customers for ISDN-PRI service at the rates and terms provided under this contract. Because there was no prior special contract for the same service at the same rates and terms, the company was required by the statute to file this contract with the Commission.

The special contract customer is a sophisticated telecommunications user with extensive facilities and competitive network experience. The customer has a full time telecommunications staff supervising network services and equipment provided by other vendors. If Verizon does not provide this service to meet the customer's high capacity data transmission needs, other competitors would be able to provide the service.

Staff has reviewed the company's estimated long-run, incremental cost of service (LRIC) and estimated net margin or contribution from the proposed sales under this contract. Staff's analysis indicates Verizon would receive revenues that would exceed LRIC and provide an adequate contribution for its private line service under the proposed contract. In other words, the special contract appears to be prudent in terms of revenue sufficiency.

Procedures for Reviewing Special Contracts

Telecommunications utilities are allowed under ORS 759.250 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).

The requirements for Commission approval of telecommunications special contracts are outlined in ORS 759.250 as follows. First, the contract service must have limited availability, respond to unique customer requirements, or be subject to competition. Second, prices must exceed the LRIC of providing the service.

Telecommunications utilities are required to file special contracts no later than ninety days following the effective date of the contract. Contracts must not exceed five years.

Last, the Commission is not required to disclose the name of the contract customer without the consent of the customer and the telecommunications utility. Staff has been asked by Verizon not to reveal the contract customer's name in this memorandum.

Furthermore, the law states that the Commission shall issue an order on the filed contract within ninety days of the filing. If the Commission does not act within ninety days of the filing, the contract is deemed approved. Staff understands that if a telecommunications utility does not provide sufficient evidence to support a contract filing under ORS 759.250, then staff may recommend that the Commission reject the contract.

Classification and Unjust Discrimination Criteria

PUC Order No. 92-651, issued May 1, 1992, adopted additional procedures and guidelines for telecommunications special contract filings. The order specifies that in assessing special contracts the Commission must consider the reasonableness of the contract rates and whether the rates result in unjust discrimination. The statutes that underlie these areas of concern are ORS 759.210 (classification of service and rates) and ORS 759.260 (unjust discrimination).

Staff's contract analysis dealing with conformance to 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 quality 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; or f) other reasonable considerations. Second, staff determines if the special contract results in revenue sufficient to ensure just and reasonable rates for remaining customers (a "prudency review").

In assessing whether a special contract conforms to ORS 759.260, staff determines if the special contract avoids unjust discrimination. This is basically a comparative analysis that depends on a review of the existing tariff for similar or related services.

Staff Conclusions

Staff has investigated the proposed special contract. Staff concludes that the present contract for ISDN-PRI responds to competition---i.e., it is different from Verizon's other services in that it offers service at a lower rate than is available under the company's tariff. Staff believes that Verizon is acting prudently by contracting with the customer in order to obtain additional revenues while providing services at rates that exceed LRIC. Based on Oregon statutory requirements and the special contract guidelines under Commission rules, staff finds that the proposed contract does not raise issues concerning the reasonableness of rates or unjust discrimination. Last, the contract service is available to other similarly situated customers of Verizon on equal terms and conditions.

STAFF RECOMMENDATION:

Staff recommends that the Commission take no action with regard to this contract. If the Commission does not act at the end of the ninety-day expiration period, the contract is deemed approved.