

Decision 06-10-003 October 5, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Verizon California Inc.
(U 1002 C) To Extend Its Shared Asset
Methodology To Additional Service
Company Affiliates Pursuant To
Decision 04-03-038.

Application 06-05-008
(Filed May 8, 2006)

**DECISION GRANTING REQUEST OF VERIZON CALIFORNIA INC. TO
EXTEND SHARED ASSET METHODOLOGY TO ADDITIONAL
SERVICE COMPANY AFFILIATES AS IDENTIFIED IN EXHIBIT A TO THE
APPLICATION**

1. Summary

This decision grants the unopposed application¹ of Verizon California Inc. (Verizon) for authority to extend the use of the shared asset methodology previously approved in Decision (D.) 04-03-038 to new service company affiliates created as part of an ongoing corporate reorganization, as identified in Exhibit A to the application, and other service companies that fall within the Federal Communications Commission (FCC) definition of “service company” and may be formed in future corporate reorganizations. In order to ensure that the use of this methodology is extended only to service company affiliates with which Verizon will share unused office space and equipment, and to appropriate

¹¹ The application was filed on May 8, 2006. In Resolution ALJ 176-3172 dated May 11, 2006, we preliminarily categorized this proceeding as ratesetting and preliminarily determined that hearings are unnecessary. No protests to the application were filed.

transactions, we require Verizon to file its annual year-end assessment and adjustment for these shared assets for the prior year in which the year-end assessment was performed with the Director of the Commission Telecommunications Division (TD) and the Director of the Consumer Protection and Safety Division (CPSD), by February 1 of each year. The annual year-end assessment shall be consistent with the FCC's affiliate transaction pricing rules applicable to shared asset usage by service company affiliates.

If Applicant wishes to extend the use of the shared asset methodology to transactions other than the shared use of surplus office space and equipment, we direct Applicant to file an application for our approval at that time.

2. Background

In D.04-03-038, we approved a shared asset methodology for computing payment to Verizon for use of its office space and equipment by three service company affiliates, Service Corp., Consolidated Services Incorporated (CSI), and Verizon Data Services, Inc. (VDSI), which provide administrative services for Verizon and other Verizon Communications businesses. Employees of these service company affiliates work in Verizon facilities and use office space and equipment that are not being utilized by Verizon.

We noted that our affiliate transaction pricing rules require Verizon to charge these three service company affiliates the higher of fully allocated cost (FAC) or fair market value (FMV) for their shared use of Verizon's general support assets. Under the approved shared asset methodology, Verizon determines this charge by estimating the total number of square feet that the three service company affiliates occupy in Verizon's buildings and then multiplying that amount by the highest of (1) the average FAC for all of the shared buildings, (2) the FAC for the building with the majority of the service

company employees, or (3) the FMV of the building with the majority of the service company affiliate employees (i.e., generally the headquarters building at which the highest percentage of shared employees are located). Verizon estimates the square footage allocation in the aggregate based on a percentage head count of total Verizon employees versus service company affiliate employees co-located in Verizon's buildings.

In D.04-03-038, we stated that Verizon need not apply for our approval for the future use of its office space and equipment by Service Corp., CSI, and VDSI under Section 851, so long as the terms of these transactions meet the criteria of GO 69-C.

However, as a safeguard, we required Verizon to submit a year-end assessment and adjustment of shared assets for Service Corp., CSI and VDSI to TD and CPSD annually, so that Commission staff may determine whether the encumbrances on Verizon property to which the shared asset methodology is applied are limited to the use of surplus office space and equipment and otherwise meet the criteria of GO 69-C.

3. Verizon's Proposal for Extension of the Shared Asset Methodology to Additional Service Company Affiliates

In this application, Verizon seeks authorization to extend the shared asset methodology approved in D.04-03-038 to several new service company affiliates created as part of an ongoing corporate reorganization, as well as to other new service company affiliates that may be formed in future corporate reorganizations.

Verizon states that it is undergoing a nationwide service company reorganization intended to streamline administrative functions across the Verizon corporate family and to promote greater administrative efficiency. As

part of this reorganization, Verizon will transfer certain functions performed by Service Corp., CSI, and VDSI to other service companies, some of which exist and others of which are new or are being formed. After its corporate reorganization, Verizon proposes to apply the shared asset methodology to the following service company affiliates, as identified in Exhibit A to the application:

- **Verizon Services Organization** – Verizon Services Organization will provide a variety of services across business segments, including: corporate real estate, corporate purchasing, logistics, electronic repair services, supply chain systems and processes, supplier quality and supplier diversity, accounting operations and receivables, human resources for Verizon Telecom, and corporate fleet and aviation. Verizon Services Organization will include the following legal entities:
 - Verizon Corporate Services Corp.
 - Verizon Corporate Services Group Inc. (formerly GTE Service Corp.)
 - New Legal Entity #4
- **Verizon Domestic Telecom Service Companies** – These companies will provide managerial and centralized staffing services to Verizon affiliates, including: administration, advertising, engineering and operations support, corporate communications, finance, marketing, customer services support, public coin operator services support, and professional and computer processing services. The Verizon Domestic Telecom Service Companies will include the following legal entities:
 - Verizon Data Services Inc.
 - Verizon Services Corp.
 - Verizon Services Organization Inc. (formerly GTE Consolidated Services Inc. (CSI))
- **The Verizon Corporate Services Companies** – The Verizon Corporate Services Companies are administrative corporate headquarters organizations that provide certain human resources, finance, legal, public policy and external affairs, security, cash management, executive and planning, and public

affairs services for Verizon affiliates. The Verizon corporate Service Companies will include the following legal entities:

- New Legal Entity #5
- New Legal Entity #6

Verizon also proposes to extend the shared asset methodology to any other new service company affiliates that may be formed in future corporate reorganizations. Verizon states that it would apply the shared asset methodology only to service company affiliates as defined by the FCC, e.g., “affiliates that exist solely to provide services to members of the carrier’s corporate family.”

Verizon offers to commence a shared asset study for the additional new service company affiliates, pending final approval by the Commission, and to provide the Commission with the same annual assessment and adjustment of shared asset usage for transactions with the new service company affiliates that it has previously provided for transactions with Service Corp., CSI and VDSI pursuant to D.04-03-038.

4. Discussion

In D.04-03-038 we limited our approval of the shared asset methodology to Verizon’s sharing of office space and equipment with three specific service affiliates, Service Corp, CSI and VDSI. D.04-03-038 specifically requires Verizon to file separate applications under Section 851 if Verizon wishes to obtain similar authority for other activities or other organizations within its corporate structure.^{2 3}

² D.04-03-038 at p. 29.

³ Here, although Verizon filed an application to extend its shared asset methodology to additional service company affiliates pursuant to D.04-03-038, and did not designate the

The purpose of Commission review under Section 851 in this context is to ensure that these transactions involving the shared use of utility assets with affiliate service companies are in the public interest.⁴

In reviewing applications for approval of transactions pursuant to Section 851, the Commission applies well-established standards to determine the following issues:

- a. Whether the transaction would impair the utility's ability to provide service to the public;
- b. Whether the transaction is accounted for properly, including ensuring that revenue is correctly accounted for, and that the utility's rate base, depreciation, and other accounts correctly reflect the transaction; and
- c. Where the transaction is between a utility and an affiliate, whether the transaction has any anti-competitive effects or results in cross-subsidization of the non-regulated enterprise.⁵

In D.04-03-038, we found that Verizon's application of the shared asset methodology to transactions which involved the utilization of unused Verizon office space and equipment by Service Corp., CSI, and VDSI were in the public interest, pursuant to Section 851. We reasoned that these types of transactions

application as a Section 851 application, we construe Verizon's application as a Section 851 application and address it accordingly.

⁴ Section 851 states in pertinent part:

No public utility...shall sell, lease, assign, mortgage or otherwise dispose of or encumber the whole or any part of its...property necessary or useful in the performance of its duties to the public...without first having secured an order from the commission authorizing it to do so for qualified transactions valued above five million dollars (\$5,000,000), or for qualified transactions valued at five million dollars (\$500,000) or less, filed an advice letter and obtained a resolution from the commission authorizing it to do so...

⁵ D.04-03-038 at p. 25.

would not impair Verizon's ability to serve the public, that the shared asset methodology properly accounted for the transactions, and that since Verizon would charge the three service company affiliates the higher of FAC or FMV for their shared use of Verizon's general support assets, the transactions did not raise concerns regarding improper cross-subsidization of an affiliate.

Verizon states that extension of the shared asset methodology to additional new service company affiliates is in the public interest because it will facilitate smooth and timely corporate reorganizations without the need for a cumbersome licensing or leasing process. Verizon proposes no change in the shared asset methodology as approved in D.04-03-038, except that pursuant to D.06-08-030, Verizon must follow the FCC's standard accounting practices and affiliate transaction pricing rules.

We agree with Verizon that extension of the shared asset methodology to transactions in which the new service company affiliates identified in Exhibit A and other service company affiliates that may be formed in the future, utilize Verizon's surplus office space and equipment, in return for paying a price consistent with the FCC affiliate transaction pricing rules applicable to shared asset usage by service company affiliates, is in the public interest. The application of the shared asset methodology in this situation will eliminate the need for cumbersome leasing and licensing proceedings and will give Verizon compensation for the use of utility assets that otherwise are not being utilized. We also find that these transactions meet the criteria for approval under Section 851 stated in D.04-03-038.

However, we limit our approval to transactions involving the utilization of Verizon's unused office space and equipment with the new service company affiliates identified in Exhibit A of the application only and to any future service

companies that fall within the FCC definition, e.g., “affiliates that exist solely to provide services to members of the carrier’s corporate family.”

In addition, we limit our approval of Verizon’s application of the shared asset methodology to transactions with the new service company affiliates that meet the requirements of GO 69-C. GO 69-C permits utilities to convey licenses, easements, permits or other limited uses of land to third parties without obtaining prior Commission approval under Section 851, if the following criteria are met:

1. The interest granted must not interfere with the utility’s operations, practices and services to its customers;
2. The interest granted must be revocable either upon the order of the Commission or upon the utility’s determination that revocation is desirable or necessary to serve its patrons or consumers (i.e., at will); and
3. The interest granted must be for a “limited use” of utility property.

In order to ensure that continued use of the shared asset methodology is appropriate, Verizon shall file its annual year-end assessment and adjustments for the shared assets involved in these transactions with the new service company affiliates with TD and CPSD by February 1 of each year, for the prior year in which the year-end assessment was performed. The year-end assessment shall be consistent with the FCC’s affiliate transaction pricing rules applicable to shared asset usage by service company affiliates.

5. Conclusion

For all of the foregoing reasons, the application is granted, as to the use of Verizon’s surplus office space and equipment by the service company affiliates identified in Exhibit A to the application, and future service company affiliates

defined as “affiliates that exist solely to provide services to members of the carrier’s corporate family,” subject to the conditions stated above.

Based on our review of this application, we conclude that there is no need to alter the preliminary determinations as to categorization and need for a hearing made in Resolution ALJ 176-3172 (May 11, 2006).

6. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.2(a) of the Commission’s Rules of Practice and Procedure.

Comments were filed by the Applicant on September 25, 2006. We have reviewed Applicant’s comments and made changes throughout the decision as appropriate.

7. Assignment of Proceeding

Rachelle B. Chong is the Assigned Commissioner and Myra J. Prestidge is the assigned ALJ in this proceeding.

Findings of Fact

1. This application was filed on May 8, 2006.
2. On May 11, 2006, in ALJ Resolution 176-3172, we preliminarily categorized this proceeding as ratesetting and preliminarily determined that a hearing was unnecessary.
3. No protests to the application were filed.
4. In D.04-03-038, we approved a shared asset methodology for computing payment to Verizon for utilization of its surplus office space and equipment by employees of three service company affiliates, Service Corp., CSI, and VDSI, for transactions that meet the requirements of GO 69-C.

5. In D.04-03-038, we required Verizon to file a Section 851 application to seek our advance approval if it wished to extend the use of the shared asset methodology to additional service company affiliates, other than Service Corp., CSI, and VDSI, or to other types of activities.

6. In this application, Verizon seeks Commission authority to extend the use of the shared asset methodology approved in D.04-03-038 to transactions involving the use of Verizon's unused office space and equipment by additional service company affiliates, some of which are being created as part of an ongoing corporate reorganization and some of which may be formed as part of future corporate reorganizations.

7. Verizon states that the following new service company affiliates, as identified in Exhibit A to the application, will exist after its pending corporate reorganization:

- **Verizon Services Organization** – Verizon Services Organization will provide a variety of services across business segments, including: corporate real state, corporate purchasing, logistics, electronic repair services, supply chain systems and processes, supplier quality and supplier diversity, accounting operations and receivables, human resources for Verizon Telecom, and corporate fleet and aviation. Verizon Services Organization will includes the following legal entities:
 - Verizon Corporate Services Corp.
 - Verizon Corporate Services Group Inc. (formerly GTE Service Corp.)
 - New Legal Entity #4
- **Verizon Domestic Telecom Service Companies** – These companies will provide managerial and centralized staffing services to Verizon affiliates, including: administration, advertising, engineering and operations support, corporate communications, finance, marketing, customer services support, public coin operator services support, and professional and

computer processing services. The Verizon Domestic Telecom Service Companies will include the following legal entities:

- Verizon Data Services Inc. (VDSI)
 - Verizon Services Corp.
 - Verizon Services Organization Inc. (formerly GTE Consolidated Services Inc. (CSI))
- **The Verizon Corporate Services Companies** - The Verizon Corporate Services Companies are administrative corporate headquarters organizations that provide certain human resources, finance, legal, public policy and external affairs, security, cash management, executive and planning, and public affairs services for Verizon affiliates. The Verizon Corporate Service Companies will include the following legal entities:
 - New Legal Entity #5
 - New Legal Entity #6

8. Under the shared asset methodology approved in D.04-03-038, Verizon determines the charge to service company affiliates for the use of its surplus office space and equipment, by estimating the total number of square feet that the affiliates occupy in Verizon's buildings and then multiplying that amount by the higher of (a) the average FAC for all of the shared buildings, or (b) the FAC for the building used by the majority of service company affiliate employees, or (c) the FMV of the building used by the majority of the service company employees.

9. Verizon proposes no changes to the shared asset methodology approved in D.04-03-038 for transactions with the new service company affiliates, except that pursuant to D.06-08-005, the annual year-end assessment should be consistent with the FCC's affiliate transaction pricing rules applicable to shared asset usage by service company affiliates.

10. The application of the shared asset methodology to transactions involving the use of Verizon surplus office space and equipment by the new service

company affiliates identified in Exhibit A to the application and other service companies that may be formed in future corporate reorganizations, will not impair Verizon's ability to serve the public, will be properly accounted for, and does not have any anti-competitive effects or result in cross-subsidization of the service company affiliates.

11. It is appropriate to require Verizon to file its annual year-end assessment and adjustments for the shared assets involved in transactions with the new service company affiliates identified in Exhibit A to the application and other new service company affiliates that may be formed in future corporate reorganizations, with TD and CPSD by February 1 of each year, in order to ensure that continued use of the shared asset methodology is warranted.

Conclusions of Law

1. There is no need to change the preliminary categorization of this proceeding as ratesetting.
2. No hearing is necessary.
3. Under Section 851, the Commission must determine whether a transaction involving the sale, lease, mortgage, or encumbrance of utility property, which is used or useful in the provision of services to the public, is in the public interest.
4. The purpose of Commission review under Section 851 of transactions involving shared use of utility assets with service company affiliates is to ensure that these transactions are in the public interest.
5. In reviewing applications for approval of transactions with service company affiliates pursuant to Section 851, the Commission applies well-established standards to determine the following:
 - a. Whether the transaction would impair the utility's ability to provide service to the public;

- b. Whether the transaction is accounted for properly, including ensuring that revenue is correctly accounted for, and that the utility's rate base, depreciation, and other accounts accurately reflect the transaction;
- c. Where the transaction is between the utility and an affiliate, whether the transaction has any anti-competitive effects or results in cross-subsidization of the non-regulated enterprise.

6. In D.04-03-038, we found that Verizon's application of the shared asset methodology to transactions which involved the use of Verizon's surplus office space and equipment by three service company affiliates, Service Corp., CSI and VDSI, is in the public interest, so long as these transactions meet the requirements of GO 69-C.

7. Application of the shared asset methodology to transactions between Verizon and the new service company affiliates identified in Exhibit A to the application and new service company affiliates that fall within the FCC definition of "service company," e.g., "affiliates that exist solely to provide services to members of the carrier's corporate family," which involve the use of Verizon's surplus office space and equipment by employees of the new service company affiliates and meet the requirements of GO 69-C, is in the public interest because it will promote smooth and timely corporate reorganizations without the need for cumbersome leasing and licensing proceedings and will compensate Verizon for the use of its assets that otherwise are not being utilized.

8. Under GO 69-C, a utility may convey licenses, easements, permits, or other limited uses of land to third parties without obtaining prior Commission approval under Section 851, if the following criteria are met:

- a. The interest granted must not interfere with the utility's operations, practices, and services to its customers;

- b. The interest granted must be revocable either upon the order of the Commission or upon the utility's determination that revocation is desirable or necessary to serve its patrons or consumers (i.e., at will);
 - c. The interest granted must be for a "limited use" of utility property.
9. Under D.06-08-030, the year-end assessment filed by Applicant should be consistent with the FCC's affiliate transaction pricing rules applicable to shared asset usage by service company affiliates.

O R D E R

IT IS ORDERED that:

1. The application of Verizon California Inc. (Verizon) to extend the use of the shared asset methodology approved in Decision (D.) 04-03-038 to transactions with new service company affiliates being formed as part of an ongoing corporate reorganization, as identified in Exhibit A to the Application and other future service company affiliates defined as "affiliates that exist solely to provide services to members of the carrier's corporate family," in which the new service company affiliates will utilize unused Verizon office space and equipment, is approved, so long as these transactions meet the requirements of General Order 69-C.
2. If Verizon wishes to extend the shared asset methodology to activities other than the use of Verizon's surplus office space and equipment by service company affiliates, Verizon shall apply for our prior approval pursuant to Section 851.
3. Verizon shall file its annual year-end assessment and adjustment for the shared assets involved in the approved transactions with the service company affiliates identified in Exhibit A to the application and any new service company

affiliates that may be formed in future corporate reorganizations, for the prior year in which the year-end assessment was performed, with the Directors of the Commission Telecommunications Division and the Consumer Protection and Safety Division by February 1 of each year. The year-end assessment shall be consistent with the Federal Communications Commission's affiliates transaction pricing rules, applicable to shared asset usage by service company affiliates.

4. Application 06-05-008 is closed.

This order is effective today.

Dated October 5, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners