

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)	
VERIZON HAWAII INC.)	Docket No. 02-0025
For Approval to Lease Property at)	Decision and Order No. 19666
1177 Bishop Street, Honolulu,)	
Hawaii to Verizon Hawaii)	
International Inc.)	
_____)	

DECISION AND ORDER

I.

By an application filed on January 28, 2002, VERIZON HAWAII INC. (Verizon Hawaii) requests commission approval of its lease agreement with Verizon Hawaii International Inc. (VHI) for 9,251 square feet of office space in its Alakea main building, located at 1177 Bishop Street (Lease Agreement). Verizon Hawaii makes its request pursuant to Hawaii Revised Statutes (HRS) § 269-19 and Hawaii Administrative Rules (HAR) § 6-61-105. However, since Verizon Hawaii filed the instant application approximately six months after it executed the Lease Agreement with VHI in June 2001,¹ we deem that Verizon Hawaii's application is for *nunc pro tunc* commission approval of the Lease Agreement.

Verizon Hawaii served copies of the application on the DIVISION OF CONSUMER ADVOCACY OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS (Consumer Advocate). On February 14, 2002, the

¹See Verizon Hawaii's response to CA-IR-9 (February 28, 2002).

Consumer Advocate served Verizon Hawaii with information requests (IRs). On February 28, 2002, Verizon Hawaii filed responses to the IRs. Soon thereafter, on March 11, 2002, the Consumer Advocate served Verizon Hawaii with supplemental IRs (SIRs). Verizon Hawaii filed responses to the SIRs on March 22 and 27, 2002. On August 14, 2002, the Consumer Advocate filed its Statement of Position (SOP) informing the commission that it does not object to the approval of Verizon Hawaii's request, with certain qualifications.

II.

A.

Verizon Hawaii is a public utility corporation existing under the laws of the State of Hawaii (State) furnishing telecommunications services throughout the State and various points overseas.

By Decision and Order No. 18341, filed on January 29, 2001, in Docket No. 00-0338, the commission approved the proposed internal reorganization involving Verizon Hawaii, VHI, and Verizon Select Services Inc. (collectively, the Verizon entities). As a condition of the commission's approval, among other things, the Verizon entities were required to submit all affiliated agreements for operational services arising from the reorganization. Verizon Hawaii states that it filed the Lease Agreement in accordance with Decision and Order No. 18341.

Through the Lease Agreement, Verizon Hawaii and VHI entered into an agreement to lease 9,251 square feet of office

space (portions of the 2nd, 5th, 8th, 9th, 13th, and 17th floors) in Verizon Hawaii's Alakea main building. Commencing January 1, 2001, the term of the Lease Agreement is for three years, and provides VHI the option to extend the agreement for two additional one-year terms. The other terms and conditions of the Lease Agreement including, but not limited to, rent, use, indemnity, insurance, and assignment provisions are set forth in Exhibit 1 of Verizon Hawaii's application (the Lease Agreement).

B.

In its SOP, the Consumer Advocate states that it does not object to the terms and conditions of the Lease Agreement, in general, and that the Lease Agreement is in the public interest. The Consumer Advocate contends that the additional revenues generated through leasing the premises would benefit Verizon Hawaii's ratepayers since the funds would reduce the overall increase in revenue requirements in future rate proceedings. The Consumer Advocate also reasons that cost reductions may be achieved through the sharing of costs that are normally incurred in maintaining the facility. Additionally, among other things, the Consumer Advocate states that the Lease Agreement appears to not discriminate against other telecommunications carriers. Thus, the Consumer Advocate does not object to the approval of Verizon Hawaii's application, provided that certain conditions are satisfied. The Consumer Advocate specifically recommends the following:

1. The deletion of the reference to section 202 of the New York Labor Law in article 9 of the Lease Agreement;
2. The insertion of "Hawaii" in place of "Washington" in article 40.8 of the Lease Agreement; and
3. The reduction of the lease rate from \$2.33 per square foot per month (or \$27.96 per square foot per year) to \$2.20 per square foot per month (or \$26.40 per square foot per year). Additionally, appropriate adjustments to VHI's accounts should be made for any prior overpayments.

The first two recommendations implement corrections to the Lease Agreement that Verizon Hawaii recognizes were inadvertent mistakes.² The third recommendation is based on the Consumer Advocate's conclusion that the appropriate fully distributed cost (or fully allocated cost) of operating the facility should be \$1.92 per square foot per month as opposed to \$2.33 per square foot per month.³

²See Verizon Hawaii's responses to CA-IR-3 and CA-IR-10 (February 28, 2002).

³The Consumer Advocate recommended that the lease rate should be \$2.20 per square foot per month since the initial annual rate base of \$27.96 per square foot per year, as set forth in the Lease Agreement, was determined to be the higher of the (1) fair market value of the lease premises (\$2.20 per square foot per month), or (2) an amount based upon the current fully allocated cost of operating the facility (originally \$2.33 per square foot per month, now re-calculated by the Consumer Advocate to be \$1.92 per square foot per month). See SOP at 6, 7, and 8 for the Consumer Advocate's reasoning and calculations.

III.

HRS § 269-19 requires a public utility to obtain commission approval prior to, among other things, leasing, or otherwise disposing of or encumbering the whole or any part of its road, line, plant, system, or other property necessary or useful in the performance of its duties to the public.

Upon review, the commission finds the Lease Agreement to be reasonable and in the public interest. Based on Verizon Hawaii's representations, it appears that the implementation of the Lease Agreement will not adversely impact or interfere with Verizon Hawaii's ability to provide telecommunications services. The commission also finds the Consumer Advocate's recommendations, as enumerated in section II.B of this decision and order, to be reasonable.

Based on the above, we conclude that the Lease Agreement, as described in Verizon Hawaii's application, filed on January 28, 2002, should be approved, *nunc pro tunc*. Additionally, Verizon Hawaii should implement the Consumer Advocate's recommendations, as enumerated in section II.B of this decision and order, and provide the commission and the Consumer Advocate with written documentation of its efforts, within 60 days of the date of this decision and order.

IV.

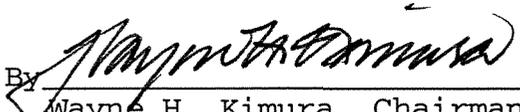
THE COMMISSION ORDERS:

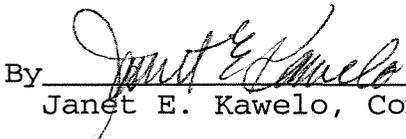
1. The Lease Agreement filed by Verizon Hawaii, on January 28, 2002, is approved, *nunc pro tunc*.

2. Verizon Hawaii shall comply with the Consumer Advocate's recommendations, as enumerated in section II.B of this decision and order. Within 60 days from the date of this decision and order, Verizon Hawaii shall provide the commission and the Consumer Advocate with written documentation of its efforts.

DONE at Honolulu, Hawaii this 23rd day of September, 2002.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Wayne H. Kimura, Chairman

By 
Janet E. Kawelo, Commissioner

By _____ (RECUSED)
Gregg J. Kinkley, Commissioner

APPROVED AS TO FORM:


Ji Sook Kim
Commission Counsel

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 19666 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

JOEL K. MATSUNAGA
VICE PRESIDENT-EXTERNAL AFFAIRS
VERIZON HAWAII INC.
1177 Bishop Street
Honolulu, HI 96813



Catherine Sakato

DATED: September 23, 2002