

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
VERIZON HAWAII INC.)
For Approval to Include in its Rate)
Base Expenditures in Excess of)
\$500,000 for the Alakea Fire)
Sprinkler Project.)
_____)

DOCKET NO. 04-0081

DECISION AND ORDER NO. 21125

RECEIVED
2004 JUL 20 A 8:09
DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

Filed July 19, 2004
At 2 o'clock P.M.

Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.
K. Higashi

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
VERIZON HAWAII INC.)
For Approval to Include in its Rate))
Base Expenditures in Excess of)
\$500,000 for the Alakea Fire)
Sprinkler Project.)
_____)

Docket No. 04-0081

Decision and Order No. 21125

DECISION AND ORDER

I.

Background

VERIZON HAWAII INC. ("Verizon Hawaii") requests commission approval to include \$15,500,000 in its rate base for the installation of a fire sprinkler system at its Alakea Main Building, located at 1177 Bishop Street, Honolulu, Hawaii ("Alakea Building") ("Proposed Project").¹ Verizon Hawaii makes its request in an application filed on April 23, 2004, under Hawaii Revised Statutes Chapter 269, as amended; Paragraph 2.3.d.2. of Public Utilities Commission General Order No. 8, *Standards for Telephone Service in the State of Hawaii*; and Hawaii Administrative Rules Chapter 6-80 ("Application").²

¹The commission will treat Verizon Hawaii's request in this application as a request for commission approval to expend or commit funds for the Proposed Project.

²No persons moved to intervene in this docket.

Verizon Hawaii served the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate") with copies of the Application.

On April 26, 2004, Verizon Hawaii transmitted to the Consumer Advocate, with appropriate copies submitted to the commission, proposed drafts of stipulated procedural and protective orders for the Consumer Advocate's consideration. On May 11, 2004, proposed stipulated protective and procedural orders, signed by Verizon Hawaii and the Consumer Advocate, were filed for the commission's review and approval. On May 19, 2004, the commission issued Stipulated Procedural Order No. 20993 ("Procedural Order") and Protective Order No. 20992.³

The Consumer Advocate served Verizon Hawaii with information requests ("IRs") on May 17, 2004. Verizon Hawaii filed its IR responses on June 4, 2004, in accordance with the Procedural Order, and filed the remainder of its IR responses on June 7, 2004, along with minor revisions to certain IR responses filed earlier.

The Consumer Advocate filed its Statement of Position ("SOP") on the matters of this docket on June 24, 2004, informing us that it does not object to the approval of Verizon Hawaii's

³On May 26, 2004, Verizon Hawaii submitted financial support data for its Proposed Project under seal of Protective Order No. 20992.

request to expend the funds for the Proposed Project.⁴ However, the Consumer Advocate recommends that Verizon Hawaii be required to file annual status reports with regards to the Proposed Project.

II.

Project Description and Justification

Verizon Hawaii's Alakea Building is a 492,000 square foot, seventeen (17)-story mixed use facility located in downtown Honolulu. While floors one (1) through ten (10) of the building consist predominantly of its telecommunications network infrastructure and equipment, floors eleven (11) through seventeen (17) are used for administrative office and support spaces. The building is said to be critical to the Verizon Hawaii network and strategic for the provision of telecommunications services in the State of Hawaii ("State"). The building houses approximately 1,000 of Verizon Hawaii's employees.

Verizon Hawaii states that the capital improvement project proposed in this docket is required to comply with fire safety ordinances of the City and County of Honolulu ("C&C of Honolulu" or "County"). Ordinance 01-53, passed by the C&C of Honolulu in 2001, requires buildings erected before January 1, 2002, to be equipped with automatic sprinkler systems. In 2002,

⁴Verizon Hawaii did not file a response to the Consumer Advocate's SOP. Under the Procedural Order, Verizon Hawaii's deadline to file its response to the Consumer Advocate's SOP was July 7, 2004.

Ordinance 02-65 made this requirement inapplicable to "telecommunications buildings". Under the ordinance, a "telecommunications building" is defined as "any existing business building with a central office used by a telecommunications carrier to provide telecommunications services, provided that the building contains: (i) [a]n access tandem; or (ii) [a]n enhanced 911 switch[.]"⁵ Verizon Hawaii maintains that an automatic fire sprinkler system would not be required on floors one (1) through ten (10) of its building where telecommunications equipment is present, while it would be required to be installed in floors eleven (11) through seventeen (17), floors without network equipment, pursuant to a Fire Safety Agreement between the County and Verizon Hawaii and under County ordinances.⁶ Verizon Hawaii also states that the ordinance requires it to implement associated fire/life safety systems throughout the rest of the building to ensure the safety of the occupants of the building.

The installation of the automatic sprinkler system in the ceiling of the building will require contractors to disturb building structures that contain asbestos. Asbestos was detected in the fireproofing material of the building on its beams and supports, interior walls, hard plaster ceilings, certain HVAC⁷ systems, and other ceiling fixtures. Verizon Hawaii is required

⁵See, Application at 3, referencing Exhibit 3 at 3 of the Application.

⁶See, Exhibit 3 of the Application.

⁷HVAC is an acronym for heating, ventilating, and air conditioning.

to remove the asbestos in the areas of the building being affected by the sprinkler system to ensure that its employees are provided a safe working environment and to comply with relevant federal safety regulations. Since the amount of asbestos removal will be significant, along with the installation of the automatic fire sprinkler system, the Proposed Project involves the removal and replacement of fireproofing materials, certain HVAC systems, lighting and electrical equipment, distribution panels, conduits, and other equipment on the affected floors. While the contemplated work takes place, employees on the affected floors will be temporarily relocated as the project proceeds from floor to floor.

The Proposed Project involves asbestos abatement; architectural, mechanical, and electrical work; and interior space planning. Verizon Hawaii provided a detailed description of the work involved in the Proposed Project in the Application.⁸ Verizon Hawaii contemplated three (3) alternatives for the installation of the automatic fire sprinkler system. It settled on the project set forth in its Application since this alternative had the highest net present value ("NPV") and was considered the preferred solution.⁹ The Proposed Project is expected to be completed in early 2006.

⁸See, Application at 5-6, and also Exhibits 5 and 6 of the Application.

⁹Aside from the Proposed Project (Alternative 1), Verizon Hawaii considered relocating the operations of the affected floors (i.e., floors eleven (11) through seventeen (17)) to a new leased location (Alternative 2) and relocating the operations of the affected floors to a new owned location (Alternative 3). While Alternative 1 has a NPV of (\$31,431,000); Alternatives 2

III.

Consumer Advocate's Position

The Consumer Advocate does not object to the expenditure of funds for the Proposed Project. The Consumer Advocates states that the Proposed Project is needed to comply with County ordinances governing fire safety in existing business buildings and necessary for the protection of the employees working in the building.

The Consumer Advocate also recognizes that asbestos material in the proposed construction area needs to be removed to comply with government regulations on handling asbestos. However, the Consumer Advocate states that it was unable to determine the reasonableness of the costs of the Proposed Project. Moreover, the Consumer Advocate cautions that the asbestos removal work may encounter unanticipated problems that can impact the estimated cost and completion date of the Proposed Project.

While Verizon Hawaii will be required to submit a final project cost report explaining significant cost variances, the Consumer Advocate is concerned that the information will not be forthcoming until sometime in 2006. Thus, due to the large costs associated with the Proposed Project, among other things, the Consumer Advocate recommends that Verizon Hawaii be required to provide the Commission and the Consumer Advocate with annual status reports, as described below.

and 3 had NPVs of (\$38,512,000) and (\$38,197,000), respectively. See, Application at 8.

Each status report should include: (1) information on the progress of the work performed; (2) the costs incurred to-date; and (3) whether problems were encountered that would either delay the target completion date of the project and/or increase the costs beyond its current estimate.¹⁰ The first status report should be submitted on January 31, 2005, for the year ending December 31, 2004, and continue annually thereafter until the Proposed Project is completed and placed in-service.¹¹

IV.

Findings and Conclusions

Upon review, we find the Proposed Project to be necessary and in the public interest. Verizon Hawaii's Alakea Building is important to its network and is critical to the provision of telecommunications services in the State. The Proposed Project is needed to provide a safe working environment for the employees that work in the building and to be in compliance with County, State, and Federal regulations regarding fire safety and asbestos handling.

We also find the Consumer Advocate's recommendation for annual status reports regarding the Proposed Project to be reasonable. The concerns raised by the Consumer Advocate are valid. The costs associated with the Proposed Project are significant and, among other things, the project is expected to take multiple years to complete. The annual status reports will

¹⁰See, Consumer Advocate's SOP at 7.

¹¹See, Consumer Advocate's SOP at 7-8.

enable the commission and the Consumer Advocate to monitor the Proposed Project, so that they will be apprised of any problems that may arise. Thus, we will adopt the Consumer Advocate's recommendation for annual status reports with the specific parameters and requirements described in Section III of this decision and order, and the additional requirement set forth below.

Aside from the cost concerns articulated by the Consumer Advocate, the commission is also concerned that the temporary relocation of personnel planned for floors eleven (11) through seventeen (17) for asbestos abatement and other work may impact Verizon Hawaii's operations and its service to the public. Thus, we find it reasonable to require Verizon Hawaii to provide the commission and the Consumer Advocate with a project schedule for the Proposed Project, for the record; descriptions of operations and services being relocated on each floor affected; and an explanation of how the relocations will affect its operations and impact its customers, and the efforts taken to minimize such impacts, within three (3) months of the date of this decision and order. Additionally, Verizon should provide the commission and the Consumer Advocate with a description of any service interruptions that have occurred due to the Proposed Project, if any, and an explanation of how these interruptions were resolved. This information should be provided within the annual status reports.

Based on the above, we conclude that Verizon Hawaii's Application, filed on April 23, 2004, to expend \$15,500,000 for the Proposed Project should be approved.¹² We also conclude that the Consumer Advocate's recommendation for annual status reports should be adopted, with the additional requirement; and that Verizon Hawaii should also be required to file a project schedule, and impact information, as described above.

V.

Orders

THE COMMISSION ORDERS:

1. Verizon Hawaii's request to expend \$15,500,000 for its Proposed Project is approved; provided that no part of the project may be included in Verizon Hawaii's rate base unless and until the project is in fact installed, and is used and useful for utility purposes.

2. Verizon Hawaii shall file annual status reports with the commission and Consumer Advocate with regards to the progress of the Proposed Project. Specifically, each status report shall include: (1) information on the progress of the work performed; (2) the costs incurred to-date; (3) whether problems were encountered that would either delay the target completion date of the project and/or increase the costs beyond its current estimate; and (4) a description of any service interruptions that have occurred due to the Proposed Project, if

¹²However, we make clear that our approval, in this decision and order, is not approval for the inclusion of the Proposed

any, and an explanation of how these interruptions were resolved. The first status report shall be submitted on January 31, 2005, for the year ending December 31, 2004, and continue annually thereafter until the Proposed Project is completed and placed in-service.

3. Within three (3) months of the date of this decision and order, Verizon Hawaii shall submit to the commission and the Consumer Advocate a detailed project schedule for the Proposed Project, for the record; descriptions of operations and services being relocated on floors eleven (11) through seventeen (17); and an explanation of how the relocations will affect its operations and impact its customers, and the efforts taken to minimize such impacts.


4. Within sixty (60) days of the completion of the Proposed Project, Verizon Hawaii shall submit an accounting report with an explanation of any deviation of ten (10) per cent or more of the projected costs for the Proposed Project. Failure to submit the report, as required in this decision and order, constitutes cause to limit the total cost of the Proposed Project for ratemaking purposes to that estimated in Verizon Hawaii's Application.

Project's cost in Verizon Hawaii's rate base for ratemaking purposes.


5. Verizon Hawaii shall conform to all of the commission's orders, set forth above. Failure to adhere to our orders constitutes cause for the commission to void this decision and order, and may result in further regulatory actions as authorized by law.

DONE at Honolulu, Hawaii this 19th day of July, 2004.

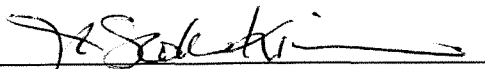
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:


Ji Sook Kim
Commission Counsel
04-0081.ac

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 21125 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.
P. O. Box 2200
Honolulu, HI 96841



Karen Higashi

DATED: July 19, 2004