

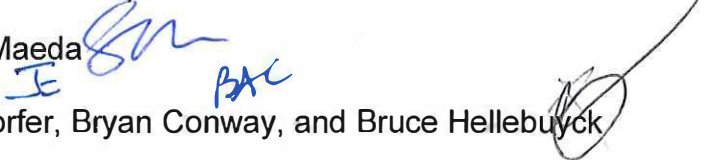
**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 22, 2014**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: July 10, 2014

TO: Public Utility Commission

FROM: Stephanie Maeda 

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck 

SUBJECT: UNITED TELEPHONE COMPANY OF THE NORTHWEST; (Docket No. UP 302) Requests approval of the sale of a building located in Hood River, Oregon.

STAFF RECOMMENDATION:

The Commission should approve the application by United Telephone Company of the Northwest, dba CenturyLink (United or the Company) to sell the building and land located at 902 Wasco St., Hood River, Oregon to a confidential purchaser with a partial leaseback under the following conditions:

1. United shall provide the Commission access to all books of account, as well as the documents, data, and records that pertain to the transfer of telecommunications properties.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
3. United shall notify the Commission in advance of any substantive changes to the transfer of telecommunications properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.
4. The gain on the sale (depreciable and non-depreciable real property) will be applied as a rate base offset.

DISCUSSION:

This application was filed on June 16, 2014, pursuant to ORS 759.375 and OAR 860-027-0025. The Company previously received Commission approval to sell the same property to the Port of Hood River, Oregon, in December of 2008 in Docket UP 247. However, the Port of Hood River, Oregon, terminated the contract to purchase the building in February of 2009 and the sale was never completed. With some minor differences, the terms of the current proposed property sale are substantially similar to those approved in Docket UP 247. In order to ensure a smooth transition of the building ownership, the Company has requested the approval of this transaction by August 1, 2014.

Staff investigated the following issues:

- Scope and Terms of the Real Estate Sales Agreement
- Allocation of Gain
- Public Interest Compliance
- Records Availability, Audit Provisions, and Reporting Requirements

Scope and Terms of the Real Estate Sales Agreement

The property designated for sale consists of a 209,011 square foot office building on an 8.2 acre parcel of land located at 902 Wasco St., Hood River, Oregon. The sales agreement includes a no-fee License Agreement for the telecom switch room located in the basement of the building and an easement for exterior underground communications facilities. The Company will continue occupancy of the building with a leaseback of 28,002 square feet of office space and existing tenants' leases will be transferred to the purchaser.

Allocation of Gain

The financial data pertaining to this application was submitted to the Commission under a confidential designation. The amount of the gain on the sale is, therefore, not included in this memo.

The standard Commission treatment for transfer of the benefits of gains to ratepayers is the creation of a balancing account with interest thereon accruing at the utility's Oregon authorized rate of return until amortized and returned through an approved rate schedule. However, due to the infrequency of telecommunications rate filings, the standard treatment of gains for telecommunications utilities has been a rate base offset. Therefore, Staff recommends that the gain be applied as a rate base offset.

Public Interest Compliance

United's sale of the land and building is in the public interest pursuant to ORS 759.375. Because employees of the Company currently occupy less than 15 percent of the building space, United does not consider the asset to be "used and useful" for the provision of telecommunications services. Additionally, the lease with the building's largest tenant, comprising 85 percent of the leased space, will expire in March of 2015. The loss of this tenant would reduce the Company's rent revenue significantly. Since the property at issue is being sold at a gain and United will retain rights and access to all equipment on the property that is currently being used for the provision of telecommunications service, Staff concludes that the sale is in the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

Order Condition Number 1, listed above, affords the Commission the necessary examination of United's books and records concerning the sale.

PROPOSED COMMISSION MOTION:

The requested sale of property with partial leaseback by United Telephone Company of the Northwest to a confidential buyer be approved with the conditions stated in this memorandum.