

ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 27, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: February 20, 2018

TO: Public Utility Commission

FROM: Laurel Anderson *LA*

THROUGH: Jason Eisdorfer *J*, Bryan Conway *BC*, and Roger White *RW*

SUBJECT: CENTURYTEL OF OREGON, INC.: (Docket No. UP 363) Requests approval of sale of a building located in Lebanon, OR to private buyer.

STAFF RECOMMENDATION:

The Commission should approve the application by CenturyTel of Oregon, Inc. (CenturyTel or the Company) to sell the real property located in Linn County, Oregon, commonly known as 890 South Second Street, Lebanon, Oregon to a confidential buyer, subject to the following condition:

1. CenturyTel shall notify the Commission in advance of any substantive changes to the transfer of telecommunications property, including any material changes in price or changes to include switches, cables, or other network assets.

DISCUSSION:

Issue

Whether the Commission should approve CenturyTel's application for Authority to sell a building located in Lebanon, Oregon.

Applicable Rule or Law

ORS 759.375 requires the Commission's approval prior to a telecommunication utility's sale, mortgage or disposal of operative utility property or any part thereof of a value in excess of \$100,000.

OAR 860-027-0025 provides the Commission's application requirements for authority to sell, lease, assign, mortgage, merge, consolidate or otherwise dispose of or encumber its property, or to acquire stock, bonds or property of another utility.

Analysis

This application was filed January 26, 2018, pursuant to ORS 759.375 and OAR 860-027-0025. CenturyTel requests that the Commission consider the application on an expedited basis and approve the transaction before March 1, 2018.

The transaction involves the sale of an office building and associated land located in Lebanon, Oregon. There are no CenturyTel employees who work out of this building and the building is currently vacant. The buyer of the property is not affiliated with CenturyTel.

Staff investigated the following issues:

- Scope and Terms of the Real Estate Sales Agreement
- Allocation of Gain
- Public Interest Compliance

Scope and Terms of the Real Estate Sales Agreement

The property designated for sale consists of a building containing approximately 29,975 square feet of space, located on approximately 0.48 of an acre of land, in Linn County, Oregon. CenturyLink vacated the building in 2014, and the building is not currently utilized by CenturyLink for any purpose. The buyer, a 501(c)(3) non-profit corporation, intends to convert the building from a vacant, non-utilized property to a functional building to create a positive impact on the community and generate income to support the organization's charitable mission.

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.

Commission treatment for transfer of the benefits of gains to ratepayers has sometimes included the creation of a balancing account with interest thereon accruing at the approved rate schedule. Due to the infrequency of telecommunications rate filings, gains for telecommunications utilities have sometimes been treated as a rate base offset. Neither approach is appropriate here, though, given the Commission's current regulatory treatment of CenturyTel.

CenturyTel is currently regulated under a Price Plan that was approved by the Commission under ORS 759.255 in Order No. 14-347 (Docket No. UM 1686). ORS 759.255 provides a way for the Commission to regulate prices "without regard to the return on investment of the utility" when the plan adopted is in the public interest. When assessing whether a plan is in the public interest, the Commission must consider, among other things, whether the plan "ensures high quality of existing telecommunications services" and "maintains the appropriate balance between the need for regulation and competition."

Under CenturyTel's Price Plan adopted in Order No. 14-347, the Commission adopted price caps as a way to allow customers to reap the benefits of increased competition while still providing pricing and service quality safeguards in areas in which competition may be less robust. The price cap mechanism reflects a shift away from traditional rate-of-return regulation toward a regulatory regime that encourages companies to compete with one another on the basis of service quality and price while still offering pricing protection in the event that competition fails to provide adequate safeguards. Staff finds it appropriate, given this current regulatory treatment of CenturyTel, to forego ordering that the benefits of the gains of this transaction be transferred to ratepayers.

Public Interest Compliance

CenturyTel's sale of the building is in the public interest pursuant to ORS 759.375. The building is vacant and does not contain switches, cables or network assets required for the Company to operate its network in Oregon. Therefore, the Company does not consider this property necessary or useful in its provision of services to the public.

The proposed sale allows the company to avoid certain recurring expenditures associated with the property and will free up financial resources which can be directed to the provision of telecommunications services in Oregon. Staff does not anticipate that the sale of this property will negatively affect the quality or availability of existing telecommunications services or the company's ability to provide new services.

Conclusion

Based on the review of CenturyTel's application, Staff concludes:

1. The building at 890 South Second Street, Lebanon, Oregon does not contain switches, cables, or network assets required for the company to operate its network in Oregon;

2. The sale of this property will free up financial resources which can be directed to the provision of services in Oregon; and
3. The sales agreement does not contain unreasonable terms, the price for the building is fair and reasonable, and the transaction is not contrary to the public interest with the inclusion of staff's ordering condition. Staff takes no position on CenturyTel's stated intent to record a charitable donation associated with this transaction to reduce its income tax expense.

PROPOSED COMMISSION MOTION:

Approve CenturyTel of Oregon's application to sell the building at 890 Second Street, Lebanon, Oregon, to a confidential buyer be approved subject to Staff's recommended condition stated in this memorandum.