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Embarq Corporation  
902 Wasco Street  
Hood River, OR 97031  
EMBARQ.com

SENT BY E-MAIL AND REGULAR MAIL

June 9, 2006

Public Utility Commission of Oregon  
Attn: Filing Center  
PO Box 2148  
Salem OR 97308-2148

Enclosed is the Application for Approval of an Agreement Between United Telephone Company of the Northwest and Embarq Management Company, an affiliated interest.

We have enclosed an original and four copies of the above filing. We respectfully ask that you return one receipted copy to this office.

If additional information is required, please contact me or Barb Young at 541/387-9850.

Sincerely,

Nancy L. Judy

NLJ/sm  
Enclosure

**Nancy L. Judy**  
STATE EXECUTIVE - OR & WA  
Voice: (541) 387-9265  
Fax: (541) 387-9753  
nancy.judy@embarq.com

BEFORE THE OREGON PUBLIC UTILITY COMMISSION

In the Matter of the Application )  
of United Telephone Company )  
of the Northwest for an order ) No.  
approving contracts with Affiliated )  
Interests for Services )

United Telephone Company of the Northwest dba Embarq (hereinafter "Applicant") files this application for approval of a Services Agreement between the Applicant and Embarq Management Company, a Delaware corporation ("EMC").

In support of this application file pursuant to OAR 860-027-0040, it is respectfully shown:

(a) Applicant name and address:

United Telephone Company of the Northwest  
902 Wasco Street  
Hood River, OR 97031

(b) Persons authorized to receive communication:

William Hendricks III	Nancy L. Judy
Attorney	State Executive
Embarq	Embarq
902 Wasco Street	902 Wasco Street
Hood River, OR 97031	Hood River, OR 97031

(c) Relationship between contracting entity and affiliates:

The Applicant and EMC will both be wholly owned subsidiaries of Embarq Corporation, a Delaware Corporation ("Parent") as of or prior to the effective date of the Services Agreement.

(d) Amount, kind, ratio of total voting securities held:

Not applicable.

(e) List of all officers and directors who are also officers and directors of the affiliate:

See Attachment A.

(f) Direct or pecuniary interest:

6. General Support Services. Provide administrative services, including, but not limited to, maintenance of corporate records and printing services.
7. Tax. Advise and assist as necessary and desirable in compliance and planning, in federal, state, local and international tax matters.
8. Information Services. Provide information processing and related services, as required and requested by the Company and as set forth more fully below.
9. Supply Chain Management Services. Advise and assist in the identification of products and associated suppliers, negotiation of supplier agreements and contract administration, and related order management and warehousing services.
10. Additional Services. Provide other services as requested or required, subject to feasibility as determined by EMC.
11. Regulatory Services. Provide advice and assistance in regulatory policy, state legislative affairs, federal regulatory affairs, external affairs, and governmental affairs.
12. Company Operations. Provide management and administration of marketing, advertising, sales strategy, call center support, field sales and retail stores, business planning and development, customer service operations, network planning and engineering and national public access.

#### Information Services

1. Production Data Processing Services. Within this category are the following types of services: (1) generalized data processing of financial and accounting data; property record accounting; and various operating support systems used in minimizing the daily operations of the Company; (2) receipt and recording of all batch input to the computer; the editing of input to the computer system; and the preparation and distribution of all resulting reports or output produced from the processing; and (3) operation of an on-line telecommunications data network connected to affiliated companies designated by the Company.
2. Programming Services. EMC must: (1) Assure proper operation of information processing applications that are generally in use on a system wide basis, and render such advice and technical assistance as may be necessary to assure proper functioning of the programs. (2) Provide design, program development, and operational requirements pertaining to processing applications for which no system wide program is in existence and that may be needed by the Company.

3. Inserting and Mailing Services. EMC must prepare, mechanically insert, and mail billing statements, including automatic application of postage and mailing by the United States Postal Service.
4. Archival Services. EMC must preserve files located on the computer systems in a manner that is appropriate for the length of preservation and the intended use of the archived information. Preservation may be in electronic or hard copy format.

The only costs to be incurred are those necessary to provide the services described above. They will include only costs prudently incurred in a responsible manner under the control of the departmental supervisor acting within the budgetary controls approved by the senior management of EMC. These services are priced at their fully distributed cost.

- (h) Estimate of amount paid and amounts charged; accounts in which charges will be recorded:

The amount paid in 2005 by United Telephone Company of the Northwest for Management Services was approximately \$14 million. It is not anticipated that the amount in 2006 and subsequent years will be materially different from this amount. Accounts in which charges were recorded in 2005 and are expected to be charged in subsequent years are: 6121, 6124, 6212, 6423, 6532, 6533, 6534, 6535, 6540, 6611, 6612, 6613, 6621, 6623, 6711, 6712, 6721, 6722, 6723, 6724, 6725, 6726, 6727, and 6728.

- (i) Reasons Applicant wishes to procure these services from EMC and benefit to utility customers:

The Applicant is better and more economically assisted by the centralized group of specialists available from EMC. Centralization creates real opportunities to achieve economics of scope and scale in the provision of specialized skills and services. Many of the services performed by EMC require special skills and/or educational backgrounds. It is not cost effective or practical to have such specialization at United Telephone Company of the Northwest and at each of the other operating group locations to perform similar functions. The centralization philosophy enables each entity to share only a portion of the cost of the corporate expertise as opposed to bearing the total cost on a stand-alone basis.

Applicant believes the services provided by or through EMC are beneficial and necessary and enhance Applicant's ability to provide quality service to its customers. Applicant further believes the costs incurred in the provision of these services represent legitimate business expenses and are prudently incurred and fairly allocated as indicated below.

Services provided by EMC are priced at fully distributed cost. Expenses generated by certain EMC departments in providing services are allocated based upon a review of time and resources spent by the individual departments in various activities related to the provision of necessary services. The expenses of other departments are allocated based on statistically derived factors related to the activities performed by the department.

Costs that are charged to the Applicant and other telephone subsidiaries are allocated among them based on factors related to the activities of each department. As an example, costs of Human Resources departments are allocated on the basis of the number of employees of each telephone subsidiary compared to the total number of employees of all telephone subsidiaries. Other departments are allocated based on net-property, plant and equipment investment. In each case, the allocation basis relates to the nature of the work performed. Each basis used is designed to provide a reasonable relationship to the expected benefit of the service to the companies.

Expenses incurred by EMC through outside organizations for the direct benefit of the Applicant are billed directly to EMC. EMC merely acts as an agent, pays the bills, and then charges the individual company for the amount it paid.

- (j) A description of the procurement process and the reasons, in pertinent detail appropriate to the complexity of the procurement, relied upon by the utility for procuring the proposed goods or services without a competitive procurement process, if such a process is not used;

See (i) above. The services described represent a core competency for EMC and are most efficiently and economically purchased from EMC. It is not cost effective to purchase the various services from the multiple vendors that would be required.

- (k) Transfer prices in contracts or agreements for the procurement of goods or services under competitive procurement shall be presumed to be the market value, subject to evaluation of the procurement process;

All transactions between the Applicant and EMC will conform to the Rules and Regulations of this Commission and FCC Docket Nos. 86-111 and 96-150.

- (l) Agreement between United Telephone Company of the Northwest and EMC:

See Attachment B.

- (m) Resolutions of Directors authorizing proposed transactions:

List of Directors and Officers Shared by  
United Telephone Company of the Northwest  
and Embarq Management Company

Claudia S. Toussaint  
D. Brett Haring  
Gene M. Betts  
Harry S. Campbell  
James A. Hansen  
John G. Short  
Leslie H. Meredith  
Michael B. Fuller  
Richard C. Eckhart  
Thomas A. Gerke  
Thomas J. McEvoy  
Tracy D. Mackey  
Valerie Parrish-Porter  
William R. Blessing  
William E. Cheek

## SERVICES AGREEMENT

THIS SERVICES AGREEMENT, dated as of May 12, 2006 (the "Agreement"), is entered into by and between Embarq Management Company, a Delaware corporation ("EMC") and United Telephone Company of the Northwest ("Company") an Oregon corporation.

### WITNESSETH:

A. EMC and Company will be wholly owned subsidiaries of Embarq Corporation, a Delaware Corporation ("Parent") as of or prior to the Effective Date (as hereinafter defined).

B. EMC, acting as a central and common resource, is prepared to provide certain needed services to and for the Company and companies affiliated with Company to achieve the efficient operation of the Company; and

C. Company needs and desires to receive the services in order to realize its business objectives.

NOW, THEREFORE, in consideration for the mutual promises in this Agreement, EMC and Company agree as follows:

1. **Management Services.** During the term of this Agreement, EMC, through its officers, agents and employees, whose salaries will be paid by EMC, must hire, train and manage its personnel (or in certain instances contract with other companies or firms to provide the personnel) to provide management services as requested by Company, including:
  - (a) **Human Resource Services.** Provide centralized management and administration of pension and savings plans and other benefit programs for Company's employees; maintain personnel records on all key employees; coordinate inter-company moves; establish and maintain personnel performance measurement and compensation programs; establish and conduct training and management development programs; and provide other human resources services as requested or required.
  - (b) **Finance Services.** Provide advice and assistance in accounting matters, including the resolution and administration of accounting matters, such as monitoring developments in generally accepted accounting practices, preparing various financial reports, performing accounting studies, and performing internal audits of the Company; provide and utilize centralized cash management services to manage daily inflows and outflows of cash, including all record-keeping through intercompany payable and receivable accounts to identify funds received and to be disbursed; provide investment and other financial management services, including performing research and studies regarding capital markets, alternative financing methods, and the impact of external factors on financing and earnings levels, including also performing analysis and making recommendations regarding financial structure, long term

financing, bank financing, cash management, budgeting, and forecasting; provide corporate real estate services; and provide insurance management services, including arranging for and administering property and casualty insurance, and including coordinating and making recommendations with respect to safety programs.

- (c) **Communications Services.** Advise and assist in the provision of external and internal information and publications, including news releases, and visual communications presentations, such as photographic, film and video; and advise and assist in public relations matters, corporate identity, and public relations programs, and also including workshops, seminars, and other information programs in such areas.
  - (d) **Legal Services.** Render legal services and counsel relating to any matter, as requested or required.
  - (e) **Planning.** Advise and assist in long range business planning, including support in developing appropriate long range goals, strategies and programs, and the implementation thereof.
  - (f) **General Support Services.** Provide administrative services, including, but not limited to, maintenance of corporate records and printing services.
  - (g) **Tax.** Advise and assist as necessary and desirable in compliance and planning, in federal, state, local and international tax matters.
  - (h) **Information Services.** Provide information processing and related services, as required and requested by the Company and as set forth more fully below in Section 2.
  - (i) **Supply Chain Management Services.** Advise and assist in the identification of products and associated suppliers, negotiation of supplier agreements and contract administration, and related order management and warehousing services.
  - (j) **Additional Services.** Provide other services as requested or required, subject to feasibility as determined by EMC.
  - (k) **Regulatory Services.** Provide advice and assistance in regulatory policy, state legislative affairs, federal regulatory affairs, external affairs, and governmental affairs.
  - (l) **Company Operations.** Provide management and administration of marketing, advertising, sales strategy, call center support, field sales and retail stores, business planning and development, customer service operations, network planning and engineering and national public access.
2. **Information Services.** EMC must offer to the Company the following categories and types of information processing and related services, which are subject to change from time to time due to the addition of new services or the discontinuance or modification of existing



services by EMC, and which may be supplemented by any special requests or requirements of the Company:

- (a) **Production Data Processing Services.** Within this category are the following types of services: (1) generalized data processing of financial and accounting data; property record accounting; and various operating support systems used in minimizing the daily operations of the Company; (2) receipt and recording of all batch input to the computer; the editing of input to the computer system; and the preparation and distribution of all resulting reports or output produced from the processing; and (3) operation of an on-line telecommunications data network connected to affiliated companies designated by the Company.
  - (b) **Programming Services.** EMC must: (1) Assure proper operation of information processing applications that are generally in use on a system wide basis, and render such advice and technical assistance as may be necessary to assure proper functioning of the programs. (2) Provide design, program development, and operational requirements pertaining to processing applications for which no system wide program is in existence and that may be needed by the Company.
  - (c) **Inserting and Mailing Services.** EMC must prepare, mechanically insert, and mail billing statements, including automatic application of postage and mailing by the United States Postal Service.
  - (d) **Archival services.** EMC must preserve files located on the computer systems in a manner that is appropriate for the length of preservation and the intended use of the archived information. Preservation may be in electronic or hard copy format.
3. **Officers and Directors of the Company.** The parties do not intend to restrict the duties of the officers and directors of the Company or limit the exercise of their powers as prescribed by the organizational documents of the Company or by law.

4. **Services.**

- (a) The Company may designate services that EMC will perform if the service is a customary service for a telecommunications company similar to the Company. The Company may request that EMC perform non-customary services and EMC may expressly agree to provide those services or may evidence its agreement to perform those services by performing them.
- (b) EMC will perform for the Company those services that EMC reasonably determines are needed or useful for a telecommunications company similar to Company or that are required by law or regulation. The Company may cancel any of the services by giving EMC a written notice of cancellation. EMC and the Company will work to establish a timeline for termination or transition of the cancelled services. If no agreement is reached, then EMC can stop providing the service one year after receipt of the notice to cancel the service.

- (c) EMC will perform the services in accordance with customary practices in the telecommunications industry. EMC controls the manner and means by which the results are to be accomplished, consistent with legal and regulatory requirements and Company policy.

**5. Fees.** EMC will charge fees to the Company and other affiliated companies for the services it provides, and EMC's fees charged to the Company and other affiliated companies for such services will be equal to EMC's actual costs of providing the services. Fees for services provided by EMC shall be determined by EMC in accordance with following:

- (a) Fees for services rendered for any single user company will be charged to and paid by that company.
- (b) Fees for services rendered for more than one user company, but not all user companies, will be considered in the management fee calculation for amounts charged to and paid by the user companies for which the services are rendered. The fees for the services that cannot be separately ascertained for each user company will be allocated by EMC on an equitable basis among all the user companies for which the services are rendered and in accordance with applicable laws and regulations.
- (c) Costs associated with the general administration of EMC's services and costs incurred for all services performed for or furnished to all user companies generally, or all other costs not described in (a) or (b) above will be allocated in management fees among all user companies on an equitable basis and in accordance with applicable laws and regulations. In making the allocations, EMC will use the considered judgment of EMC officers responsible for making the allocation. The allocation must result in charges to each user company as nearly as practicable equal in amount to the actual costs incurred in rendering services to that company.
- (d) Fees payable by the Company for services rendered hereunder will be handled between the parties through inter-company cost allocations. The Company will retain the right to contest the Fees for one hundred twenty (120) calendar days following the cost allocation. If the parties have not resolved the charges within one hundred days of the dispute, either party may invoke arbitration pursuant to Section 10 hereunder.

**6. EMC Personnel.** EMC has the exclusive right or duty to:

- (a) Hire and train its personnel.
- (b) Control, supervise and discipline its personnel.
- (c) Provide all pension, insurance and other benefits to its personnel.
- (d) Establish wage levels and determine all other compensation issues, and pay all salaries or fees of its employees or contract labor.
- (e) Assign and reassign its workers to positions, including assignments to perform service for affiliated companies other than the Company.

- (f) Control the manner and means by which results are to be accomplished, consistent with applicable legal and regulatory requirements and Company policy.
- (g) Provide casualty and workers' compensation insurance for all its employees.

**7. Term; Assignment.** This Agreement will remain in effect from year to year but may be terminated by either party on 90 days' written notice to the other party, except the parties may terminate this Agreement without notice by mutual written consent at any time. Either party may assign this Agreement in whole or in part to a successor legal entity that is a subsidiary or affiliate of Parent without notice or consent, except all required governmental and regulatory approvals, if any, must be obtained in advance. Except as set forth in the prior sentence, this Agreement is not assignable by either party to any other entity without the written consent of the other party. Upon receipt of any required consents, this Agreement is binding on and inure to the benefit of the successors and assigns of the parties hereto. If either party terminates the Agreement, EMC and Company will work to establish a timeline for termination or transition of the cancelled services. If no agreement is reached, then EMC can stop providing the services one year after receipt of the notice to cancel the service.

**8. Effective Date; Entire Agreement.** This Agreement will be effective on the date (the "Effective Date") that the last of the following events occurs:

- (a) the date of execution of this Agreement;
- (b) approval of this Agreement by all governmental agencies, if any, that must approve prior to the Agreement being effective; and
- (c) the spin-off of Parent from Sprint Nextel Corporation, a Kansas corporation.

On the Effective Date, this Agreement constitutes the entire agreement between the parties and supersedes, replaces and terminates any and all previous agreements between the parties relating to the subject matter of this Agreement.

**9. Governing Law.** This Agreement is governed by the internal laws of the State of Delaware without regard to conflicts of law principles.

**10. Arbitration.** The parties will use arbitration to resolve any breach, controversy or claim relating to this Agreement that they cannot resolve by mutual agreement. The arbitration will be pursuant to the rules of the arbitration organization then used by Parent with respect to disputes.

**11. Amendment.** This Agreement can be modified only by a written amendment duly signed by persons authorized to sign agreements on behalf of the parties.

**12. Waiver.** No course of dealing or failure of either party to strictly enforce any term, right or condition of this Agreement will be construed as a waiver of the term, right or condition.

**13. Force Majeure.** Neither party is held liable for any delay or failure in performance of any part of this Agreement because of cause or circumstances beyond its control such as acts of God; acts of civil or military authorities; legislative, executive or judicial acts of any

governmental entity; government regulations; embargoes; epidemics; war; terrorist acts; riots; insurrections; fires; explosions; earthquakes, nuclear accidents, floods, or other major environmental disturbances; power blackouts; strikes; or from any other cause of whatsoever kind beyond a party's control (collectively referred to as "Force Majeure Conditions"). If a Force Majeure Condition affecting either party, both parties must cooperate as appropriate to perform their obligations under this Agreement.

**14. Severability.** Neither party intends to violate state or federal statutory or common laws and applicable regulations. If any sentence, paragraph, clause or combination thereof in this Agreement is in violation of any state or federal statutory or common law and applicable regulations it or is required to be changed to comply with such, then the paragraph, clause or sentence, or combination thereof is inoperative and the remainder of this Agreement must remain binding on the parties in this Agreement.

EMC:

Company:

EMBARQ MANAGEMENT COMPANY

UNITED TELEPHONE COMPANY OF THE  
NORTHWEST

By: 

By: 

Name: Claudia S. Toussaint

Name: Chad Eckhart

Title: Vice President and Secretary

Title: Vice President, Regulatory  
Affairs