ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 24, 2009

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** __________NA__________

DATE: March 18, 2009

TO: Public Utility Commission

FROM: Michael Dougherty

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: EMBARQ CORPORATION AND CENTURYTEL INC: (Docket No. UM 1416) Joint Application for Approval of Merger between the two companies and their regulated subsidiaries.

STAFF RECOMMENDATION:

Pursuant to ORS 759.375, ORS 759.380, and OAR 860-027-0025, the Commission should approve the merger of Embarq Corporation (Embarq) and CenturyTel, Inc. (collectively, Applicants), resulting in CenturyTel, Inc. becoming the parent company post-merger. This memo will refer to the post-merger parent company as CenturyTel or Company, and to the pre-merger entity as CenturyTel, Inc. Post-merger, CenturyTel will control three incumbent local exchange companies (ILECs) that are currently providing service in Oregon as telecommunications utilities.

These ILECs are United Telephone Company of the Northwest dba Embarq, CenturyTel of Oregon, Inc., and CenturyTel of Eastern Oregon, Inc. This memo will refer to the three ILECs collectively, as the Operating Companies, and when discussed individually, as an Operating Company. My recommendation for approval is subject to the following conditions:

1. CenturyTel shall provide the Commission access to all books of account, as well as, all documents, data, and records that pertain to the merger of the two companies.

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. The Applicants shall immediately notify the Commission of any substantive changes to the merger terms and conditions from those set forth in their application that: (1) are planned to, or in fact do occur while a Commission order approving the merger is pending, or (2) occur before the merger is closed, but after the Commission issues its order approving the merger. The Applicants must also submit a supplemental application for an amended Commission order in this docket if the merger conditions and terms change as set forth in this condition.

4. CenturyTel shall commit to the following and submit any necessary filings to effect such changes at the appropriate time:

   a. Post-Merger, CenturyTel will maintain an organizational structure that includes the three regulated ILECs in Oregon (no change from current certification) - United Telephone Company of the Northwest (UTNW) dba Embarq, CenturyTel of Oregon, Inc., and CenturyTel of Eastern Oregon, Inc., both dba CenturyTel (Operating Companies). Any change in certification will require the proper Commission filings.

   b. The merger will be transparent to the Operating Companies' Oregon regulated retail customers. Immediately after the merger, the carrier name on all applicable retail customer bills will remain unchanged.

   c. The Company will keep Staff apprised of organizational structure changes as they occur.

   d. No changes will be made by CenturyTel or its Operating Companies to any rate, rule or regulation currently included in the Operating Companies' access tariff, retail tariff or any retail price list without properly filing a rate application.

   e. If an Operating Company files a general rate proceeding in Oregon, it will file based upon its own individual regulated telecommunications utility rate base, earnings requirement, rates, etc.

   f. For the period of three years after the merger, an Operating Company will not advocate in any general rate case proceeding for a higher cost of capital as compared to its cost of capital would have been, using appropriate financial analysis absent the merger.

g. For the period of five years after the merger, CenturyTel will not seek recovery of one-time merger, branding, or transaction costs in rate proceedings in Oregon.

h. All existing agreements with other carriers and customers will continue in force and will be honored by the Company.

i. Under the current operating structure, financial reporting will remain unchanged, i.e., two Form-Os for the CenturyTel, Inc. ILECs, one Form-O for the Embarq ILEC, one Form-I for the CenturyTel, Inc. ILECs, and one Form-I for the Embarq ILEC.

j. For the period of three years after the merger, at any time when the condition in subsection 4j(i) exists the Operating Companies of the merged company will limit payments of dividends on common equity distributed to any company (including affiliates and subsidiaries of Century Tel) holding shares of the operating companies in any year to an amount not more than 50% of net income in any prior fiscal year. The Operating Companies will limit payment of dividends on common equity in any quarter to not more than one-fourth of the annual limitation amount.

    j(i) The average market value of CenturyTel's common equity is less than 50 percent of the book value of CenturyTel's net debt. The average market value of CenturyTel's common equity will be calculated using the average stock price and the average number of fully diluted shares outstanding during the preceding 120 calendar days. As used in this section, "net debt" means total long-term debt less cash. This test will be calculated prior to the determination of each declaration of dividend, whether quarterly, special, or other.

k. Neither CenturyTel nor the Operating Companies of the merged company will pledge the assets of the Operating Companies to secure any borrowing undertaken by CenturyTel (including affiliates and subsidiaries other than the operating companies) without approval of the Commission.

l. The acquisition premium paid by CenturyTel Inc. for Embarq Corporation will be excluded from the utility accounts of the operating companies. Further, CenturyTel commits that it will not propose to recover the acquisition premium in Oregon retail and access rates.

m. For the period of five years after the merger, CenturyTel will notify the Commission if goodwill impairment (fair value less than book value) exceeds 20 percent in any annual testing year.

n. Service Quality reporting for the Operating Companies, both content and frequency, will remain unchanged. However, pursuant to Commission Order No. 08-205, the Commission continues to reserve the right to revoke CenturyTel's current reporting exemption should a Staff investigation reveal poor CenturyTel network performance.

o. For a period of five years, CenturyTel will hold customers harmless for increases in management costs incurred by the operating companies that result from the merger.

p. The Operating Companies will comply with all applicable Commission statutes and regulations regarding affiliated interest transactions, including timely filings of applications and reports. To the extent affiliated interest changes do occur, the Company will make the appropriate affiliated interest filings pursuant to ORS 759.390.

q. The certificates of all CenturyTel entities certified as Competitive Providers in Oregon will remain in effect and unchanged as of the date the merger is effective. Thereafter, CenturyTel will report any changes affecting those certificates in compliance with applicable Commission statutes and regulations.

DISCUSSION:

The Applicants submitted this application on January 30, 2009. In the application, Applicants requested an expedited timeline in order to allow Applicants to conclude the merger transaction no later than the second quarter of 2009.

The Applicants and Cajun Acquisition Company (CAC)[1] entered into an Agreement and Plan of Merger as of October 26, 2008.[2] Embarq is a publicly traded holding company with incumbent local exchange operations in 18 states, including its Oregon ILEC. CenturyTel, Inc. is a publicly traded holding company with incumbent local exchange

[1] CAC is a direct wholly-owned subsidiary of CenturyTel created to effectuate the transaction.
[2] The Merger Agreement is a public document included with the joint proxy statement of CenturyTel, Inc. and Embarq, http://media.corportate-ir.net/media_files/irol/19/197829/EQ_CenturyTelMergerProxy.pdf

operations in 25 states, including CenturyTel of Oregon, Inc. and CenturyTel of Eastern Oregon, Inc., both dba CenturyTel. The new combined entity will operate in 33 states.

As of December 31, 2008, Embarq served approximately 6.5 million local access lines including approximately 60,000 total access lines in Oregon. CenturyTel served approximately 2.1 million local access lines, including approximately 62,000 access lines in Oregon.

Under the terms of the merger agreement (Merger Agreement), Embarq will merge with CAC and become a direct wholly-owned subsidiary of CenturyTel. The transaction will be completed through a stock-for-stock transfer (1.37 shares of CenturyTel, Inc. stock for each share of Embarq stock). There is no incremental debt associated with the transaction. According to Moody's Investment Services, the transaction reflects an enterprise value of approximately $11.6 billion, including the planned assumption of $5.8 billion of Embarq's debt. Attachment 1 to this memo shows the Oregon Organizational Structure Diagrams including pre-merger, merger, and post-merger structures.

The terms of the Merger Agreement provide that Embarq's subsidiaries operating in Oregon will remain subsidies of Embarq; however, Embarq will become 100 percent owned by CenturyTel. UTNW and the CenturyTel, Inc. ILECs will continue as certified carriers in Oregon and according to the Applicants, will continue to have the requisite managerial, technical, and financial capability to provide services to customers. Immediately following the completion of the transaction, end user customers will continue to receive service from the same local Operating Company and at the same rates, terms, and conditions as immediately prior to the transaction.

Legal Standard for Transaction

According to advice given by the Assistant Attorney General, the Commission should apply an "in the public interest, no harm" standard when considering whether to approve this transaction. This is the standard that the Commission used in its Order No. 95-526 involving a transaction under ORS 759.375(1)(c) and 759.380 (sale of 23 exchanges). This is a *lesser* standard than the "net benefits" standard employed under ORS 757.511 for energy utility acquisitions. Additionally, the Commission has used the "in the public interest, no harm" standard for property sales including telecommunication utility property sales (Commission Order No. 08-617 (UP 247) and Commission Order No. 02-466 (UP 195)).

Stated Benefits of the Transaction

Although the legal standard for approval does not require the Commission to find "net benefits" from the transaction, the Applicants set forth numerous alleged benefits in their application including:

1. The transaction will result in a combined enterprise that can achieve greater economies of scale and scope than the two companies operating independently.

2. Both companies have investment grade ratings with adequate access to capital. According to the Applicants, the proposed combination will result in a sustainable and vibrant company.

3. The combined businesses will be able to capitalize on their collective knowledge to deliver innovations in technology and product offerings to rural and smaller markets.

4. The post-transaction company is expected to have pro forma revenue in excess of $8.8 billion, pro forma EBITDA of approximately $4.2 billion, pro forma leverage of 2.1 times EBITDA, and pro forma free cash flow of approximately $1.8 billion. According to the Applicants, these attributes will ensure that CenturyTel will have the fiscal stability to pursue necessary strategies and to provide reliable services in the ever-increasingly competitive telecommunications marketplace.

In addition CenturyTel Inc. notes the following additional benefits in its October 27, 2008, press release:

- Enhanced Competitive Position: The combined company is expected to be even more competitive, with significantly increased scale to facilitate economically attractive deployment of growth products and services including expanded IPTV, broadband, and wireless data offers. The two companies have a combined operating presence in 33 states with approximately eight million access lines, two million broadband customers and approximately 400,000 video subscribers.

- Significant Synergy Opportunities: The transaction is expected to generate synergies of approximately $400 million annually within the first three years of operation. Key drivers of these synergies include reduction of corporate overhead, elimination of duplicate functions, enhanced revenue opportunities, and increased operational efficiencies through the adoption of best practices and capabilities from each company.

As stated a showing of benefits is not required under an “in the public interest, no harm” standard of the Commission. Staff believes that the focus of the merger is its effect on customers.[3] Although, the benefits listed by the Applicants could potentially benefit customers in the future, Staff is charged to review the application to ensure customers are not harmed by the transaction.

Actions to Date
A Prehearing Conference was conducted on March 6, 2009. At the Prehearing Conference, the Applicants, Staff, Citizen’s Utility Board, and the City of Lincoln City (Parties), agreed on a schedule for this docket. As part of the schedule, the Parties, other than staff, had the opportunity to file opening comments on March 17, 2009. Additionally, a settlement conference was conducted on March 20, 2009.

Staff’s Review of the Transaction
To ensure that the transaction meets the “in the public interest, no harm” standard, Staff examined the following:

1. Organizational Issues
2. Rates and Reporting Requirements
3. Financial Data
4. Service Quality
5. Affiliated Interest Issues
6. Actions by Other Regulatory Jurisdictions
7. Comments from Parties

Organizational Issues
As previously mentioned, the terms of the Merger Agreement provide that Embarq’s subsidiaries operating in Oregon will remain subsidies of Embarq; however, Embarq will become 100 percent owned by CenturyTel. UTNW and CenturyTel, Inc. ILECs will continue as certified carriers in Oregon. Ordering condition 4a requires that post-merger, the resulting entity, CenturyTel will still have three regulated telecommunications utilities in Oregon (no change from current licensing) - UTNW, CenturyTel of Oregon, Inc., and CenturyTel of Eastern Oregon, Inc., both dba CenturyTel.

[3] The role of a Public Utility Commission is to protect customers from unjust exactions resulting from the market control that utilities could exercise without state regulation. The form of business enterprise should be of no consequence to the Commission, as long as the utility obeys regulatory mandates and procedures, does not present conflicts with the interests of Oregon customers, does not expose customers to greater risks of higher costs or lower service quality, and is capable of economically and reliably providing the services offered to customers now and in the future. *Commission Order No. 01-778, page 11.*

The synergies the Applicant states in its October 27, 2008, press release include reduction of corporate overhead, elimination of duplicate functions, enhanced revenue opportunities, and increased operational efficiencies through the adoption of best practices and capabilities from each company. Although the synergies will occur in corporate functions, the Oregon entities will continue to exist in their current form after the merger is completed and these entities will not change. Ordering condition 4b requires that the carrier name on all applicable retail customer bills will remain unchanged.

According to the Applicants, Embarq employees will not participate immediately in CenturyTel employee benefit and welfare plans at the closing of the merger. As described in the Merger Agreement, dated October 26, 2008, for a period of not less than 12 months following the merger, former Embarq employees who become CenturyTel employees will receive compensation and benefits that are substantially comparable in the aggregate to the compensation and benefits provided prior to the merger. No decision has been made to consolidate Embarq's pension and postretirement plans into the respective CenturyTel, Inc.'s plans.

Ordering condition number 4c requires CenturyTel to apprise Staff of organizational structure changes.

Rates and Reporting Requirements
As stated by the Applicants, the merger will have no effect on the Applicants' Operating Companies' current rates and schedules. CenturyTel ILECs' access tariff is listed in the company's tariff book as PUC OR No. 4 and its retail tariff is listed as PUC OR No. 5. UTNW's access tariff is listed in its tariff book as PUC OR No. 6 and its retail tariff is listed as PUC OR No. 3. Ordering condition 4d requires the Operating Companies to make appropriate filings to the Commission to change any rates or regulations.

Because the merger is designed to be transparent to customers, Ordering condition No. 4e requires that if an Operating Companies files a general rate proceeding, that utility will file based upon its own individual regulated telecommunications utility rate base, earnings requirement, rates, etc.

In addition, Ordering condition 4f requires that for the period of three years after the merger, an Operating Company will not advocate in any general rate case proceeding for a higher cost of capital as compared to what its cost of capital would have been, using appropriate financial analysis absent the merger.

Additionally, Ordering condition 4g requires that for the period of five years after the merger, CenturyTel will not seek recovery of one-time merger, branding, or transaction costs in future rate proceedings in Oregon. Ordering condition 4h requires the Company to make any necessary filings concerning any proposed changes concerning all existing agreements with other carriers, customers, etc.

Financial Data
Staff examined numerous financial attributes including pro forma combined balance sheet, pro forma combined statement of income, pre- and post-merger weighted cost of capital, pre- and post-merger debt levels, stock prices, pre-merger earnings per share and other financial data. Based on pro forma financial statements, the merger will result in a financially stronger combined entity than the two existing entities (CenturyTel Inc. and Embarq Corporation). In its review of financial data, Staff did not note any major issues concerning the combined operation; however, the following is highlighted.

Cost of Capital
The following highlights the pre- and post-merger cost of capital of the Applicants. The equity return is based on the current interstate authorized return as a proxy.

Cost of Capital - CenturyTel	**Percent of capital**	**Cost**	**Weighted Cost**
Long Term Debt	51.13%	10.08%	5.15%
Preferred Stock	N/A	N/A	0.000%
Common Equity	48.87%	11.25%	5.50%
Total	**100.00%**		**10.65%**

Cost of Capital - Embarq	**Percent of Capital**	**Cost**	**Weighted Cost**
Long Term Debt	53.27%	11.58%	6.17%
Preferred Stock	N/A	N/A	0.000%
Common Equity	46.73%	11.25%	5.26%
Total	**100.00%**		**11.43%**

Cost of Capital - Combined	**Percent of Capital**	**Cost**	**Weighted Cost**
Long Term Debt	50.27%	11.03%	5.54%
Preferred Stock	N/A	N/A	0.000%
Common Equity	49.73%	11.25%	5.60%
Total	**100.00%**		**11.14%**

As can be seen from the above table, the resulting structure results in an approximate 50/50 split between debt and equity. As previously mentioned, no incremental debt is being issued for this transaction.

Debt Ratings

The following are the current debt ratings of the Applicants.

CentureTel: Moody's - Baa2 – Under Review
S&P - BBB- Stable
Fitch - BBB- Stable

Embarq: Moody's – Baa3 with Positive Outlook
S&P – BBB- with Stable Outlook
Fitch – BBB- with Stable Outlook

The above ratings are minimal investment grade. The Applicants anticipate having post-transaction financial metrics consistent with those of companies that have been rated "investment grade" by major ratings agencies. In an October 27, 2008, Bulletin, Standard & Poor's stated:

> The combined company is not expected to have a materially different business or financial risk profile than those of the two stand-alone companies. The combined company will modestly benefit from greater scale, solid net free cash flow generation, healthy margins, and moderate pro forma leverage of about 2.3x. This figure excludes about $300 million of potential operating cost synergies. Still, we remain concerned about the ongoing access-line losses at both companies, which totaled 6% at CenturyTel and 8.6% at Embarq as of the 2008 third quarter, and the potential for future debt-financed acquisitions and/or shareholder-friendly initiatives. A significant acceleration of access-line losses and integration issues could prompt a revision of the outlook to negative.

On October 27, 2008, Fitch Ratings affirmed the long-term Issuer Default Rating of both CenturyTel and Embarq at BBB-. Fitch also notes that CenturyTel intends to maintain investment grade ratings after the close of the transaction; and that risk is relatively low based on industry experience. In a March 6, 2009, update on CenturyTel, Inc., Fitch notes that *"The merger did not trigger other change-of-control provisions in the debt of either company."*

Fitch generally views leverage of 3.0 times or below and a dividend payout of free cash flow no greater than 55 percent as being the threshold for an investment-grade rating for a rural local exchange carrier with flat-growth prospects and limited competitive pressure. Fitch believes that the post-merger company will operate within these measures in the near future.[4]

Moody's in a March 3, 2008, Credit Opinion stated:

> "CenturyTel's ratings reflects its sizeable subscriber base, moderate leverage, predictable cash generating capabilities and our expectations that the company's management will maintain healthy liquidity and a capital structure that is consistent with maintaining an investment grade rating.
>
> In the near term, we expect that access line losses amid increasing competition from wireless service providers and cable companies will continue to pressure revenues. That said, the company's ability to cut costs should enable it to maintain healthy cash flows over the next couple of years."

<u>Long-term Debt</u>
The pro forma statements and responses to Staff's data requests indicate that the combined operations long-term debt will decrease post-merger. The following table highlights pre- and post-merger long-tem debt.

	CenturyTel	**Embarq**	**Combined**
2007	$212,217,000	$432,000,000	$644,217,000
2008	$202,217,000	$405,000,000	$607,217,000
2009			$591,000,000
2010			$575,000,000

As the above table indicates, debt level of the combined company is expected to decrease from pre-merger levels. As previously mentioned, no incremental debt is being issued for the transaction.

[4] Fitch Ratings, CenturyTel Inc., March 6, 2009.

Goodwill

Partially as a result of previous transactions,[5] CenturyTel, Inc. currently has $4.01 billion of goodwill on its balance sheet. In an acquisition, goodwill is recognized as the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired (including identifiable intangibles) and liabilities assumed.[6] Based on the pro forma financial statements contained in the Form S-4 (Joint Proxy Statement) filed with the SEC, the estimated post-merger goodwill that will be carried on CenturyTel's balance sheet is approximately $7.874 billion.

The potential problem with a large amount of goodwill on a company's books is that goodwill can not be amortized over a given period if time. According to Generally Accepted Accounting Principles (GAAP), goodwill must be tested for impairment on an annual basis. Impairment occurs when the fair value of a long-term asset group is less than the book value. If goodwill is impaired, its carrying amount is reduced and an impairment loss is recognized on a company's income statement. As a result, impairment losses could potentially create earnings volatility with no cash flow effects and signal a loss in economic value of the company.

Both Embarq and CenturyTel's 2008 annual evaluation of goodwill resulted in conclusions that goodwill was not impaired. As disclosed to the SEC, CenturyTel, Inc. does not anticipate any impairment to its goodwill. According to CenturyTel, Inc., if goodwill was substantially impaired, the impairment loss would be a non-cash charge to earnings and would not, by itself, necessitate the issuance of debt or other financing for the impairment loss. Additionally, according to the Applicants, there are no existing debt covenants or restrictions that would be affected by impairment of goodwill.

Financial Reporting

To ensure that Staff can continue to monitor the Operating Companies' financial statements in the same method as currently being reviewed, Ordering condition 4d requires that the Applicants' financial reporting remain unchanged, specifically, two Form-Os for the CenturyTel, Inc.'s ILECs, one Form-O for Embarq ILEC, one Form-I for the CenturyTel, Inc. ILECs, and one Form-I for Embarq ILEC.

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[5] CenturyTel, Inc.'s acquisition of Madison River in 2007 resulted in approximately $580 million of goodwill. CenturyTel, Inc.'s acquisition of assets of KMC Telecom in 2005 and 2002 resulted in approximately $30 million of goodwill. CenturyTel, Inc.'s acquisition of assets from Digital Teleport (LightCore) in 2003 resulted in approximately $11 million of goodwill.

[6] *GAAP 2005, Interpretation and Application of Generally Accepted Accounting Principles*, Wiley, page 367.

Financial and Ring-fencing Ordering Conditions

As stated by the Applicants, the shareholders of the Applicants consist in large part of sophisticated institutional investors who are well qualified to independently evaluate the financial strength and other attributes of the combined entity. Although this may be true, customers should not have to rely on shareholder analysis of financial strength. In order to hold customers harmless in the transaction, Staff recommends the following Ordering conditions concerning financial actions.

Ordering condition 4j - For the period of three years after the merger, the Operating Companies will limit payments of dividends on common equity distributed to any company (including affiliates and subsidiaries of CenturyTel) holding shares of the Operating Companies in any year to an amount not more than 50 percent of net income in any prior fiscal year. The Operating Companies will limit payment of dividends on common equity in any quarter to not more than one-fourth of the annual limitation amount. This condition is subject to a test as stated in Ordering condition 4j(i):

> j(i) The average market value of CenturyTel's common equity is less than 50 percent of the book value of CenturyTel's net debt. The average market value of CenturyTel's common equity will be calculated using the average stock price and the average number of fully diluted shares outstanding during the preceding 120 calendar days. As used in this section, "net debt" means total long-term debt less cash. This test will be calculated prior to the determination of each declaration of dividend, whether quarterly, special, or other.

Ordering condition 4k - Neither CenturyTel nor the Operating Companies will pledge the assets of the Operating Companies to secure any borrowing undertaken by CenturyTel (including affiliates and subsidiaries other than the operating companies) without approval of the Commission.

Ordering condition 4l - The acquisition premium paid by CenturyTel, Inc. for Embarq Corporation will be excluded from the utility accounts of the Operating Companies. Further CenturyTel commits that it will not propose to recover the acquisition premium in Oregon retail and access rates.

Ordering condition 4m - For the period of five years after the merger, CenturyTel will notify the Commission if goodwill impairment (book value less than fair value) exceeds 20 percent in any annual testing year.

Service Quality
In docket UM 1369, Staff concluded that CenturyTel, Inc. met or exceeded the service quality objectives within the study period from February 2007 to January 2008 as required by OAR 860-023-0055(16)(d).

CenturyTel, Inc. achieved the objective service levels in OAR 860-023-0055(4)-(7):

- OAR 860-023-0055(4) - Provisioning, Held Orders and Held Orders over 30 days, Due to Lack of Facilities;
- OAR 860-023-0055(5) - Trouble Reports;
- OAR 860-023-0055(6) - Repair Clearing Time; and
- OAR 860-023-0055(7) - Blocked Calls.

Commission Order No. 08-205 granted CenturyTel, Inc.'s petition for exemption from submitting monthly service quality reporting requirements, but reserved the right to revoke the exemption should a Staff investigation reveal poor CenturyTel, Inc. network performance. To date, there has not been cause to initiate a Staff investigation.

Embarq does not currently have an exemption from monthly service quality reporting requirements. Ordering condition 4n requires that service quality reporting content and frequency will remain unchanged.

Staff also examined 2007 and 2008 consumer complaints (jurisdictional) as a percentage of access lines for CenturyTel, Inc. and Embarq. The following table highlights the small percentages of complaints for both companies.

Company	**2007**	**2008**
CenturyTel	0.12%	0.14%
Embarq	0.11%	0.08%

As the above table indicates, customer complaints (jurisdictional) are low for both companies.

Affiliated Interest Issues
There are currently two affiliated interest orders in effect for CenturyTel of Eastern Oregon, Inc. (UI 184 and UI 186), two affiliated interest orders for CenturyTel of Oregon, Inc. (UI 185 and UI 187) and three joint affiliated interest orders for CenturyTel of Eastern Oregon, Inc. and CenturyTel of Oregon, Inc. (UI 229, UI 230, and UI 239). The following table highlights 2007 and 2008 payments for services received and services provided in 2007 and 2008.

	CenturyTel of Oregon	**CenturyTel of Eastern Oregon**	**Total**
2007 Services Received	$5,936,026	$8,865,118	$14,801,144
2007 Services Provided	$573,002	$413,508	$986,510
2007 Services Received	$5,584,629	$8,368,084	$13,952,713
2007 Services Provided	$569,183	$434,122	$1,003,305

In addition, there are three affiliated interest orders (UI 251, UI 252, and UI 275) in effect for Embarq. The following table highlights 2007 and 2008 payments for services received and services provided in 2007 and 2008.

	Embarq
2007 Services Received	$17,650,137
2007 Services Provided	$814,089
2007 Services Received	$15,687,668
2007 Services Provided	$724,782

The Applicants do not anticipate any changes in the type of affiliated services provided as a result of the merger.[7] Ordering conditions 4o and 4p address affiliated interest concerns.

It is important to note, that when approving affiliated interest contracts, the Commission does not need to determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission can reserve that issue for a subsequent proceeding. The subsequent proceeding in this case would be an Operating Companies' general rate filing.

<u>Competitive Provider Certificated Affiliates</u>
The Applicants currently have a number of Competitive Provider affiliates certificated by the Commission to operate within Oregon. The Applicants do not anticipate any changes in Competitive Provider affiliates as a result of the merger. Ordering condition 4q addresses Competitive Provider concerns.

[7] Embarq Corporation will still be the parent of UTNW and will continue to initially provide management services to UTNW.

Actions by Other Regulatory Actions
As a result of being under certain regulatory requirements by federal and state agencies, the Applicants were required to file for approval in numerous jurisdictions. Of the 33 states the new combined entity will operate in, 18 do not require state approval. The following table summarizes the status of jurisdictional approvals.

Regulatory Agency	**Date Approval Received**	**Current Status if Approval is Pending**	**Scheduled Hearing Date (if applicable)**
Federal			
FCC		Pending	Not applicable
Federal Trade Commission/Department of Justice	November 21, 2008[8]	Antitrust review completed	Not applicable
State			
California		Pending	Not applicable
Florida	Preliminary Approval on February 10, 2009	Consummating final order expected by 3/26/09 after expiration of protest period.	Not applicable
Illinois		Pending	February 4, 2009
Georgia	February 3, 2009	Approved	Not applicable
Louisiana		Pending	Not applicable
Minnesota	February 18, 2009	Approved	Not applicable
Mississippi	February 3, 2009	Approved	Not applicable
Nebraska	February 24, 2009	Approved	February 10, 2009
Nevada		Pending	March 25-26, 2009
Ohio	February 25, 2009	Approved	Not applicable
Pennsylvania		Pending	March 3, 2009
Tennessee		Pending	Week of April 13, 2009 - proposed
Virginia		Pending	March 17, 2009
Washington		Pending	April 15-16, 2009

Comments from Parties
Although the Administrative Law Judge gave Parties until Match 17, 2009, to submit opening briefs, no briefs were received. Further discussions concerning the docket will

[8] The merger transaction was subject to antitrust review by the Federal Trade Commission (FTC) and the Department of Justice under the Hart-Scott-Rodino Act. CenturyTel, Inc. and Embarq made their initial pre-merger submission on November 10, 2008, and were notified by the FTC Premerger Notification office on November 21, 2008, that the statutory 30-day waiting period was being terminated early and without further review.

occur at the March 20, 2009, Settlement Conference. Although, the date of the settlement conference is past the routing date of this memo, Staff will be able to discuss at the public meeting, any agreements that change the conditions listed in this memo.

Although all Parties agreed to attempt to reach resolution of this docket by the March 24, 2009, Public Meeting, the Parties realized that a Hearing may be required to allow for additional analysis and comments on the docket.

PROPOSED COMMISSION MOTION:

Pursuant to ORS 759.375, ORS 759.380, and OAR 860-027-0025, the Commission should approve the merger of Embarq and CenturyTel, Inc., the parent companies of United Telephone Company of the Northwest dba Embarq, CenturyTel of Oregon, Inc., and CenturyTel of Eastern Oregon, Inc. subject to the recommended conditions.

However, if the Commission believes additional time is required for review of this docket, Staff recommends that Commission direct a Hearings schedule be adopted to allow for a Commission order no later than June 30, 2009.

PMM UM 1416

CERTIFICATE OF SERVICE

I certify that on March 18, 2009, I served the foregoing Staff's Proposed Public Meeting Memo upon all parties of record in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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