

BEFORE THE OREGON PUBLIC UTILITY COMMISSION

In the Matter of the Application)
of United Telephone Company)
of the Northwest for an order) No. UI-252
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:

Not applicable.

- (g) Description of goods or services to be provided, and costs of goods and services:

Management Services

1. 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.
2. 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.
3. 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.
4. Legal Services. Render legal services and counsel relating to any matter, as requested or required.
5. Planning. Advise and assist in long range business planning, including support in developing appropriate long range goals, strategies and programs, and the implementation thereof.

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 \$11 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:

Not applicable.

WHEREFORE, Applicant respectfully requests that this Commission enter findings and an order that the Agreement described herein is fair and reasonable and not contrary to the public interest and approving said transactions.

Dated this 9th day of June, 2006.

Respectfully Submitted,

UNITED TELEPHONE COMPANY OF THE NORTHWEST

By: _____

Nancy L. Judy
State Executive, OR & WA
Sprint
902 Wasco Street
Hood River, OR 97031

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
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UNITED TELEPHONE COMPANY OF THE NORTHWEST

By: _____

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Thomas J. McEvoy
Tracy D. Mackey
Valerie Parrish-Porter
William R. Blessing
William E. Cheek

August 7, 2006

Ms. Vikie Bailey-Goggins, Administrator
Commission Services
Oregon Public Utility Commission
550 Capitol Street, N.E., Suite 215
Salem, OR 97308-2148

RE: UI-252

Dear Ms. Bailey-Goggins:

Enclosed is an amended Application for Approval of an Agreement Between United Telephone Company of the Northwest and Embarq Management Company, an affiliated interest. In Section (h) we indicated the amount paid by United in 2005 was \$14 million. That figure was in error and has been replaced with \$11 million.

If additional information is required, please contact me 541/387-9265.

Sincerely,

Nancy L. Judy