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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 184

In the Matter of)	
)	ORDER
CENTURYTEL OF EASTERN OREGON,)	
INC.)	
)	
Application for Approval of a Services)	
Agreement with CENTURYTEL SERVICE)	
GROUP, LLC, an Affiliate.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On December 15, 2000, CenturyTel of Eastern Oregon, Inc. (the Company) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 759.390 and OAR 860-027-0040(2), requesting approval of a services agreement with CenturyTel Service Group, LLC (Service Group), an affiliated interest. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

Based on a review of the application and the Commission’s records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on August 20, 2003, the Commission adopted Staff’s recommendations.

OPINION

Jurisdiction

ORS 759.005 defines a “telecommunications utility,” and the Company is a telecommunications utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists, as defined under ORS 759.010.

Applicable Law

ORS 759.390 requires telecommunications utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 759.390(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

CONCLUSIONS

1. The Company is a telecommunications utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be granted, with certain conditions.

ORDER

IT IS ORDERED that the application of CenturyTel of Eastern Oregon, Inc., to enter into an affiliated interest service agreement with CenturyTel Service Group, LLC, is approved, subject to the conditions, as further stated in Appendix A.

Made, entered, and effective _____.

BY THE COMMISSION:

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 20, 2003**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: August 11, 2003

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Michael Dougherty

SUBJECT: CENTURYTEL OF EASTERN OREGON INC.: (Docket No. UI 184)
Application for Approval of a Services Agreement with CenturyTel Service Group LLC.

STAFF RECOMMENDATION:

The Commission should approve CenturyTel of Eastern Oregon's (Company) application for a services agreement with CenturyTel Service Group LLC (Service Group), an affiliated interest, and include the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as documents, data, and records of the Company and Service Group's affiliated interests that pertain to this transaction.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. The Company shall notify the Commission in advance of any substantive changes to the agreement, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
4. Starting in year 2002, the annual escalation rate for subsequent years shall not exceed the previous year's U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers (CPI-U).

DISCUSSION:

Background

The Company filed this application on December 15, 2000, pursuant to ORS 759.390 and OAR 860-027-0040. The Company requests authorization from the Commission for Service Group to provide operational supervision, professional, accounting, financial, legal, data, technical, customer services, sales, engineering/construction and travel services. Estimated annual costs for the services provided to the Company are \$4,648,339. CenturyTel of Oregon (UI 185) would also be assigned an estimated \$5,060,602. The Company is currently serving approximately 34,337 customers.

The docket was closed without an order on April 25, 2001, based on advice from the Attorney General's office memorialized in Staff's internal memo dated April 24, 2001. Upon further review by Staff and the Attorney General's office, the application is a forward service contract that requires Commission approval pursuant to ORS 757.390 and the docket was re-opened on May 14, 2003.

The Company is one hundred percent owned by CenturyTel of the Northwest, Inc, which in turn is one hundred percent, owned by CenturyTel, Inc. Service Group is also one hundred percent owned by CenturyTel, Inc. Therefore, the Company and Service Group are affiliated interests under ORS 757.015.

Issues

Staff investigated the following issues:

1. Terms and Conditions of the Agreement
2. Public Interest Compliance
3. Records Availability, Audit Provisions and Reporting Requirements

Terms and Conditions of the Agreement

Based upon Staff's analysis of the contract, there appears to be no unusual or restrictive terms that will harm customers.

Per the contract, Service Group costs are allocated on the basis of direct costs whenever possible. When application of direct costs cannot be performed, costs are allocated based on one or more factors including number of employees, person hours,

number of access lines, operating expenses, computer machine hours and net plant investment.

Although the contract states that "direct costs will be used whenever possible", all costs assigned to the Company in 2001, 2002 and 2003 to date have been allocated costs. The 2003 general allocator for the combined entities of CenturyTel of Eastern Oregon and CenturyTel of Oregon is approximately 3.74%. Staff did not note anything unusual about the cost allocation methods or the cost allocators.

Public Interest Compliance

The Company did not utilize a competitive bid process in the selection of Service Group. The Company states that because Service Group is able to provide all services in a coordinated package and provides these services to over fifty local exchange carriers, Service Group is able to capitalize on economies of scope and scale. As a result, market costs for these services would not be lower than the costs charged by Service Group.

Additionally, the Company states that the various Service Group systems have the added advantage of being developed to specifically address the unique needs and challenges associated with providing telecommunications services in rural and small town areas. PTI Communications previously provided these services to the Company prior to the acquisition of PTI Communications by CenturyTel.

The 2002 combined costs for CenturyTel of Oregon and CenturyTel of Eastern Oregon¹ was \$9,993,349, which equates to approximately \$10.85 per customer per month. These costs reflect a major provision of services provided to the Company by Service Group. Staff recommends that annual escalation costs be limited to the previous year's U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers (CPI-U).

Staff examined the cost categories, assigned costs, vendor costs and percent allocations and concludes that the Company is paying a fair and reasonable price and meeting the Commission's transfer pricing policy.

Records Availability, Audit Provisions and Reporting Requirements - The proposed ordering condition No. 1 provides the necessary records access to the Company's relevant books and records.

¹ Data was combined as the two entities are treated as one for revenue requirement and affiliated interest filings.

After reviewing the filing, Staff concludes that:

1. The contract contains no unusual or restrictive terms that would harm customers.
2. The Company has met the requirements of the Commission's transfer pricing policy for affiliate transactions.
3. The Commission will have the necessary records access to the Company's books and records.
4. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.

PROPOSED COMMISSION MOTION:

CenturyTel of Eastern Oregon's UI 184 application to enter into an affiliated interest service agreement with Service Group LLC, subject to the four recommended conditions stated in this memorandum, be approved.

UI 184 - CenturyTel of Eastern Oregon