

ORDER NO. 04-514

ENTERED SEP 10 2004

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 230

In the Matter of)	
)	ORDER
CENTURYTEL OF OREGON, INC., AND)	
CENTURYTEL OF EASTERN OREGON, INC.)	
)	
Joint Applicants' Service Contract Agreement)	
with CenturyTel Supply Group, Inc.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On May 25, 2004, CenturyTel of Oregon, Inc. and CenturyTel of Eastern Oregon, Inc. (Companies) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 759.390 and OAR 860-027-0040, requesting approval of a service agreement with CenturyTel Supply Group, Inc., an affiliated interest. A description of the investigation into the agreement 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 September 7, 2004, the Commission adopted Staff's recommendation

OPINION

Jurisdiction

ORS 759.005 defines a "telecommunications utility" and the Companies are telecommunications utilities subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists under ORS 759.010.

Applicable Law

ORS 759.390 requires a telecommunications utility 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 Companies are telecommunications utilities 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 approved, with certain conditions.

ORDER

IT IS ORDERED that the application of CenturyTel of Oregon, Inc. and CenturyTel of Eastern Oregon, Inc. to enter into an affiliated interest transaction with CenturyTel Supply Group, Inc., is approved, subject to certain 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: September 7, 2004**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** January 1, 2003

DATE: August 19, 2004

TO: Lee Sparling through Marc Hellman and Rebecca Trujillo

FROM: Marion Anderson

SUBJECT: CENTURYTEL OF OREGON, INC., AND CENTURYTEL OF EASTERN OREGON, INC.: (Docket No. UI 230) Joint Applicants' Service Contract Agreement with CenturyTel Supply Group, Inc.

STAFF RECOMMENDATION:

The Commission should approve the application of CenturyTel of Oregon, Inc., (CTO) and CenturyTel of Eastern Oregon, Inc., (CTEO) for a service agreement with CenturyTel Supply Group, Inc., (CSG), an affiliated interest, with the following conditions:

1. CTO and CTEO shall provide the Commission access to all books of account, as well as all documents, data and records of the two and CSG that pertain to transactions between them.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. CTO and CTEO shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

This joint application was filed on May 25, 2004, under ORS 759.390 and OAR 860-027-0040. CTO, CTEO, and CSG as wholly owned subsidiaries of CenturyTel, Inc., are affiliates pursuant to ORS 759.010. The company has been furnished with the applicable statutes and administrative rules governing these matters for future contract filings. The 2003 intrastate Oregon transactions for CTO and CTEO under this contract were \$107,981 and \$106,842 respectively.

The following issues were investigated:

- Scope of the Agreement
- Transfer Pricing
- Determination of Public Interest Compliance
- Records Availability, Audit Provisions and Reporting Requirements

Scope of the Agreement: The specified services, which may be expanded as needed, are purchasing, warehousing, delivery, salvage, and tracking of materials commonly used in the telephony industry.

Transfer Pricing and Determination of Public Interest Compliance: The contract contains stipulations on costing – first fully-loaded direct with secondary formulaic allocation. CSG passes through the savings from its purchasing economies of scale to its affiliated clientele and also "conducts an annual review of vendors with regard to both price and quality". Exemplary documentation underlying this Request for Quotation procedure was submitted to and examined by Staff. This methodology complies with the lower of cost or market dictate of OAR 860-027-0052(3)(e)(A) in my opinion.

Records Availability, Audit Provisions and Reporting Requirements: Condition No. 1 provides necessary access to records.

Based on the review of this application, Staff concludes the following:

1. Transfer pricing is acceptable.
2. Customers are not harmed by these transactions.
3. Necessary records are available.
4. The transactions are not contrary to the public interest with the recommended conditions.

PROPOSED COMMISSION MOTION:

The service contract of CenturyTel of Oregon, Inc., and CenturyTel of Eastern Oregon, Inc., with CenturyTel Supply Group, Inc., be approved, effective January 1, 2003.

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