

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 239

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| In the Matter of |) | |
| |) | ORDER |
| CENTURYTEL OF OREGON, INC. AND |) | |
| CENTURYTEL OF EASTERN OREGON, INC. |) | |
| |) | |
| Joint Applicants' Service Agreement with |) | |
| CenturyTel Holdings Missouri, Inc. |) | |

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On May 9, 2005, 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 Holdings Missouri, 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 June 29, 2005, 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 Holdings Missouri, Inc., is approved, subject to certain conditions, as further stated in Appendix A.

Made, entered, and effective JUL 06 2005.

BY THE COMMISSION:



Becky L. Beier

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: June 29, 2005

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ N/A

DATE: June 7, 2005

TO: Public Utility Commission

FROM: Marion Anderson

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: CENTURYTEL OF OREGON, INC. AND CENTURYTEL OF EASTERN OREGON, INC.: (Docket No. UI 239) Joint Applicants' Service Agreement with CenturyTel Holdings Missouri, 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 Holdings Missouri, Inc. (CMI), 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 CMI 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.
4. CMI shall maintain records to show, upon Commission request, the cost of services provided to CTO and CTEO. The return component used in the calculation shall be CTO and CTEOs'

currently authorized Oregon overall rate of return multiplied by the portion of CMI's net assets used for provisions to CTO and CTEO.

DISCUSSION:

This joint application was filed on May 9, 2005, under ORS 759.390 and OAR 860-027-0040. CTO, CTEO, and CMI as wholly owned subsidiaries of CenturyTel, Inc. are affiliates pursuant to ORS 759.010.

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 services to be provided are operational supervision, maintenance of plant, technical advice and assistance, customer service, engineering and construction, facilities assignments and trouble reporting, fleet management, and other related professional services as required. CMI has developed expertise over time in quality telecommunications service provisions to rural areas and small towns which form the ratepayer base for CTO and CTEO. This expertise is available without the startup difficulties of self-provisioning or provision outside the CenturyTel corporate structure. The projected annual intrastate expenditures under this contract are \$221,791 for CTO and \$225,482 for CTEO.

Transfer Pricing and Determination of Public Interest Compliance: The contract uses a direct charge primary costing method, with allocation formulas approximating actual costs as backup, and contains a classification of service charges. Both the method and classification are nearly identical to those approved in Commission Docket Number UI 229. Differences noted are deemed just and reasonable. The major addition is dealt with in Staff Recommendation Condition No. 4 capping the reasonable return on CMI's capital for the contractual provisions. CenturyTel Service Group, LLC annually reviews third party survey data for its affiliates to determine the salary ranges for relevant positions. The information submitted in support of UI 229 remains the most recent available. Accordingly, the requirement of OAR 860-027-0040(2)(j) for a detailed process in lieu of competitive procurement and the lower of cost or market dictate of OAR 860-027-0052(3)(e)(A) are both satisfied.

Records Availability, Audit Provisions and Reporting Requirements: Condition No. 1 affords 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 Holdings Missouri, Inc. be approved.

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