

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UI 275

In the Matter of	)	
	)	
UNITED TELEPHONE COMPANY OF THE	)	ORDER
NORTHWEST, dba EMBARQ	)	
	)	
Application for approval of an agreement	)	
between United Telephone Company of the	)	
Northwest and Embarq Logistics, an affiliated	)	
interest.	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS**

On September 18, 2007, United Telephone Company of the Northwest, dba Embarq (Embarq), filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 759.390 and OAR 860-027-0040, requesting approval of an affiliated interest agreement with Embarq Logistics, Inc. (EL). Embarq and EL are each wholly-owned subsidiaries of Embarq Corporation. A full description of the filing 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 November 20, 2007, the Commission adopted Staff's recommendation.

**OPINION**

**Jurisdiction**

Embarq is a telecommunications utility subject to the Commission's jurisdiction under ORS 759.005.

**Applicable Laws**

ORS 759.390(3) requires telecommunications utilities to seek approval of affiliated interest contracts within 90 days of their execution.

ORS 759.390 defines when an affiliated interest relationship exists.

ORS 759.390(4) requires the Commission to approve the contract if the Commission finds it 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**

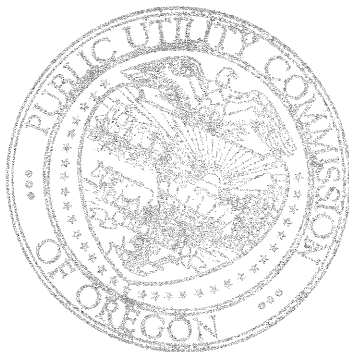
1. Embarq is a telecommunications utility subject to the jurisdiction of the Commission. ORS 759.005(1)(a)(A)
2. Embarq and EL are affiliated interests. ORS 759.390(1)
3. The affiliated interest contract between Embarq and EL is fair, reasonable, and not contrary to the public interest. ORS 759.390(4)
4. The application should be granted, as modified in Appendix A, including certain conditions.

**ORDER**

IT IS ORDERED that the application of United Telephone Company of the Northwest, dba Embarq, requesting approval of an affiliated interest agreement with Embarq Logistics, Inc., is approved, subject to the conditions stated in Appendix A.

Made, entered, and effective NOV 26 2007.

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 request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 20, 2007

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ NA \_\_\_\_\_

DATE: October 24, 2007

TO: Public Utility Commission

FROM: Marion Anderson *MSA*

THROUGH: *in* Lee Sparling, *in* Marc Hellman, and Michael Dougherty

SUBJECT: UNITED TELEPHONE COMPANY OF THE NORTHWEST dba EMBARQ:  
(Docket No. UI 275) Application for approval of a Services Agreement with Embarq Logistics, Inc., an affiliated interest.

**STAFF RECOMMENDATION:**

The Public Utility Commission (PUC or the Commission) should approve the application of United Telephone Company of the Northwest dba Embarq (the Company or Embarq) for an affiliated interest agreement with Embarq Logistics, Inc. (EL) under the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with affiliates.
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. The Company 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 application was filed on September 18, 2007, pursuant to ORS 759.390 and OAR 860-027-0040. The Company and EL are wholly owned subsidiaries of Embarq

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Corporation and thereby establish the affiliated interest relationship. The approximate Oregon specific annual expenditure under this contract is \$3,000,000 as a provisioning charge. This amount is projected to be materially unchanged over time. The expenditures for 2004 and 2005 were \$4,498,944 and \$3,058,303 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 following product and related supply chain services will be provided under this contract:

- Product sourcing and management
- Order management
- Warehouse management
- Shipment staging
- Product kitting
- Transportation management
- Management of hazardous materials
- Cable and wire cutting
- Inventory management
- Design, engineering, and installation services
- Returns handling
- Miscellaneous services

The detailed descriptions of these services coverages are contained in the application and were reviewed.

#### Transfer Pricing

No competitive procurement process was utilized under a reasonable rationale of multiple source fragmentation and concentrated economies of scale.

The application contains the following statement: "All transactions between the Applicant and EL will conform to the Rules and Regulations of this Commission and FCC Docket Nos. 86-111 and 96-150." The applicable OAR 860-027-0052(3)(e)(A) dictates service/supplies provisions in excess of \$100,000 be subject to the lower of cost or market principle. Underlying EL expenses use direct costing where possible. Definitions of the statistically derived factors used in non-cost based instances were

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submitted and examined. Those factors are used in all jurisdictions. Nonregulated expenses are included in the annual expenditure and are directly charged to below-the-line accounts.

Determination of Public Interest Compliance

With the above transfer pricing stipulation, the contract's terms seem just and reasonable.

Records Availability, Audit Provisions, and Reporting Requirements

Staff Recommendation Condition No. 1 affords necessary access to any relevant records.

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

1. The agreement's transfer pricing as stipulated is not unreasonable.
2. Potential transactions will not harm customers and are not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

**PROPOSED COMMISSION MOTION:**

United Telephone Company of the Northwest dba Embarq's affiliated interest agreement with Embarq Logistics, Inc. be approved, subject to the recommended conditions.

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