

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UM 1451, UA 149

In the Matters of

MALHEUR HOME TELEPHONE  
COMPANY

Application for an Order Approving  
Transaction and Request for Expedited  
Consideration (UM 1451)

and

QWEST CORPORATION and  
MALHEUR HOME TELEPHONE  
COMPANY

Joint Application for an Order Unallocating  
and Transferring Rights to Allocated  
Territory from Malheur to Qwest (UA 149)

ORDER

**DISPOSITION: APPLICATIONS FOR APPROVAL OF TRANSACTION  
AND FOR TRANSFER OF RIGHTS GRANTED**

**I. INTRODUCTION**

In this Order, we address two consolidated dockets regarding Malheur Home Telephone Company's (Malheur) proposed merger with Qwest Corporation (Qwest). First, we grant Malheur's Application for an Order Approving Transaction and Request for Expedited Consideration, subject to the terms of a stipulation filed on November 18, 2009.<sup>1</sup> Second, we grant Qwest's and Malheur's Joint Application for an Order Unallocating and Transferring Rights to Allocated Territory from Malheur to Qwest. Finally, we declare that we have no objections to Malheur's and Qwest's request to the Federal Communications Commission (FCC) for a waiver of the definition of "study area" to modify Qwest's study area to include that of Malheur.

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<sup>1</sup> As corrected by errata filings November 30 and December 1, 2009.

## II. PROCEDURAL HISTORY

On July 29, 2009, Malheur and Qwest filed a joint application with the Public Utility Commission of Oregon (Commission) for an order unallocating and transferring rights to allocated territory from Malheur to Qwest, Malheur's parent company (Docket UA 149). On September 4, 2009, Malheur applied for an order from the Commission approving an intra-corporate transaction in which Malheur would be consolidated with Qwest (Docket UM 1451). The parties requested expedited treatment, noting that the effective date of the proposed transaction is set for December 14, 2009. A prehearing conference was held on October 6, 2009, and the two dockets were consolidated by Administrative Law Judge Ruling on October 8, 2009.

After settlement conferences, discovery, and the companies' provision of notice to customers of the proposed transaction, on November 18, 2009, Malheur Bell, Qwest, the Citizens' Utilities Board of Oregon (CUB) and Commission Staff (Staff) (collectively Stipulating Parties) filed a stipulation with the Commission. The Stipulating Parties agreed that the Commission should approve Malheur's application subject to the Stipulation's conditions, and that the Commission should approve the proposed transfer of rights to allocated territory from Malheur to Qwest. The Stipulating Parties subsequently filed two errata to the Stipulation to add missing attachments and correct typos.<sup>2</sup> A copy of the Stipulation, as corrected, is attached as Appendix A.

At the Commission's December 8, 2009 Public Meeting, Staff recommended that the Commission (1) approve Malheur's application, subject to the Stipulation; (2) approve Qwest and Malheur's joint application for transfer of rights to allocated territory; and (3) declare that it has no objections to the joint applicants' request to the FCC for a waiver of the definition of "study area." Staff's recommendations are described in Staff's Report, which is attached as Appendix B.

## III. DISCUSSION

### A. Legal Standards

In its UM 1451 Application, Malheur requests approval of its consolidation with Qwest pursuant to Oregon Revised Statute (ORS) 759.375 and Oregon Administrative Rule (OAR) 860-027-0025. The legal standard for the companies' consolidation is whether it will be consistent with the public interest and result in no harm to customers. With regard to the UA 149 application, ORS 759.560 and OARs 860-025-0027 and 860-034-0490 govern the transfer of allocated territory. The statute and rules require a finding that the transfer is not contrary to the public interest.

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<sup>2</sup> Attachments were added to Exhibits A & B and typos were corrected on pgs. 10 & 11.

**B. Issues****1. Application in Docket UM 1451: Consolidation of Malheur into Qwest****a. Background and Stipulation**

Malheur currently provides local exchange and intraLATA toll telephone services to approximately 11,000 customers in four exchanges in Malheur County (Ontario, Nyssa, Oregon Slope, and Vale). On September 4, 2009, Malheur filed an application for approval of an intra-corporate transaction in which Malheur's parent company, Qwest, would consolidate all of Malheur's operations, facilities, assets, property, and customer accounts into Qwest's Oregon operations. The application asserted that the transaction would be seamless to customers, and that Qwest's increased scale and scope would allow Qwest to better serve customers and to increase administrative and networking efficiencies. The application further asserted that the transaction would not harm Malheur customers, would be consistent with the public interest, and while a net benefit to customers was not required for approval, Malheur's customers would in fact benefit from the transaction because they would have a wider variety of service packages. Malheur and Qwest mailed to all Malheur customers notice letters advising them of the transaction, of any rate changes resulting from the transaction, and of the customers' rights to petition the Commission to investigate any rate increases.

Qwest and CUB joined the docket as parties, and after holding settlement conferences, the parties ultimately reached settlement and filed a stipulation designed to settle all issues in dispute. Under the Stipulation, on the effective date of the companies' consolidation, Qwest will withdraw Malheur's tariffs and Malheur customers will become Qwest customers. Staff notes that to effectuate the consolidation, Qwest seeks to align Malheur's rates with those of Qwest. The stipulating parties agree that the Nyssa exchange will be classified as a Rate Group 2 exchange after the consolidation, resulting in no rate increases to basic residential services for Malheur's former Nyssa exchange customers, and a slight decrease to basic business exchange rates. In order to avoid any rate increases in basic services for Malheur customers, and to achieve consistency with established Commission rate calculation methods, Qwest and Malheur agree to re-classify the Ontario exchange as Rate Group 1, resulting in a monthly rate reduction for Ontario customers. Finally, regarding the Vale and Oregon Slope exchanges, the Stipulating Parties ask that the Commission begin an investigation proceeding in 2010 to review the costs to serve these two exchanges. The investigation may result in a slight increase in the monthly basic local exchange rates in Vale and in Oregon Slope. The Stipulating Parties ask that the Commission not impose any rate increases until January 2011, at the earliest. Vale and Oregon Slope customers have received notice of the Stipulating Parties' intent to request an investigation, and of the potential for a slight rate increase as a result of such an investigation.

Staff notes that because Qwest already wholly owns Malheur, there are no significant financial issues with regard to the companies' consolidation. Staff states that the companies' consolidation will benefit customers by attaining operating and expense efficiencies, reducing administrative overhead costs, and providing a wider array of service

packages and bundles. Staff also lists the following additional reasons for approval of the parties' Stipulation:

- Service Quality: Malheur does not currently report service quality measures, but Qwest will do so for the four Malheur wire centers. Qwest will also provide certain data to enable Commission Staff to determine if any declines in service quality occur after the consolidation.
- Interconnection Agreements: Agreements will be transferred to Qwest, and terms will be extended for one year from consolidation for carriers without a current Qwest agreement.
- Oregon Universal Service Fund (OUSF): The transaction will not impact OUSF funding requirements in the near-term. Qwest will continue to receive support for Malheur at the current level until the next evaluation of support levels, at which time support will be calculated consistent with the determination of Qwest's support.
- Extended Area Service (EAS): Malheur's existing EAS rate structure will remain in place and no rates will be increased as a result of the consolidation.
- Intrastate Switched Access Rates: Rates will be reduced by 24 percent per minute on average.
- Basic Local Exchange Rates: Ontario customers will benefit from rate reductions. Nyssa customers will experience no rate increases. Oregon Slope and Vale customers will experience no rate increase for at least one year.

*b. Resolution*

We conclude that Malheur's consolidation into Qwest, subject to the terms of the Stipulation and its two Stipulation Errata, is consistent with the public interest and does not result in harm to customers. After reviewing the parties' Stipulation and Staff's recommendation, we find that the consolidation will increase efficiency, reduce administrative expenses, and benefit customers with either the same or reduced rates. We approve the opening of an investigation proceeding in 2010 to review the costs to serve in the Vale and Oregon Slope exchanges, and require that no increase in rates should be imposed on Vale and Oregon Slope customers until January 2011, at the earliest.

**2. *Application in Docket UA 149: Transfer of Rights to Allocated Territory***

*a. Background*

On July 29, 2009, Qwest and Malheur applied for an order unallocating and transferring rights to allocated territory from Malheur to Qwest. In their Joint Application, Malheur and Qwest noted that Malheur, which is currently a wholly-owned subsidiary of Qwest, would be consolidated into Qwest in order to streamline corporate operations and gain operating efficiencies. The parties stated that the transfer would not be contrary to the public interest because Malheur customers would still be served by the same network, but with access to more products and services. The Stipulating Parties recommend that we grant the Joint Application.

*b. Resolution*

We find that the transfer of allocated territory from Malheur to Qwest is not contrary to the public interest. The transfer will permit Malheur to consolidate with Qwest, resulting in the benefits to customers noted in section B.1 of this Order.

**3. Request for FCC Waiver**

*a. Background*

Because the FCC rules froze all study area boundaries effective November 15, 1984, the FCC must grant a waiver of its rules to change any study area boundaries after that date. As part of its evaluation of a waiver request, the FCC requires a petitioning company to submit a statement from the appropriate state commission that it does not object to the waiver request. The Stipulating Parties request that this Commission affirmatively declare that it does not object to a waiver of the definition of “study area” contained in the Appendix-Glossary of Part 36 of the FCC’s rules. The Stipulating Parties support the Commission’s issuance of a declaration so that Qwest may obtain FCC approval to incorporate Malheur’s area within its study area boundaries.

*b. Resolution*

We affirmatively declare that we do not object to a waiver of the definition of “study area” contained in the Appendix-Glossary of Part 36 of the Federal Communications Commission’s rules.

**III. ORDER**

IT IS ORDERED that:

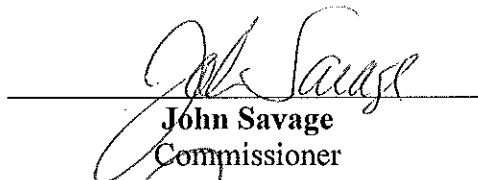
1. The Application of Malheur Home Telephone Company for an Order Approving Transaction and Request for Expedited Treatment is APPROVED, subject to the terms of the Stipulation among Malheur Bell Home Telephone Company, Qwest Corporation, the Citizens’ Utilities Board of Oregon, and the Staff of the Public Utility Commission of Oregon filed on November 18, 2009, and as amended by the Stipulation Errata filed on November 30, 2009 and December 1, 2009.

2. The Joint Application of Qwest Corporation and Malheur Home Telephone Company for an Order Unallocating and Transferring Rights to Allocated Territory from Malheur Home Telephone Company to Qwest Corporation is APPROVED, pursuant to the terms of this Order.

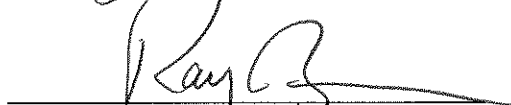
Made, entered, and effective DEC 10 2009.

  
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**Lee Beyer** *JH*

**Chairman**

  
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**John Savage**

**Commissioner**

  
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**Ray Baum**  
**Commissioner**



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.

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1451/UA 149 (Consolidated)

In the Matter of the Application of Malheur Home Telephone Company for an Order Approving Transaction, and Request for Expedited Consideration

**STIPULATION BETWEEN MALHEUR BELL, QWEST, THE CITIZENS' UTILITIES BOARD AND COMMISSION STAFF**

In the Matter of the Joint Application of Qwest Corporation and Malheur Home Telephone Company for an Order Unallocating and Transferring Rights to Allocated Territory from Malheur to Qwest

The parties to this Stipulation (the "Stipulation") are Malheur Home Telephone Company ("Malheur Bell"), Qwest Corporation ("Qwest"), the Citizens' Utilities Board ("CUB") and Staff of the Public Utility Commission of Oregon ("Staff") (collectively, the "Stipulation Parties").

The Stipulation Parties agree that approval by the Public Utility Commission of Oregon (the "Commission") of the application by Malheur Bell ("Application") for approval of an intra-corporate transaction, in which Qwest will consolidate all operations, facilities, assets, property and customer accounts of its wholly-owned subsidiary, Malheur Bell, into Qwest's Oregon operations, is in the public interest and does no harm, subject to the conditions agreed to below. Thus, the Stipulation Parties agree that the Commission should issue an order approving the Application with the conditions set forth in this Stipulation. The Stipulation Parties further agree that the Commission should issue an order approving the joint application of Qwest and Malheur Bell for an order unallocating and transferring rights to allocated territory from Malheur Bell to Qwest.

**PARTIES**

Malheur Bell is a telecommunications provider based in Ontario, Oregon. Malheur Bell is authorized to provide local and intraLATA toll telephone services in four exchanges (Ontario, Nyssa, Vale and Oregon Slope) in Malheur County in eastern Oregon, adjacent to the Idaho border, and is considered a “telecommunications utility” under Oregon law. Malheur Bell has about 10,700 access lines and about 8,800 customers, and as such, is considered a “small company” with fewer than 50,000 access lines, and thus is subject to many of the protections afforded to other smaller telecommunications utilities in Oregon pursuant to ORS 759.040. Malheur Bell is also a wholly-owned subsidiary of Qwest.

Qwest is a telecommunications provider with its principal place of business in Denver, Colorado and is authorized to provide local, intraLATA and interLATA toll telephone services in 77 wire centers and 64 exchanges throughout the state of Oregon, and is a “telecommunications utility” under Oregon law. Qwest is also the parent company of Malheur Bell. Qwest is subject to regulation under a price plan that the Commission approved on August 8, 2008 in Order No. 08-408 in Docket UM 1354.

Staff has reviewed the Application and Malheur Bell’s and Qwest’s responses to numerous data requests. Staff has also engaged in several settlement conferences with Malheur Bell and Qwest, and conducted its investigation into the issues presented by the Application and this Stipulation.

CUB is the independent non-profit public corporation designated to be the consumer advocate for utility consumers in the State of Oregon. CUB has reviewed the Application. CUB also participated in the several settlement conferences with Malheur Bell, Qwest and Staff.



APPLICATION IN UM 1451

On September 4, 2009, Malheur Bell filed the Application for approval of an intra-corporate transaction ("Transaction") in which Malheur Bell's parent company, Qwest, will consolidate all operations, facilities, assets, property and customer accounts of its wholly-owned subsidiary, Malheur Bell, into Qwest's Oregon operations to increase administrative and network operating efficiencies. The Application was filed pursuant to ORS 759.375 and OAR 860-027-0025. The Commission docketed the Application as Docket UM 1451.<sup>1</sup>

The Application describes the relationship and history between Malheur Bell and Qwest, and describes that Malheur Bell is currently integrated with Qwest for many functions, including Accounting (Accounts Payable, Payroll, Accounting, Tax, Billing (CRISW), FP&A, Product Management); Central Office Engineering; and Legal and Regulatory functions, and that Malheur Bell systems are approximately 80 percent integrated with Qwest systems.

The Application asserts that the Transaction would provide additional operating and expense efficiencies and financial benefits that cannot occur as long as Malheur Bell remains a separate subsidiary of Qwest, although there is also expected revenue loss from federal universal service support after the consolidation of Malheur Bell into Qwest. The Application asserts that such operating and expense efficiencies will include the retirement or elimination of archaic systems currently in use at Malheur Bell today that will be replaced by more efficient systems that eliminate manual work. The Application also asserts that administrative overhead costs will also decrease once Malheur Bell is combined with Qwest, including the elimination of separate

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<sup>1</sup> Malheur Bell and Qwest had previously filed a joint application for an order unallocating and transferring rights to allocated territory from Malheur Bell to Qwest on July 29, 2009 in anticipation of the Transaction. The Commission docketed this application as Docket UA 149. The Commission consolidated Docket UA 149 with the Application (Docket UM 1451) on October 8, 2009.

accounting functions, sales tax returns, regulatory reports and filings, and the inclusion of new product development and implementation.

The Application further asserts that the Transaction will be seamless to customers, as the former Malheur Bell customers<sup>1</sup> will continue to be served by the same high-quality network facilities that serve them today, with no degradation in the quality of services they receive today. The Application asserts that Qwest's increased scale and scope, especially compared to the small size and scope of Malheur Bell, will allow Qwest to better serve these customers, and thus that the Transaction is consistent with the public interest, and does no harm.

The Application also asserts that there will be little change to services or rates, as both Qwest and Malheur Bell offer many similar services and rates, with only small differences in services and rates. The Application further asserts that although a net benefit of the Transaction is not required for approval under ORS 759.375, but simply that the Transaction be consistent with the public interest and cause no harm,<sup>2</sup> Malheur Bell customers will actually benefit from the Transaction because as Qwest customers, they will have a wider array and variety of service packages and bundles (including wireless service and DirecTV, and more advanced services), and certain Internet website ordering capabilities, than that which they have available today.

The Application asserts that, at a very minimum, the Transaction does no harm to Malheur Bell customers, and will be consistent with the public interest. For example, the Application asserts that rate changes associated with the consolidation will be minimal, as

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<sup>2</sup> The standard for telecommunications and energy mergers, though similar, is not exactly the same. In the telecommunications arena, the standard is "in the public interest, no harm." See e.g., OPUC Docket UM 1416, *In the Matter of EMBARQ CORPORATION and CENTURYTEL, INC.*, Order No. 09-169, at p. 3. In the energy arena, the standard is "in addition to finding a net benefit to the utility's customers, we must also find that the proposed transaction will not impose a detriment on Oregon citizens as a whole." See e.g., Docket UM 1011, *In the Matter of a Legal Standard for Approval of Mergers*, Order No. 01-778, at p. 11. Thus, the Stipulation Parties agree that the appropriate standard for this telecommunications transaction is the "public interest, no harm" standard.

Malheur Bell and Qwest have similar rate structures. Specifically, Malheur Bell's current monthly flat-rate residential (1FR) rate is \$13.80 per line, the same as Qwest's current 1FR rate for Rate Group 2 customers. Further, Malheur Bell's current monthly flat-rate business (1FB) rate is \$28.99 per line, more than Qwest's current 1FB rate of \$28.50 for Rate Group 2 customers, and thus business customers will see a decrease in basic business rates. The Application also asserts there are minor rate changes associated with certain features, but that they are negligible.

The Application also asserts that as a small telecommunications utility, Malheur Bell already has the regulatory freedom to change any of its rates without Commission approval, and thus any rate change impacts should not necessarily be attributed to the consolidation. The Application asserts that post-transaction, Malheur Bell customers will be subject to the price caps on Qwest's rates pursuant to the price plan that this Commission approved on August 8, 2008 in Order No. 08-404 in Docket UM 1354. Finally, the Application asserts that since Malheur Bell is already part of the Qwest corporate family of companies, and is a wholly-owned subsidiary of the surviving company, Qwest, there should be no material differences to the former Malheur Bell customers going forward as a result of the Transaction.

#### PROCEEDINGS IN UM 1451

On September 17, 2009, Qwest filed a petition to intervene in Docket UM 1451. As Qwest explained, it did not join as a formal applicant in the Application because neither ORS 759.375 nor ORS 759.380 apply to Qwest due to the Commission's approval of Qwest's price plan in Order No. 08-408 in Docket UM 1354, which included the waiver of those statutes as to Qwest. However, Qwest sought intervenor status so that it would be a party to this docket, and

thus would respond to all relevant discovery and further it agreed to abide and be bound by this Commission's order in this proceeding. The Commission granted Qwest's petition to intervene on October 8, 2009. Thus, Qwest is a party to, and agrees to be bound by, this Stipulation, including its conditions and further agrees to be bound by the Commission's order approving the Application, the Transaction and the Stipulation, including the conditions in the Stipulation.

On September 24, 2009, the Commission issued a notice of a prehearing conference for October 6, 2009.

On or about October 5, 2009, Malheur Bell and Qwest mailed to all Malheur Bell customers a notice letter advising them of the Transaction and of any rate changes as a result of the Transaction. The October 5, 2009 notice letter provided the telephone numbers for Malheur Bell, Qwest and the Commission for customers to call if they had any questions or concerns about the Transaction. Malheur Bell and Qwest provided a copy of the October 5, 2009 notice letter to Staff prior to it being mailed to customers. A copy of the October 5, 2009 customer notice letter is attached as Exhibit A to this Stipulation.

On October 6, 2009, CUB filed a notice of intervention as of a matter of right pursuant to ORS 774.180. Also, on October 6, 2009, the Commission held a prehearing conference.

On October 8, 2009, the Commission issued its prehearing conference report and set various deadlines, including October 13, 2009 for petitions to intervene, December 1, 2009 for a Staff public meeting memo/stipulation, and December 8, 2009 for a public meeting/order. In its prehearing conference report, the Commission also granted Qwest's petition to intervene. No parties other than Qwest and CUB intervened in either Docket UM 1451 or UA 149. Finally, the Commission consolidated Qwest's and Malheur Bell's joint application for an order unallocating

and transferring rights to allocated territory from Malheur Bell to Qwest (Docket UA 149) with the application, Docket UM 1451.

On or about October 26, 2009, Malheur Bell and Qwest mailed a second notice to all Malheur Bell customers again advising them of the Transaction and of any rate changes as a result of the Transaction. The letter included the list of services subject to increase, the current and proposed rates, the amount and percentage of increase for each service, the reasons for the proposed rate increases and the effective date of the proposed rate increases. This October 26, 2009 second notice letter also advised customers of their rights under OAR 860-034-0310 to petition the Commission to investigate any rate increases. The October 26, 2009 notice letter provided the telephone numbers for Malheur Bell, Qwest and the Commission for customers to call if they had any questions or concerns about the Transaction. Malheur Bell and Qwest provided a copy of the October 26, 2009 notice letter to Staff prior to it being mailed to customers. Pursuant to OAR 860-034-0310, Malheur Bell customers have until December 4, 2009 (10 days prior to the proposed Transaction effective date of December 14, 2009) in which to file petitions signed by at least 500 customers. A copy of the October 26, 2009 second customer notice letter is attached as Exhibit B to this Stipulation.

Between September 11, 2009 and October 5, 2009, Staff issued two sets of data requests (Request Nos. 1 through 33), and Qwest timely and fully responded to all such data requests.

The Parties held settlement conferences on October 22, 2009 and November 3, 2009. The settlement conferences have been open to all parties to this proceeding.

Staff has reviewed the Application, Malheur Bell's and Qwest's responses to the extensive discovery requests submitted in this proceeding, and additional information about the

Transaction and Application provided by Malheur Bell and Qwest. CUB has reviewed the Application. CUB also participated in the several settlement conferences with Malheur Bell, Qwest and Staff.

### **AGREEMENT AND CONDITIONS**

This Stipulation sets forth the terms and conditions which the Stipulation Parties agree the Commission should approve. By virtue of executing this Stipulation, Malheur Bell and Qwest agree to abide by and perform all terms of this Stipulation, including its conditions. The conditions of this Stipulation, and thus the conditions to Commission approval which the Stipulation Parties recommend, are as follows:

#### **Conditions**

##### **Qwest Price Plan**

The Stipulation Parties agree that if the Commission approves the consolidation, effective December 14, 2009, the requested effective date of the consolidation, all Malheur Bell tariffs will be withdrawn. After December 14, 2009, customers previously served by Malheur Bell will be served by Qwest, and Qwest's Oregon tariffs, price lists and catalogs, and Qwest's Price Plan as approved by the Commission in Docket UM 1354 (OPUC Order No. 08-408), will be the basis for the services provided to these customers with certain exceptions noted below.

##### **Service Quality Reporting**

The Stipulation Parties agree that post-consolidation, Qwest will provide service quality reporting for the four Malheur Bell wire centers (Ontario, Nyssa, Oregon Slope and Vale) in the same manner in which it currently provides service quality reporting for

Qwest wire centers in the state of Oregon. The Stipulation Parties further agree Qwest will provide Staff with one year of historic service quality data (per OAR 860-034-0390) for the four Malheur Bell wire centers to provide a frame of reference for trend analysis of post-consolidation service quality reports. The Stipulation Parties further agree that post-consolidation, Qwest will provide Staff with “Repair Clearing Time” service quality data for each of the four Malheur Bell wire centers to provide a reference for trend analysis for a period of one year from the consolidation. The Malheur Bell wire center “Repair Clearing Times” will also be included with the Eastern Oregon repair center average.

#### **Interconnection Agreements**

The Stipulation Parties agree that existing interconnection agreements between Malheur Bell and other carriers will be transferred to Qwest, as the surviving company, after the consolidation. For any carriers that already have an interconnection agreement with Qwest for the state of Oregon, the Malheur Bell agreements will be terminated and the Qwest Oregon agreements will apply to the carriers for the entire state, including the former Malheur Bell exchanges. The Stipulation Parties further agree that in order to mitigate any potential impact on any carriers that only have a Malheur Bell interconnection agreement, and do not have an agreement with Qwest for the state of Oregon, Qwest agrees that it will not unilaterally seek to terminate the existing contracts that are in “evergreen” status for a period of one year from the consolidation.

**Qwest Basic Exchange Service Rate Group Designation**

The Stipulation Parties agree that at the consolidation of Malheur Bell and Qwest, Malheur Bell tariffs will be withdrawn and the formerly Malheur Bell customers' services will be transferred to Qwest services subject to Qwest's tariffs, price lists and catalogs.

Qwest and Malheur Bell had originally planned to designate all Malheur Bell basic exchange service as Rate Group (or Zone) 2 for its basic exchange services. (The Commission has previously set Qwest's current basic local exchange rates at three different rates each for basic residential services and for basic business services, based on Qwest's costs to provide service in different geographic areas (or "geographic zones") in which Qwest provides service, and Qwest's wire centers are assigned to each rate group based on each wire center's cost characteristics.) This designation would have resulted in no rate increases to basic residential exchange services for Malheur Bell customers as a result of the consolidation, and a slight decrease to basic business (1FB) exchange rates.

However, the Stipulation Parties have determined that as a result of various prior regulatory proceedings and decisions of the Federal Communications Commission ("FCC") and the Commission, including in Dockets UT 148 and UM 963, classifying all former Malheur Bell exchanges in Rate Group 2 would not be appropriate. Accordingly, the Stipulation Parties agree that, if the Commission approves the transaction, Qwest and Malheur Bell will classify the Ontario exchange as a Rate Group 1 exchange. This classification of the Ontario exchange as a Rate Group 1 exchange would result in a \$1.00 monthly decrease for each basic residential line in the Ontario exchange (from \$13.80 to \$12.80 per month), and a \$2.99 monthly decrease for each basic business line in the



Ontario exchange (from \$28.99 to \$26.00 per month). Since more than 55% percent of all Malheur Bell residential lines are in the Ontario exchange, and more than 70% percent of all Malheur Bell business lines are in the Ontario exchange, these rate decreases would result in customer savings to a significant majority of all former Malheur Bell customers, of approximately \$75,000 annually in lower basic residential and business charges for Ontario exchange customers, thus resulting in net customer benefits and, at a minimum, resulting in meeting the Commission's "public interest, no harm" standard.

In addition, regarding the Vale and Oregon Slope exchanges, the Stipulation Parties further agree that if the Commission approves the consolidation, the Commission will need to investigate certain issues relating to Qwest's costs of providing service in those two exchanges. The major issue in such an investigation is expected to be whether the Vale and Oregon Slope exchanges should be classified as Qwest Rate Group 3 exchanges. Thus, if the Commission approves the consolidation, the Stipulation Parties will ask the Commission to begin an investigation proceeding in 2010 to review the costs to serve in the Vale and Oregon Slope exchanges. One result of this Commission investigation could be a slight increase to the monthly basic local exchange rates that Qwest would be required to charge to former Malheur Bell customers in these two exchanges. Specifically, this potential increase would be a \$1.00 per access line monthly increase from current rates for residential customers, and a \$1.51 per access line monthly increase from current rates for business customers. In addition, for certain business customers, PBX trunks could also be increased by \$2.00 per month for two-way, in-only and out-only trunks. Finally, in-only trunks with Direct Inward Dial (DID) could increase

by \$0.36 per month. Any such slight increases to customers in the Vale and Oregon Slope exchanges would be to only about 20 percent of all former Malheur Bell lines. The Stipulation Parties further agree all interested parties should be allowed to participate in this investigation, and that they will request the Commission to not impose any rate increases until January 2011 at the earliest.

On or about November 20, 2009, Qwest and Malheur Bell provided notice to all Vale and Oregon Slope customers of the Stipulation Parties' intent to request that the Commission open such cost investigation, and of the potential slight rate increases to basic residential and business lines as a result of such cost investigation, if the Commission approves the consolidation. A copy of the November 20, 2009 notice letter to Vale and Oregon Slope exchange customers is attached as Exhibit C to this Stipulation.

Finally, the Stipulation Parties agree that, if the Commission approves the transaction, Qwest and Malheur Bell will classify the Nyssa exchange as a Rate Group 2 exchange. As previously explained, this designation would result in no rate increases to basic residential exchange (1FR) services for former Malheur Bell Nyssa customers as a result of the consolidation, and a slight decrease to basic business exchange (1FB) rates.

#### **Extended Area Service**

The Stipulation Parties further agree that at the consolidation of Malheur Bell and Qwest, Malheur Bell tariffs will be withdrawn and the formerly Malheur Bell customers' services will be transferred to Qwest services subject to Qwest's tariffs, price lists and catalogs, with certain exceptions, such as EAS service. The Stipulation Parties further agree that in order to mitigate the impact of rate changes to Malheur Bell customers'

basic exchange services, Qwest will replicate the Malheur Bell Extended Area Service (“EAS”) rate structure in its tariff for the four Malheur Bell exchanges (Ontario, Nyssa, Oregon Slope and Vale). This replication results in no rate increases to recurring monthly flat EAS rates for Malheur Bell customers as a result of the consolidation.<sup>3</sup>

**Public Access Lines (PAL)**

The Stipulation Parties agree that at the consolidation of Malheur Bell and Qwest, Malheur Bell tariffs will be withdrawn and the formerly Malheur Bell customers’ services will be transferred to Qwest services subject to Qwest’s tariffs, price lists and catalogs, with certain exceptions, such as PAL service. Currently, Malheur Bell offers two types of PAL service which can be identified by their Universal Service Order Codes (USOCs), 19V and 1PZ. The 19V PAL product is unique to Malheur Bell and the Stipulation Parties agree that, in order to mitigate the impact of a service change to Malheur Bell’s 19V PAL service customers, the service will be migrated to Qwest’s tariff and grandfathered. The 1PZ PAL product is offered by both Malheur Bell and Qwest and consequently the Malheur Bell 1PZ PAL customers will be migrated to Qwest’s 1PZ PAL service at the consolidation. Similar to its basic exchange services, Qwest’s 1PZ PAL

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<sup>3</sup> Qwest proposes to change the Oregon Slope EAS rate to the Ontario EAS rate in the consolidation because of technical issues associated with the 541 NPA overlay. This will result in a slight EAS rate decrease for Oregon Slope customers. Currently, Qwest uses the 541-262 NPA/NXX to identify Oregon Slope accounts. For purposes of account identification and billing information, Oregon Slope accounts are identified with the Ontario exchange. With the new Oregon 541 NPA overlay being introduced later this year, Qwest can no longer identify Oregon Slope accounts based on NPA/NXX, and there is nothing else unique on service orders to distinguish Oregon Slope accounts from other Ontario accounts. To correct this situation, Qwest has been informed by its Information Technology (IT) department that it would be unduly costly and time-consuming to make the necessary programming changes to differentiate Oregon Slope EAS rates from Ontario EAS rates. Given the relatively small number of Oregon Slope customers, the Stipulation Parties agree it would make more sense to change the current Oregon Slope EAS rates to Ontario EAS rates. This solution is more cost efficient for Qwest, while being beneficial to customers by providing a slight EAS rate reduction. Qwest/Malheur would probably have filed to change these rates even in the absence of the consolidation.

service is separated into three rate groups for rating purposes. All of Malheur Bell's 1PZ PAL customers are served from the Ontario exchange, which has been designated as Qwest Rate Group 1. The rate for Qwest 1PZ PAL service in Rate Group 1 is \$0.10 lower than the current Malheur Bell 1PZ PAL service, and thus the migration will result in a slight rate decrease for these customers.

**Oregon Universal Service Fund (Fund)**

The Stipulation Parties further agree that after the consolidation of Malheur Bell and Qwest, on an interim basis, Qwest will receive for the Malheur Bell wire centers the stipulated amount of \$4.39 per line per month that Malheur Bell currently receives for purposes of Fund distributions. At the time of the next evaluation of small telecommunication companies participating in the Fund, Staff and Qwest will jointly determine revised distributions for the Malheur Bell wire centers by matching individual Malheur Bell wire center characteristics with individual Qwest wire center characteristics to determine appropriate surrogates for forward-looking wire center support.

**Switched Access Rate Decreases**

The Stipulation Parties further agree that post-consolidation, intrastate access services (switched access) and intrastate private line service (special access) will be offered under the current rates, terms and conditions in Qwest's Oregon tariffs, price lists and catalogs, except for services under contract. Qwest estimates that based on 2008 demand, the rate changes for switched access will cause an overall 24% reduction in the weighted minute of use rates, thus resulting in lower intrastate switched access rates to switched access customers. Because Malheur Bell concurs with Qwest's FCC tariffs,

there will be no change to current interstate access service rates as a result of the consolidation.

### **ADDITIONAL PROVISIONS**

#### **Agreement Contingent on No Customer Petition pursuant to OAR 860-034-0310**

The Stipulation Parties further agree that the Stipulation, and recommendation to the Commission that it adopt and approve the Stipulation and the Transaction, is contingent on the Commission not having received customer petitions pursuant to OAR 860-034-0310 from more than 500 customers to investigate the rate increases that will result from the Transaction by its December 4, 2009 deadline (10 days prior to the proposed Transaction effective date of December 14, 2009). The Stipulation Parties agree that Staff and CUB may withdraw from this Stipulation, and that Staff and CUB may seek further proceedings, if the Commission receives petitions from more than 500 customers pursuant to OAR 860-034-0310.

#### **Territory Allocation Approval (UA 149)**

The Stipulation Parties further agree to recommend that the Commission grant Qwest's application to unallocate and transfer the rights to the territory allocated to Malheur Bell (its four exchanges of Ontario, Nyssa, Vale and Oregon Slope) to Qwest as requested in the application in Docket UA 149.

#### **FCC "Study Area" Waiver and Anti-Slamming Filings**

The Stipulation Parties also agree to recommend to the Commission that in conjunction with the Application (or the application in Docket UM 149), the Commission affirmatively state that it does not object to a waiver of the definition of "study area" contained in the Appendix-Glossary of Part 36 of the FCC's rules so that the study areas can be altered as proposed in the

Application. In addition, Qwest will make, on or before November 14, 2009, a “change of carrier” filing with the FCC 30 days in advance of the December 14, 2009 transfer of Malheur Bell customers to Qwest pursuant to 47 CFR § 64.1120(e) (anti-slamming requirements).

**Public Interest, No harm**

The Stipulation Parties acknowledge that the terms of this Stipulation and the Transaction satisfy the “public interest, no harm” standard that has been used for approval of transactions under ORS 759.375.<sup>4</sup> The Stipulation and the Transaction are in the public interest and cause no harm to customers.

**Approval by December 14, 2009 Transaction Effective Date**

The Stipulation Parties agree to ask and encourage the Commission to enter an order approving the Application, and the Transaction with the conditions set forth in the Stipulation as soon as possible and on expedited consideration, but not later than the effective date of the proposed transaction, **December 14, 2009**. Upon entry of a Commission order approving this Stipulation, Qwest and Malheur Bell will provide written notice to the Commission which accepts the Commission’s order and indicates completion of the Transaction, and thus, Qwest will consolidate all of Malheur Bell’s assets and operations into its Oregon operations.

**Stipulation Parties’ Support for Stipulation and Transaction**

The Stipulation Parties agree to support Commission approval of the Application with the conditions contained in this Stipulation. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. The Stipulation Parties agree to support

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<sup>4</sup> As noted above, the Stipulation Parties agree that the standard for telecommunications mergers is “in the public interest, no harm.” See e.g., OPUC Docket UM 1416, *In the Matter of EMBARQ CORPORATION and CENTURYTEL, INC.*, Order No. 09-169, at p. 3.

this Stipulation throughout this proceeding and any appeal, and to provide either witnesses to sponsor testimony or legal representatives to support this Stipulation. The Stipulation Parties will recommend the Commission issue an order adopting the agreements contained herein and approving the Application and the Transaction with the conditions contained in this Stipulation. If any other party to this proceeding challenges this Stipulation, the Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented, which may include addressing issues incorporated in the settlements embodied in this Stipulation.

#### **Integrated Document**

The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material part of this Stipulation or the Transaction or imposes additional material conditions in approving the Stipulation and the Transaction, any Party disadvantaged by such action shall have the right, upon written notice to the Commission and all other Parties within 15 business days of the Commission's order, to withdraw from this Stipulation, pursue their rights under OAR 860-014-0085, and/or seek reconsideration or appeal of the Commission's order. However, prior to withdrawal, the Party shall engage in good faith negotiation with the other Parties. No Party withdrawing from this Stipulation shall be bound to any position, commitment, or condition of this Stipulation.

#### **Stipulation as Compromise of Positions**

The Stipulation Parties agree that this Stipulation represents compromises in the positions of the Stipulation Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

By entering into this Stipulation, no Stipulation Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Stipulation Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation. No Stipulation Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as expressly identified in the Stipulation.

**Effective Date of Stipulation**

The effective date of this Stipulation as to each Party shall be the date of that Party's signature to the Stipulation.

**Execution in Counterparts**

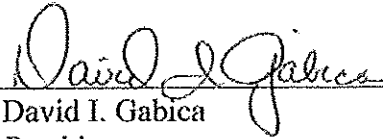
This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.



Stipulation Signatures

This Stipulation is entered into by each Party as of the date(s) entered below:

MALHEUR HOME TELEPHONE  
COMPANY



By: David I. Gabica

Its: President

Dated: November 18, 2009

QWEST CORPORATION

By:

Its:

Dated: November \_\_, 2009

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

By:

Its:

Dated: November \_\_, 2009

CITIZENS' UTILITIES BOARD

By:

Its:

Dated: November \_\_, 2009

**Stipulation Signatures**

This Stipulation is entered into by each Party as of the date(s) entered below:

MALHEUR HOME TELEPHONE  
COMPANY

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

QWEST CORPORATION

\_\_\_\_\_  
By: *Alex M. Duarte*  
Its: *Attorney*  
Dated: November 18, 2009

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

CITIZENS' UTILITIES BOARD

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

Stipulation Signatures

This Stipulation is entered into by each Party as of the date(s) entered below:

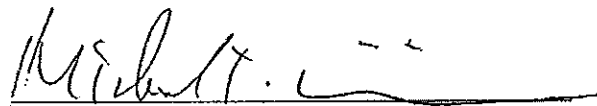
MALHEUR HOME TELEPHONE  
COMPANY

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

QWEST CORPORATION

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

  
\_\_\_\_\_  
By:  
Its:  
Dated: November 18<sup>th</sup>, 2009

CITIZENS' UTILITIES BOARD

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

Stipulation Signatures

This Stipulation is entered into by each Party as of the date(s) entered below:

MALHEUR HOME TELEPHONE  
COMPANY

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

QWEST CORPORATION

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

\_\_\_\_\_  
By:  
Its:  
Dated: November \_\_, 2009

CITIZENS' UTILITIES BOARD



\_\_\_\_\_  
By: Bob Jenks  
Its: Executive Director  
Dated: November 18, 2009



Malheur Bell

October 5, 2009

**NOTICE OF ENTITY CONSOLIDATION OF MALHEUR BELL, A WHOLLY OWNED SUBSIDIARY OF QWEST CORPORATION, INTO THE PARENT COMPANY, QWEST CORPORATION**

In an effort to improve operating efficiencies in the management of your local telephone company, Qwest Corporation (Qwest) has notified the Oregon Public Utility Commission of Malheur Bell and Qwest's intent to consolidate operations effective on December 14, 2009. Malheur Bell is currently a wholly owned subsidiary of Qwest and after the consolidation is complete, you will still be served by the same network facilities that serve you today. Consequently, you should not notice a difference in the quality and dependability of your local telephone service, although there may be some differences in the rates, terms or conditions of your service.

If Qwest Long Distance Corp. is your long-distance provider at the time of the transfer, or if you are currently a customer of a long-distance company other than Qwest Long Distance Corp., your long-distance provider will remain unchanged unless and until you request a change. You may choose another long-distance provider at any time. If you had asked Qwest for a preferred carrier freeze on your long-distance services, those freezes will not be lifted as part of this consolidation process. If you would like to add a carrier freeze please contact us at the number listed below. At the current time, however, there are no other local service providers available in your area.

As indicated above, you will be moved to Qwest service, at no charge to you, with the same telephone number and, to the extent possible, the same or similar services and features that you have now, except they will be provided under Qwest's terms and conditions and Qwest's rates. Specific changes are noted on the attachment.

Please be assured that your move to Qwest service, in no way prevents you from choosing a different long-distance provider at any time.

If you have any questions, concerns or complaints regarding the entity consolidation of Malheur Bell and Qwest, please contact the Oregon Public Utility Commission at 1 800-522-2404 (503-378-6600 in Salem). You may also call Malheur Bell directly, at 541-889-5321, or Qwest directly at 1 800-244-1111 (residence); 1 800-603-6000 (Small Business) or 1 800-777-9594 (Large Business).

Sincerely,

Todd Townsend  
Vice President, Marketing, Qwest

David I. Gabica  
President, Malheur Bell

Product Rate Decrease Continued	Old Monthly Rate	New Monthly Rate
Private Line Channel Performance, Voice Grade 33 ***	\$17.50	\$16.00
Private Line Channel Performance, Voice Grade 36 ***	\$20.00	\$12.50
Private Line Channel Performance, Low Speed Data ***	\$8.00	\$1.26
Private Line Extension Channel Performance ***	\$12.00	\$5.50
Private Line Channel Performance, Voice Grade 32 Type-LS ***	\$10.00	\$7.25
Flat Rate PBX Trunk - 2 Way; In Only	\$38.40	\$30.50
Flat Rated PBX Trunk - In only with DID & Hunting	\$38.40	\$33.50
Flat Rate PBX Trunk - Out only	\$33.40	\$30.50
Toll Trunk	\$21.85	\$18.00

**Services that will be grandfathered and no longer available to new customers.**

- Public Access Line, Enhanced Measured Service Line
- Call Forwarding Don't Answer- CENTRON Custom
- Call Forwarding Busy Line - CENTRON Custom
- Alarm Coupler
- Custom Calling Call Forwarding & 3-Way Calling
- Centron Common Equipment
- Custom Calling Call Waiting & Call Forwarding
- Centron Custom Main Station Line
- Call Waiting, Call Forwarding, 3-way calling, Speed Calling, 8-number and 30-number
- Call Forwarding Busy Line/Don't Answer CENTRON 6 & 30
- Sequential number block
- Nonsequential telephone number
- Intrastate Toll Option Plans
- Joint User Service
- Message Hotel Trunk

\* This consolidation will not impact the rates, terms or conditions of customers who have a rate stabilized agreement in place with Qwest.

\*\* Services are or will be grandfathered and no longer available to new customers.

\*\*\* The overall impact to the individual customer will vary dependent upon the configuration of their private line.

\*\*\*\* The 2 Directory Assistance call allowances will be eliminated.

Qwest's local long distance rate for business MTS is increasing from \$0.11 Day and \$0.07 ENW to \$0.14 all times per minute. Qwest's local long distance for business Super Savings is increasing from \$0.08 to \$0.11 per minute.

**NEW MALHEUR BELL TO QWEST PRODUCT & RATE INFORMATION**

Residence		
Product Rate Increase	Old Monthly Rate	New Monthly Rate
Call Transfer	\$6.00	\$6.50
Three-Way Calling	\$3.50	\$4.50
Speed Calling 8 Number	\$2.00	\$3.00
Call Forwarding Variable	\$3.00	\$5.00
Call Waiting	\$5.00	\$6.75
Foreign Listing	\$0.75	\$2.10
Foreign Exchange for 4 Party Service	\$10.55	\$13.80
Foreign Exchange for 8 Party Service	\$5.93	\$13.80
Complete Coverage	\$4.75	\$6.00
Standard Feature Package CENTRON 6 & 30	\$4.75	\$5.00
Call Waiting ID	\$5.00	\$6.75
Selective Call Forwarding	\$2.00	\$4.50
Caller ID	\$6.50	\$9.00
Priority Call	\$2.00	\$4.50
Last Call Return	\$2.95	\$5.00
Continuous Redial	\$2.00	\$4.00
Selective Call Rejection	\$4.00	\$5.50
Linebacker	\$4.75	\$6.00
Remote Call Forwarding	\$18.11	\$22.00
Residence Additional Listing	\$1.50	\$2.10
Local Directory Assistance *	\$0.50	\$1.12
National Directory Assistance	\$0.50	\$1.87
Product Rate Decrease	Old Monthly Rate	New Monthly Rate
Extended Area Service (EAS) for Oregon Slope	\$1.10	\$0.60
Hunting	\$5.00	\$3.00
Residence Measured Line	\$8.10	\$6.37
Convenience Dialing 30 # CENTRON 6 & 30	\$4.00	\$2.50
Call Forwarding Variable CENTRON 6 & 30	\$3.00	\$2.00
Nonlisted Listing	\$1.00	\$0.35
Nonpublished Listing	\$1.25	\$0.65



**Services that will be grandfathered and no longer available to new customers.**

- Intrastate Toll Option Plans
- Call Forwarding Busy Line/Don't Answer CENTRON 6 & 30

\* The 2 Directory Assistance call allowances will be eliminated.

Qwest's local long distance rate for residence MTS is increasing from \$0.11 Day and \$0.07 ENW to \$0.14 all times per minute. Qwest's local long distance for residence Super Savings is increasing from \$0.08 to \$0.11 per minute.

<b>Business</b>		
<b>Product Rate Increase</b>	<b>Old Monthly Rate</b>	<b>New Monthly Rate</b>
Public Access Line, Coinless, Outgoing only	\$8.88	\$9.62
ISDN Single Line Service, Flat Rate, Month-to-Month	\$58.00	\$62.00
Business Additional Listing	\$1.50	\$4.10
Three-Way Calling	\$4.00	\$6.00
Call Forwarding Variable	\$4.00	\$6.00
Foreign Listing	\$1.50	\$4.10
Standard Feature Package CENTRON 6 & 30 **	\$4.75	\$7.65
Caller ID Name & Number	\$7.95	\$10.00
Caller ID Number	\$7.50	\$10.00
Last Call Return	\$3.00	\$3.25
Remote Call Forwarding	\$18.11	\$22.00
Unistar	\$5.75	\$7.00
Outward WATS	\$25.00	\$27.50
Informational Listing	\$1.50	\$4.10
Local Directory Assistance ****	\$0.50	\$1.12
National Directory Assistance	\$0.50	\$1.87
<b>Product Rate Decrease</b>	<b>Old Monthly Rate</b>	<b>New Monthly Rate</b>
Extended Area Service (EAS) for Oregon Slope	\$1.55	\$1.20
DS1 Transport Mileage ***	\$15.00	\$6.60
Private Line - 2 Wire Connection ***	\$23.50	\$9.80
Private Line - 4 Wire Connection ***	\$45.00	\$19.60
Business Line with Unlimited Local Calling	\$28.99	\$28.50
Private Line - Transport Facility/mileage ***	\$1.35	\$0.12
Private Line Bridging ***	\$5.00	\$1.75
Digital Switched Services - stand alone facility; basic or combination of basic & advanced trunks	\$350.00	\$270.00

<b>Product Rate Decrease Continued</b>	<b>Old Monthly Rate</b>	<b>New Monthly Rate</b>
Digital Switched Services - stand alone facility; Advanced trunks	\$150.00	\$137.00
Digital Switched Services - stand alone facility; Advanced trunks, 3 year plan	\$126.90	\$123.30
Digital Switched Services; Advanced trunks with flat usage, In only	\$33.50	\$17.00
Digital Switched Services; Advanced trunks with flat usage, 2-Way w/ answer supervision	\$33.50	\$17.00
Speed Calling 30 Number	\$5.00	\$2.25
Call Transfer	\$6.00	\$4.50
Network Access Registers, Flat Rate, 2 Way	\$24.59	\$19.00
Network Access Registers, Flat Rate, In only	\$21.09	\$19.00
Network Access Registers, Flat Rate, Out only	\$19.59	\$18.00
Call Forwarding Busy Line (Programmable)	\$5.50	\$2.00
Speed Calling 8 Number	\$4.00	\$3.25
Call Waiting	\$9.00	\$4.50
Call Forwarding Don't Answer	\$2.00	\$1.50
Call Forwarding Busy Line (External)/Don't Answer	\$2.50	\$1.50
Call Forwarding Busy Line (Overflow)/Don't Answer	\$6.50	\$3.50
Call Forwarding Busy Line (Overflow)	\$5.00	\$3.00
Hunting	\$5.00	\$3.00
Business Measured Service	\$19.60	\$18.00
Standard Feature Package 2 - 30 lines CENTRON 6 & 30	\$7.75	\$6.65
Call Forwarding Busy Line CENTRON 6 & 30	\$3.00	\$1.36
Call Forwarding Variable CENTRON 6 & 30	\$3.00	\$1.05
Call Waiting CENTRON 6 & 30	\$3.00	\$2.00
Call Forwarding Don't Answer CENTRON 6 & 30	\$3.00	\$0.75
DID Trunk Circuit, 2 way and In Only, Each termination	\$45.00	\$16.50
Nonlisted Listing	\$1.00	\$0.35
Nonpublished Listing	\$1.25	\$0.65
Priority Call	\$3.50	\$3.25
Continuous Redial	\$3.50	\$3.25
Call Rejection	\$4.50	\$3.25
Private Line Channel Performance, Voice Grade 32 Type LA ***	\$11.60	\$9.00
Private Line Channel Performance, Voice Grade 32 ***	\$8.00	\$7.50



October 26, 2009



Malheur Bell

**Notice of Price Changes as a result of entity consolidation of Malheur Bell, a wholly-owned Subsidiary of Qwest Corporation, into the parent company, Qwest Corporation**

On or about October 5, 2009, we advised you that Malheur Bell, a wholly-owned subsidiary of Qwest Corporation ("Qwest"), will be consolidated into its corporate parent company, Qwest, effective December 14, 2009. As we advised, you will be moved to Qwest service, at no charge to you, with the same telephone number and, to the extent possible, the same or similar services and features that you have now, except they will be provided under Qwest's terms and conditions and Qwest's rates.

Attached with this letter is a list of Malheur services for which there will be rate changes as a result of the consolidation. The list includes the current Malheur Bell rates and the Qwest rates that will apply beginning December 14, 2009, including the amounts and percentages of any price increases or price decreases for each service. Please be advised that customers may petition the Public Utility Commission of Oregon to investigate rate increases. The Commission will investigate rate increases if it receives petitions signed by 500 customers on or before December 4, 2009. If the Commission does not receive sufficient petitions by December 4, 2009, the proposed rates will become effective on December 14, 2009 without Commission review. Petitions should be sent to the Commission's Consumer Services Division. A petition must contain a statement asking the Commission to conduct a rate review and must include the customer's name, address, phone number and original signature. Malheur Bell will provide a current copy of the local exchange directory and its service territory map within ten days of a request from any customer. The Commission's toll-free telephone number is 1 800-522-2404 and its address is P. O. Box 2148, Salem, OR 97308-2148.

In addition, beginning December 14, 2009, you will see several changes to your bill.

1. The remittance address will change from the Malheur Bell remittance address to the Qwest remittance address of **PO BOX 91155, SEATTLE, WA 98111-9255** for all paper payments. We would like to advise customers that use **electronic payment** addresses to use the new address after December 14, 2009.
2. Walk-up payment locations will also change.

The Malheur Bell office at 225 SW 2nd Street in Ontario will close on December 11, 2009 and payments will no longer be taken at that location. The payment drop box will no longer



ORDER NO. 09-483

be available at that location. The new location for walk-up payments in Ontario will be the Red Apple Marketplace at 555 SW 4th Avenue.


It is yet to be determined if the City of Nyssa will continue to accept walk-up payments. If the city chooses not to accept payments, they will notify customers through posted signs. Logan's Express, 101 Thunderegg Blvd., in Nyssa will be the new location for walk-up payments in Nyssa.

The location for walk-up payments in Vale will continue to be Malheur Drug at 198 A Street W in Vale.

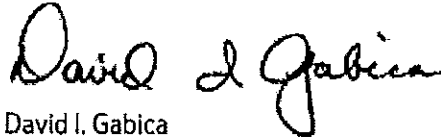
Qwest and Malheur are committed to providing the best possible customer experience throughout the integration. If you have questions or concerns about the matters addressed in this letter, you may call Malheur Bell directly, at 541-889-5321, or Qwest directly at 1 800-244-1111 (Residential); 1 800-603-6000 (Small Business) or 1 800-777-9594 (Large Business).

Thank you for your continued business.

Sincerely,



Todd Townsend  
Vice President, Marketing, Qwest



David I. Gabica  
President, Malheur Bell

Business Product Rate Decrease Continued	Old	New	Diff	% Diff
Call Forwarding Busy Line CENTRON 6 & 30	\$3.00	\$1.36	-\$1.64	-54.67%
Call Forwarding Variable CENTRON 6 & 30	\$3.00	\$1.05	-\$1.95	-65.00%
Call Waiting CENTRON 6 & 30	\$3.00	\$2.00	-\$1.00	-33.33%
Call Forwarding Don't Answer Centron 6 & 30	\$3.00	\$0.75	-\$2.25	-75.00%
DID Trunk Circuit, 2-way and In Only, Each termination	\$45.00	\$16.50	-\$28.50	-63.33%
Nonlisted Listing	\$1.00	\$0.35	-\$0.65	-65.00%
Nonpublished Listing	\$1.25	\$0.65	-\$0.60	-48.00%
Priority Call	\$3.50	\$3.25	-\$0.25	-7.14%
Continuous Redial	\$3.50	\$3.25	-\$0.25	-7.14%
Call Rejection	\$4.50	\$3.25	-\$1.25	-27.78%
Private Line Channel Performance, Voice Grade 32 Type LA ***	\$11.60	\$9.00	-\$2.60	-22.41%
Private Line Channel Performance, Voice Grade 32 ***	\$8.00	\$7.50	-\$0.50	-6.25%

**Services that will be grandfathered and no longer available to new customers.**

- Public Access Line, Enhanced Measured Service Line
- Call Forwarding Don't Answer- CENTRON Custom
- Call Forwarding Busy Line - CENTRON Custom
- Alarm Coupler
- Custom Calling Call Forwarding & 3-Way Calling
- Centron Common Equipment
- Custom Calling Call Waiting & Call Forwarding
- Centron Custom Main Station Line
- Call Waiting, Call Forwarding, 3-way calling, Speed Calling, 8-number and 30-number
- Call Forwarding Busy Line/Don't Answer CENTRON 6 & 30
- Sequential number block
- Nonsequential telephone number
- Intrastate Toll Option Plans
- Joint User Service
- Message Hotel Trunk

\* This consolidation will not impact the rates, terms or conditions of customers who have a rate stabilized agreement in place with Qwest.

\*\* Services are or will be grandfathered and no longer available to new customers.

\*\*\* The overall impact to the individual customer will vary dependent upon the configuration of their private line.

\*\*\*\* The 2 Directory Assistance call allowances will be eliminated.

Qwest's local long distance rate for business MTS is increasing from \$0.11 Day and \$0.07 ENW to \$0.14 all times per minute. Qwest's local long distance for business Super Savings is increasing from \$0.08 to \$0.11 per minute.

† Measured usage charge structure will also change. Outgoing local calls placed within your home exchange will change to \$.03 per minute; local calling within the local calling area but outside your home exchange will change to \$.04 per minute. The time of day discount will no longer apply.

Customers may be subject to late payment and return payment charges in the future. A late payment charge of 1.5% (or a minimum of \$0.50) will apply to an account if a balance of \$30.00 or more remains unpaid on the date of the next bill. A return payment charge of \$10.00 will apply to any payment returned to Qwest for insufficient funds.

**NEW MALHEUR BELL TO QWEST PRODUCT & RATE INFORMATION**

Residence Product Rate Increase	Old	New	Diff	% Diff
Call Transfer	\$6.00	\$6.50	\$0.50	8.33%
Three-Way Calling	\$3.50	\$4.50	\$1.00	28.57%
Speed Calling 8 Number	\$2.00	\$3.00	\$1.00	50.00%
Call Forwarding Variable	\$3.00	\$5.00	\$2.00	66.67%
Call Waiting	\$5.00	\$6.75	\$1.75	35.00%
Foreign Listing	\$0.75	\$2.10	\$1.35	180.00%
Foreign Exchange for 4 Party Service	\$10.55	\$13.80	\$3.25	30.81%
Foreign Exchange for 8 Party Service	\$5.93	\$13.80	\$7.87	132.72%
Complete Coverage	\$4.75	\$6.00	\$1.25	26.32%
Standard Feature Package CENTRON 6 & 30	\$4.75	\$5.00	\$0.25	5.26%
Call Waiting ID	\$5.00	\$6.75	\$1.75	35.00%
Selective Call Forwarding	\$2.00	\$4.50	\$2.50	125.00%
Caller ID	\$6.50	\$9.00	\$2.50	38.46%
Priority Call	\$2.00	\$4.50	\$2.50	125.00%
Last Call Return	\$2.95	\$5.00	\$2.05	69.49%
Continuous Redial	\$2.00	\$4.00	\$2.00	100.00%
Selective Call Rejection	\$4.00	\$5.50	\$1.50	37.50%
Linebacker	\$4.75	\$6.00	\$1.25	26.32%
Remote Call Forwarding	\$18.11	\$22.00	\$3.89	21.48%
Residence Additional Listing	\$1.50	\$2.10	\$0.60	40.00%
Local Directory Assistance *	\$0.50	\$1.12	\$0.62	124.00%
National Directory Assistance	\$0.50	\$1.87	\$1.37	274.00%
Federal Access Charge - Primary Line	\$6.38	\$6.50	\$0.12	1.88%
Federal Access Charge - Non-Primary Line	\$6.38	\$6.81	\$0.43	6.74%
Residence Product Rate Decrease	Old	New	Diff	% Diff
Extended Area Service (EAS) for Oregon slope	\$1.10	\$0.60	-\$0.50	-45.45%
Hunting	\$5.00	\$3.00	-\$2.00	-40.00%
Residence Measured Line †	\$8.10	\$6.37	-\$1.73	-21.36%
Convenience Dialing 30 # CENTRON 6 & 30	\$4.00	\$2.50	-\$1.50	-37.50%
Call Forwarding Variable CENTRON 6 & 30	\$3.00	\$2.00	-\$1.00	-33.33%
Nonlisted Listing	\$1.00	\$0.35	-\$0.65	-65.00%
Nonpublished Listing	\$1.25	\$0.65	-\$0.60	-48.00%



**Services that will be grandfathered and no longer available to new customers.**

- Intrastate Toll Option Plans
- Call Forwarding Busy Line/Don't Answer CENTRON 6 & 30

\* The 2 Directory Assistance call allowances will be eliminated.

Qwest's local long distance rate for residence MTS is increasing from \$0.11 Day and \$0.07 ENW to \$0.14 all times per minute. Qwest's local long distance for residence Super Savings is increasing from \$0.08 to \$0.11 per minute.

† Measured usage charge structure will also change. Outgoing local calls placed within your home exchange will change to \$.03 per minute; local calling within the local calling area but outside your home exchange will change to \$.04 per minute. The time of day discount will no longer apply.

Customers may be subject to late payment and return payment charges in the future. A late payment charge of 1.5% (or a minimum of \$0.50) will apply to an account if a balance of \$30.00 or more remains unpaid on the date of the next bill. A return payment charge of \$10.00 will apply to any payment returned to Qwest for insufficient funds.

Business Product Rate Increase	Old	New	Diff	% Diff
Public Access Line, Coinless, Outgoing only	\$8.88	\$9.62	\$0.74	8.33%
ISDN Single Line Service, Flat Rate, Month-to-Month	\$58.00	\$62.00	\$4.00	6.90%
Business Additional Listing	\$1.50	\$4.10	\$2.60	173.33%
Three-Way Calling	\$4.00	\$6.00	\$2.00	50.00%
Call Forwarding Variable	\$4.00	\$6.00	\$2.00	50.00%
Foreign Listing	\$1.50	\$4.10	\$2.60	173.33%
Standard Feature Package CENTRON 6 & 30 **	\$4.75	\$7.65	\$2.90	61.05%
Caller ID Name & Number	\$7.95	\$10.00	\$2.05	25.79%
Caller ID Number	\$7.50	\$10.00	\$2.50	33.33%
Last Call Return	\$3.00	\$3.25	\$0.25	8.33%
Remote Call Forwarding	\$18.11	\$22.00	\$3.89	21.48%
Unistar	\$5.75	\$7.00	\$1.25	21.74%
Outward WATS	\$25.00	\$27.50	\$2.50	10.00%
Informational Listing	\$1.50	\$4.10	\$2.60	173.33%
Local Directory Assistance ****	\$0.50	\$1.12	\$0.62	124.00%
National Directory Assistance	\$0.50	\$1.87	\$1.37	274.00%
Federal Access Charge - Single Line Accounts	\$6.38	\$6.50	\$0.12	1.88%
Federal Access Charge - Multi-Line, ISDN Accounts	\$6.38	\$6.81	\$0.43	6.74%
Business Product Rate Decrease	Old	New	Diff	% Diff
Extended Area Service (EAS) for Oregon Slope	\$1.55	\$1.20	-\$0.35	-22.58%
DS1 Transport Mileage ***	\$15.00	\$6.60	-\$8.40	-56.00%
Private Line - 2 Wire Connection ***	\$23.50	\$9.80	-\$13.70	-58.30%
Private Line - 4 Wire Connection ***	\$45.00	\$19.60	-\$25.40	-56.44%
Business Line with Unlimited Local Calling	\$28.99	\$28.50	-\$0.49	-1.69%

Business Product Rate Decrease Continued	Old	New	Diff	% Diff
Private Line - Transport Facility mileage ***	\$1.35	\$0.12	-\$1.23	-91.11%
Private Line Bridging ***	\$5.00	\$1.75	-\$3.25	-65.00%
Digital Switched Services - stand alone facility; basic or combination of basic & advanced trunks	\$350.00	\$270.00	-\$80.00	-22.86%
Digital Switched Services - stand alone facility; Advanced trunks	\$150.00	\$137.00	-\$13.00	-8.67%
Digital Switched Services - stand alone facility; Advanced trunks, 3 year plan	\$126.90	\$123.30	-\$3.60	-2.84%
Digital Switched Services; Advanced trunks with flat usage, In only	\$33.50	\$17.00	-\$16.50	-49.25%
Digital Switched Services; Advanced trunks with flat usage, 2-Way w/answer supervision	\$33.50	\$17.00	-\$16.50	-49.25%
Speed Calling 30 Number	\$5.00	\$2.25	-\$2.75	-55.00%
Call Transfer	\$6.00	\$4.50	-\$1.50	-25.00%
Network Access Registers, Flat Rate, 2-Way	\$24.59	\$19.00	-\$5.59	-22.73%
Network Access Registers, Flat Rate, In only	\$21.09	\$19.00	-\$2.09	-9.91%
Network Access Registers, Flat Rate, Out only	\$19.59	\$18.00	-\$1.59	-8.12%
Call Forwarding Busy Line (Programmable)	\$5.50	\$2.00	-\$3.50	-63.64%
Speed Calling 8 Number	\$4.00	\$3.25	-\$0.75	-18.75%
Call Waiting	\$9.00	\$4.50	-\$4.50	-50.00%
Call Forwarding Don't Answer	\$2.00	\$1.50	-\$0.50	-25.00%
Call Forwarding Busy Line (External)/Don't Answer	\$2.50	\$1.50	-\$1.00	-40.00%
Call Forwarding Busy Line (Overflow)/Don't Answer	\$6.50	\$3.50	-\$3.00	-46.15%
Call Forwarding Busy Line (Overflow)	\$5.00	\$3.00	-\$2.00	-40.00%
Hunting	\$5.00	\$3.00	-\$2.00	-40.00%
Business Measured Service †	\$19.60	\$18.00	-\$1.60	-8.16%
Standard Feature Package 2 - 30 lines CENTRON 6 & 30	\$7.75	\$6.65	-\$1.10	-14.19%



Malheur Bell

November 20, 2009

**Notice of Potential Commission Investigation of Possible Slight Rate Increases in 2011 to Vale and Oregon Slope Exchange Customers to Reflect Differences in Costs to Provide Service**

Dear Malheur Bell Vale and Oregon Slope exchange customer:

As we have recently advised you, Malheur Bell has filed an application with the Public Utility Commission of Oregon ("PUC") requesting an order allowing it to be consolidated into its corporate parent, Qwest Corporation ("Qwest"), effective December 14, 2009. In letters sent on or about October 5, 2009, and October 26, 2009, we further provided you with a list of Malheur services for which there would be rate changes if the PUC approves the consolidation as it was filed. The PUC is currently considering Malheur Bell's request for approval of this consolidation. The parties participating in the consolidation proceeding are Malheur Bell, Qwest, the Citizens' Utility Board of Oregon, and the PUC staff ("the consolidation parties").

Subsequently, the consolidation parties have determined that as a result of various prior regulatory proceedings and decisions of the Federal Communications Commission ("FCC") and the PUC, the PUC will need to investigate certain issues relating to Qwest's costs of providing service in your geographic areas if it approves the consolidation. The PUC has previously set Qwest's current basic local exchange rates at three different rates each for basic residential services and for basic business services, based on Qwest's costs to provide service in different geographic areas (or "geographic zones") in which Qwest provides service. Thus, as a result of these previous regulatory proceedings and decisions, the consolidation parties will ask the PUC to begin an investigation proceeding in 2010 to review the costs to serve in the Vale and Oregon Slope exchanges if it approves the consolidation. One result of this PUC investigation could be slight increases to the monthly basic local exchange rates that Qwest would be required to charge to former Malheur Bell customers in these two exchanges. Specifically, these potential increases would be a \$1.00 per access line monthly increase from current basic rates for residential customers, and a \$1.51 per access line monthly increase from current basic rates for business customers. In addition, for certain business customers, PBX trunks could also be increased by \$2.00 per month for two-way, in-only and out-only trunks. Finally, in-only trunks with Direct Inward Dial (DID) could increase by \$0.36 per month. However, any such increases would not occur until after the PUC has investigated the issue, and has allowed interested parties to participate, and, as requested by the consolidation parties, would not be imposed until **January 2011** at the earliest.

Accordingly, this is to advise you that if the PUC approves the request to consolidate Malheur Bell into its corporate parent company, Qwest, under the terms requested by the consolidation parties, the PUC will open an investigation proceeding in early 2010 to determine whether, due to the costs of providing service to your geographic area, and prior FCC and PUC proceedings and decisions, the basic local exchange rates for former Malheur Bell Vale and Oregon Slope exchange customers

## ORDER NO. 09-483

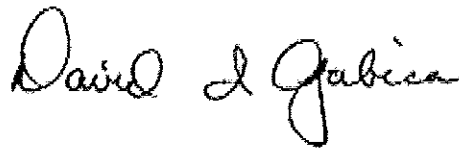
should increase. The potential increases that may be imposed, after this investigation proceeding is completed, but no earlier than January 2011 as requested, would be a \$1.00 monthly increase of basic local residential rates (from \$13.80 to \$14.80 per access line), a \$1.51 monthly increase of basic local business rates (from \$28.99 to \$30.50 per access line), and \$0.36 and \$2.00 monthly increases for PBX trunks. In addition, Qwest has committed to give you notice of that investigation proceeding, including information about your rights to participate, once the proceeding has begun.

If you have questions about the matters addressed in this letter, you may call Malheur Bell directly at 541-889-4402, or Qwest directly at 503-242-5623. You may call the PUC at 1 800-522-2404 (503-378-6600 in Salem).

Sincerely,



Todd Townsend  
Vice President, Marketing, Qwest



David I. Gabica  
President, Malheur Bell

ITEM NO. 7

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 8, 2009**

REGULAR   X   CONSENT        EFFECTIVE DATE                    NA                   

DATE: December 1, 2009

TO: Public Utility Commission

FROM: Kay Marinos

THROUGH: Lee Sparling, Bryan Conway

SUBJECT: QWEST CORPORATION AND MALHEUR HOME TELEPHONE COMPANY; (Docket Nos. UM 1451/UA149) Application for an Order Approving Transaction.

**STAFF RECOMMENDATION:**

The Commission should take the following related actions: 1) Approve the Application of Malheur Home Telephone Company for an Order Approving Transaction, and Request for Expedited Consideration filed in Docket No. UM 1451 (Application), subject to the Stipulation; 2) Approve the Joint Application of Qwest Corporation and Malheur Home Telephone Company for an Order Unallocating and Transferring Rights to Allocated Territory from Malheur to Qwest filed in Docket No. UA 149 (Joint Application); and 3) declare that it has no objections to the Joint Applicants' request to the Federal Communications Commission (FCC) for a waiver of the definition of "study area" under Part 36 of the FCC's rules to modify Qwest Corporation's study area to include that of Malheur Home Telephone Company. As requested by the Applicants, the Commission should issue an order addressing these items prior to the effective date of the proposed transaction, December 14, 2009.

**DISCUSSION:**

Qwest Corporation (Qwest) plans to consolidate all operations, facilities, assets, property and customer accounts of its wholly owned subsidiary, Malheur Home Telephone Company (Malheur), into Qwest in order to increase administrative and network operating efficiencies. Qwest's planned effective date is December 14, 2009. After the consolidation, Malheur will cease to exist as a separate entity and Qwest will directly provide service to Malheur's customers.

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Malheur currently provides local exchange and intraLATA toll telephone services to approximately 11,000 customers in four exchanges in Malheur County (Ontario, Nyssa, Oregon Slope and Vale). The company's revenues approximated \$9 million in 2008.

The consolidation should be relatively transparent to customers as Qwest and Malheur have a longstanding relationship that dates back to 1910. Malheur systems are already approximately 80% integrated with those of Qwest. The integrated functions include those for accounting, billing, product management, central office engineering, and legal and regulatory matters. As Qwest already wholly owns Malheur, there are no significant financial issues.

Since there are no significant financial issues, Staff focused its efforts on how to best integrate the small carrier, Malheur, into the larger Qwest framework for rates, service quality, interconnection agreements and Oregon Universal Service Fund (OUSF) support. The proposed resolutions to these issues are addressed in the Errata Stipulation (Stipulation) between Malheur Bell, Qwest, the Citizens' Utility Board and Commission Staff (Stipulation Parties) filed on November 30, 2009, and revised on December 1, 2009. The Stipulation was developed based on information gathered from thirty-three data requests and discussions in two settlement conferences held on September 11 and November 3, 2009. The Stipulation is included as Attachment A to this memo.

Malheur and Qwest request three basic types of Commission approvals in order to effectuate the proposed consolidation. The first is approval of the transaction. The second is approval to transfer rights to Malheur's allocated territory to Qwest. The third is a declaration by the Commission that will enable Qwest to obtain a waiver of FCC study area rules to incorporate Malheur. Each is discussed in turn below.

#### Approval of the Transaction (Docket UM 1451)

In its UM 1451 Application, Malheur requests approval of the consolidation of Malheur with its parent company, Qwest, pursuant to ORS 759.375 and OAR 860-027-0025. The Application was not filed jointly with Qwest because Qwest is no longer subject to ORS 759.375 or ORS 759.380 as a result of Commission approval of Qwest's price plan in Order No. 08-408.<sup>1</sup> However, Qwest intervened as a party so that it could provide necessary information and enter into any stipulated agreement. The Citizens' Utility Board (CUB) representing consumers' interests also intervened.

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<sup>1</sup> ORS 759.375 applies to the sale, mortgage or disposal of utility property. ORS 759.380 applies to the purchase of stock or property of another utility. Therefore, only ORS 759.375 applies to this transaction.

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OAR 860-027-0025 details information that must be filed for approval under ORS 759.375. Malheur's application contains all required information. The legal standard for this transaction is whether it will be consistent with the public interest and result in no harm to the customers. The Applicants assert that the transaction not only meets the "public interest, no harm" standard, it will further benefit customers for the following reasons:

1. Attainment of operating and expense efficiencies, including the retirement and elimination of archaic systems used by Malheur Bell that will be replaced by Qwest's more efficient systems.
2. Reduction in administrative overhead costs, including the elimination of separate accounting functions, sales tax returns, and regulatory reports and filings.
3. Availability of a wider array and variety of service packages and bundles (including wireless service and DirecTV, and more advanced services, and certain Internet website ordering capabilities) for customers.

The Stipulation yields additional reasons for approval as follows:

4. Service quality: Malheur does not currently report service quality measures, but Qwest will report measures for the four Malheur wire centers in the same manner it currently reports for Qwest wire centers. In addition, per the Stipulation, Qwest will provide certain data to enable Staff to determine whether any declines in service quality occur after the consolidation.
5. Interconnection agreements: Agreements will be transferred to Qwest and terms extended for one year from the consolidation date for carriers without a current Qwest agreement.
6. Oregon Universal Service Fund (OUSF): The transaction will not impact OUSF funding requirements in the near term. Qwest will continue receiving support for Malheur at the current level until the next evaluation of support levels, at which time support will be based on a methodology consistent with the determination of Qwest's support.
7. Extended Area Service (EAS): Malheur's existing EAS rate structure will remain in place and no rates will be increased as a result of the consolidation.
8. Intrastate switched access rates: Rates will be reduced by 24% per minute on average.
9. Basic local exchange rates: Ontario customers will benefit from rate reductions, Nyssa customers will experience no rate increases, and Oregon Slope and Vale customers will experience no rate increase for at least a year. These rates are discussed in more detail below.



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At the effective date of the transaction, Qwest will withdraw Malheur's tariffs and Malheur customers will become Qwest customers. Qwest is subject to a price plan approved in Order No. 08-408 that governs Qwest rate changes. In order to effectuate the consolidation, Qwest seeks to align Malheur's rates with those of Qwest, effective as of December 14, 2009, the proposed date of the consolidation. Currently, as a small telecommunications utility, Malheur can increase its rates on 45 days notice to its customers, subject to OAR 860-034-0310. The increases can automatically go into effect unless 500 or more customers file petitions in opposition 10 days prior to the effective date. The currently proposed rate changes include some decreases and some increases, but in total produce net decreases overall of \$120,000. Per the rules, Malheur notified customers of the proposed transaction and rate changes on or about October 26 of this year. (See attached Stipulation for a copy of the notice and rate changes.) If 500 or more customers submit petitions by December 4, 2009, (10 days prior to the effective date of December 14, 2009), the rate increases become subject to Commission investigation. According to terms of the Stipulation, if the required numbers of customers do petition to oppose the rate increases by the December 4 deadline, Staff and CUB may withdraw from the Stipulation and seek further proceedings. As of the date of this memo, the Commission received petitions from three Malheur customers. At the December 8, 2009 Public Meeting, Staff will report to the Commission the number of customer petitions actually received by the December 4 deadline. Depending on the final number of petitions, further proceedings may be necessary. Based on the petitions, Staff will update the Commission and will either affirm or withdraw the relevant recommendations included in this memo.

Malheur must increase some of its rates if it is to align them with Qwest's. However, Malheur's customers retain their current rights to oppose these increases under current rules. These rights aside, the Stipulation Parties were concerned that Malheur customers at the outset do not face increased rates for basic local exchange services as a result of the proposed consolidation. In attempting to address this concern, however, the Stipulation Parties encountered hurdles related to Qwest's rate group classifications for local exchange services. Malheur charges the same basic local exchange rates to all of its customers, regardless of their geographical location. In contrast, Qwest charges rates that differ based on the wire center from which the customer is served. Each Qwest wire center is assigned to one of three "rate groups." The current monthly basic local exchange (flat) rates are as follows:

	<u>Malheur</u>	<u>Qwest</u>		
		RG1	RG2	RG3
Residential	\$13.80	\$12.80	\$13.80	\$14.80
Business	\$28.99	\$26.00	\$28.50	\$30.50

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In order to avoid any rate increases in basic services, Malheur and Qwest originally proposed that all four Malheur wire centers be placed in Qwest Rate Group 2. However, such placement conflicts with the method used by this Commission to establish Qwest's rate groups in Docket Nos. UT 148 and UM 963, and violates FCC requirements for rate deaveraging. During settlement discussions, Staff demonstrated that under the same cost-based criteria used to determine Qwest's rate groups, only the Nyssa wire center falls into Rate Group 2. The Ontario wire center falls into Rate Group 1 (lower rates), and Oregon Slope and Vale fall into Rate Group 3 (higher rates).

To achieve consistency with established methods, Qwest and Malheur agree to classify Ontario in Rate Group 1. This results in a monthly rate reduction of \$1.00 per line for residential basic local exchange service and \$2.99 per line for business basic service. These rate reductions will benefit a significant portion of Malheur customers as more than 55% of Malheur's residential lines and more than 70% of business lines are in the Ontario wire center. The resulting rate reductions will save Ontario customers about \$75,000 annually. Nyssa will be classified in Rate Group 2 as originally proposed.

If the same methodology were used to classify Malheur's Oregon Slope and Vale wire centers, customers there would experience increases in basic local exchange rates. These wire centers serve about 20% of Malheur's lines. The potential increase would be \$1.00 per line per month for residential basic service customers and \$1.51 for business basic service customers. Instead of recommending such a rate increase at the outset of the consolidation, the Stipulation Parties propose that the Commission decide the appropriate rate group treatment for these two wire centers in a proceeding to be opened in 2010. In the meantime, Qwest agrees to keep basic service rates in these two wire centers at the Rate Group 2 level for at least one year following the consolidation. On or about November 20, 2009, Qwest and Malheur provided notice to all Oregon Slope and Vale customers regarding this matter. A copy of the notice is included in the attached Stipulation.<sup>2</sup>

*Approval to Allocate Territory (Docket UA 149)*

On July 29, 2009, Malheur Bell and Qwest filed a Joint Application for an Order Unallocating and Transferring Rights to Allocated Territory from Malheur to Qwest that was docketed as UA 149. On October 8, 2009, the Commission consolidated this

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<sup>2</sup> The rate group classifications also impact PBX lines and Public Access Lines (PALs). Qwest will treat these types of lines consistent with the residential and business lines for rate group assignment. There is no rate increase issue with PALs since all Malheur customers are in Ontario and will experience a slight rate decrease. Malheur offers a second variation of PAL service that Qwest does not; those lines will be grandfathered.

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docket with the docket requesting approval of the transaction discussed above (Docket No. UM 1451) because of the inter-related nature of the applications.

ORS 759.560, OAR 860-025-0027 and OAR 860-034-0490 govern the transfer of allocated territory. The statute requires a finding that the transfer is not contrary to the public interest. The rules require filing of an application that includes a description of the transfer, relevant maps, boundary descriptions, the customers, equipment and facilities to be transferred, and copies of franchises or permits, among other things. The Joint Application states that the transfer is in the public interest because customers will be served by the same network as they are today and will also have access to more products and services from Qwest than they currently have today from Malheur. No party opposes the Joint Application. The Stipulation Parties recommend that the Commission grant the Joint Application as the previous discussion concerning Malheur's Application for approval of the transaction demonstrates transferring the allocated territory is not contrary to the public interest.

Declaration for FCC Study Area Waiver

Malheur and Qwest also request that the Commission affirmatively declare that it does not object to a waiver of the definition of "study area" contained in the Appendix-Glossary of Part 36 of the FCC's rules. Because the FCC rules froze all study area boundaries effective November 15, 1984, the FCC must grant a waiver of its rules to change any study area boundaries after that date. As part of its evaluation of a waiver request, the FCC requires petitioning companies to submit a statement from the appropriate state commission that it does not object to the waiver request. The Stipulation Parties support the Oregon Commission's issuance of such a declaration so that Qwest can obtain FCC approval to incorporate Malheur's area within its study area boundaries.

**PROPOSED COMMISSION MOTION:**

An order be issued prior to December 14, 2009 that:

- 1) Approves the Application of Malheur Home Telephone Company for an Order Approving Transaction, and Request for Expedited Consideration filed in Docket No. UM 1451, subject to the conditions of the Amended Stipulation filed on November 30, as revised on December 1, 2009;
- 2) Approves the Joint Application of Qwest Corporation and Malheur Home Telephone Company for an Order Unallocating and Transferring Rights to Allocated Territory from Malheur to Qwest filed in Docket No. UA 149; and,

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- 3) Declares that the Commission has no objections to the Joint Applicants' request to the FCC for a waiver of the definition of "study area" under Part 36 of the FCC's rules to modify Qwest's study area boundaries to include the Malheur area.