

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: December 18, 2001

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ January 1, 2002

DATE: December 11, 2001

TO: Phil Nyegaard

FROM: Terry Lambeth through Cynthia Van Landuyt

SUBJECT: Sprint/United Telephone Co. of the Northwest: Accept the Annual Budget of Expenditures for 2002

STAFF RECOMMENDATION:

The Commission should accept the 2002 Budget of Expenditures for United Telephone Company of the Northwest (d.b.a. Sprint) for accounting purposes only and reserve rate-making treatment.

DISCUSSION:

On October 29, 2001, Sprint filed its annual budget of expenditures, pursuant to ORS 759.100. Unless the Commission rejects Sprint's budget by December 28, 2001, "the proposed budget is presumptively fair and reasonable and not contrary to public interest" (ORS 759.100(3)).

Officers' Salaries and Other Compensation. Sprint budgeted \$5.5 million for 30 executives whose compensation will be allocated to Oregon during 2002. Oregon operations will be charged \$0.14 million, which is similar to the 1999-2001 levels.

Memberships and Dues. Sprint budgeted about \$50,000 for Oregon's share of contributions and memberships during 2002, which will be charged to Account 7370. This account may or may not be included for setting rates. Sprint will also charge Oregon operations another \$12,000 for memberships in utility organizations and chambers of commerce. In past rate proceedings, staff has generally recommended that memberships and dues in commercial and trade organizations be disallowed unless the utility can show that the expenses are just and reasonable.

Pensions. Sprint plans to charge its Oregon operations \$0 for pension expense, as it has since 1991.

Political Advertising and Contributions. Sprint budgeted \$10,650 for political contributions for 2002. The budget also lists \$0 for political advertising. These amounts are similar to the 1995-2001 levels.

Affiliated Interests. Sprint budgeted \$15.0 million for total Oregon charges from three affiliated companies for the year 2002: North Supply company (\$4.7 million), Sprint/United Management Company (\$9.9 million), Sprint Communications Company (\$0.0 million). For the first time, the budget does not include payments to Sprint Publishing and Advertising. Sprint budgeted \$15.0 million in 2001, \$19.5 million in 2000 and \$11.8 million in 1999.

The Commission should accept the budget for accounting purposes only and reserve rate-making treatment. Commission approval of Sprint's budget should not imply or promise the inclusion of the budgeted costs in any rate proceeding. For example, utilities often pay bonuses and other employee incentives, and they record them as operating expenses under Federal Communications Commission rules and in accordance with generally accepted accounting principles. For Oregon revenue requirements, however, bonuses and incentives would be treated as shareholder expenses or reduced to a "normal" annual level.

PROPOSED COMMISSION MOTION:

The 2002 Budget of Expenditures for Sprint/United Telephone Company of the Northwest be accepted for accounting purposes, and the ratemaking treatment be reserved for these items until the company's next general rate case or toll/access charge filing.