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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1481

In the Matter of	)
PUBLIC UTILITY COMMISSION OF OREGON	)
Staff investigation of the Oregon Universal Service Fund	)

DIRECT TESTIMONY

OF

AUGUST H. ANKUM, Ph.D.

ON BEHALF OF

THE OREGON CABLE TELECOMMUNICATIONS ASSOCIATION

December 10, 2012

REDACTED

Confidential Data are marked with *****___*****

Table of Contents

EXHIBIT LIST

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is August H. Ankum. I currently serve as Senior Vice President and Chief Economist of QSI Consulting, Inc. My business address is 429 North 13th Street, Apt. 2D, Philadelphia, Pennsylvania 19123.

Q. PLEASE DESCRIBE QSI CONSULTING, INC. AND ITS AREAS OF EXPERTISE.

A. QSI Consulting, Inc. ("QSI") is a consulting firm specializing in regulatory and litigation support in regulated network industries, with a special emphasis in the telecommunications sector. QSI's primary areas of expertise include economic and financial analysis, cost of service modeling, regulatory compliance, and public policy development. Since its inception, QSI has assisted industry stakeholders on issues affecting local competitive entry, including: cost of service studies, network interconnection, unbundled network element ("UNE") access and pricing, contract negotiation and arbitration, intercarrier compensation, market dominance, customer migration, and service quality. QSI's clients include telecommunications carriers providing services (*e.g.*, wireline local exchange carriers, cable companies and wireless carriers), customers who purchase those services and those who represent the public interest (*e.g.*, consumer counsels, attorneys general), and agencies that regulate carriers and services (*e.g.*, Oregon Public Utility Commission,[1] Colorado Public Utilities

[1] In November 2011, QSI provided a two-day Witness Training course to the Staff of the Oregon Public Utility Commission. QSI provided a similar training to the Staff of the Oregon Public Utility Commission in 2005.

Commission). QSI's professional staff includes two Ph.D. economists, a Certified Public Accountant, as well as cost and regulatory analysts. QSI has more than 175 years of combined experience in the telecommunications industry and QSI's consultants have testified as experts in hundreds of proceedings before almost all state regulatory commissions and the Federal Communications Commission ("FCC"). I co-founded QSI in 1999.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I have been employed as an expert in the telecommunications industry for the past 25 years. Prior to practicing as a telecommunications consultant, I worked for MCI Telecommunications Corporation ("MCI") as a senior economist. At MCI, I provided expert witness testimony and conducted economic analyses for corporate decision-making purposes. Before I joined MCI in early 1995, I worked for Teleport Communications Group, Inc. ("TCG"), as a Manager in the Regulatory and External Affairs Division. In this capacity, I testified on behalf of TCG in proceedings concerning local exchange competition issues. From 1987 until 1994, I was employed as an economist by the Public Utility Commission of Texas ("PUCT") where I worked on a variety of electric power and telecommunications issues and testified as an expert witness in litigated proceedings. During my last year at the PUCT, I held the position of Chief Economist. Prior to joining the PUCT, I taught undergraduate courses in economics as an Assistant Instructor at the University of Texas from 1984 to 1986. I received a Ph.D. in Economics from the University of Texas at Austin in 1992, an M.A. in Economics

from the University of Texas at Austin in 1987, and a B.A. in Economics from Quincy College, Illinois, in 1982.

Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT BEFORE THE OREGON PUBLIC UTILITY COMMISSION ("COMMISSION")?

A. Yes. I testified as an expert in Docket UM 1484, the recent Qwest/CenturyLink merger proceeding.

Q. DO YOU HAVE EXPERIENCE WITH THE ISSUES IN THIS PROCEEDING?

A. Yes. I have worked on various universal service related issues ever since I was hired as an economist in the telecommunications Division of the Public Utility Commission of Texas ("PUCT") in 1987. At the PUCT, I worked on analyzing the networks, investments and costs of small rural incumbent local exchange carriers ("ILECs") in Texas, which provided me with an appreciation for the variations in costs associated with variations in geography and populations densities. As a consultant I have continued to work on telecommunications related public policy issues, including state and federal universal service policies, and related issues of costing and pricing, analysis for granting rural exemptions for small rural telephone companies from certain provisions of the Telecommunications Act of 1996, etc. A more detailed discussion of my educational and work experience is found in my curriculum vitae, attached hereto as Exhibit AHA-1 (OCTA/101).

Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?

A. I am filing this testimony on behalf of the Oregon Cable Telecommunications Association ("OCTA" or the "Association").

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The purpose of a universal service fund is to ensure that affordable telecommunications service is available to all citizens. In Oregon, the express statutory purpose of the Oregon Universal Service Fund ("OUSF") is "to ensure basic telephone service is available at a reasonable and affordable rate.[2] The purpose of a universal service fund, therefore, is to benefit customers, not carriers.[3]

By contrast, the OUSF has evolved in a manner in which the benefits are directed to incumbent carriers rather than to end-user customers. This has led to a number of distortions. The OUSF surcharge rate is one of the highest in the country and is growing. A high surcharge can hurt the relative competitiveness of the state as businesses may choose to locate in other states. A broad base of end-users, including customers of competitive carriers and urban customers, pays into the fund but receives no tangible benefits. Customers of rural carriers enjoy artificially low rates for basic service and access to Fiber to the Home services – service that is ironically not available to most customers of non-rural incumbents. The fund pays support to incumbent carriers in areas served by unsubsidized competitors, which conflicts with the statutory mandate of being competitively neutral and stunts the much needed development of competition. The

[2] ORS 759.425(1).
[3] United States Court of Appeals For The Fifth Circuit, No. 98-60213, *Alenco Communications, Inc. v. FCC*, 201 F.3d 608 (5th Cir. 2000).

current support calculation methodology pays for the total cost of telecommunications network, failing to recognize the reality of today's telecommunications in which voice services share the same network with broadband services. As a result, the OUSF supports not only basic voice services, but also – contrary to statutory intent – broadband services. The specific methods used to implement the statutory support formula contribute to waste and inefficiency.

As discussed herein, this proceeding is ideally suited to address these growing problems. Specifically, I will discuss and propose the following:

Issue 1: *What Changes Should Be Made To The Existing OUSF Related To The Calculation, Collection And Distribution Of Funds?*

- The Commission should modify the methodology for calculating OUSF support based on the following principles:
  - The overall size of the fund should be capped. The cap should be based on the fund size calculated under the modifications to the methodology for calculating support adopted by the Commission in this docket.
  - Areas in which one or more unsubsidized competitor is present should not receive OUSF support.
  - Affordability is a concept that varies by customer class, and business lines should be supported, if at all, to a lesser extent than residential lines.
  - There is no need to support non-primary residential and business lines.
  - There is no need to support non-rural ILEC study areas.
- The Commission should make the following changes to the methodology for calculating the components of the OUSF support formula:
  - For the per line Cost calculation of rural carriers:
    - Implement caps on the supportable levels of capital, operating expense, and corporate overhead consistent with the approach taken by the FCC.

- Reduce the cost of capital assumption to levels that reflect current (low) interest rates.

- For the per line Cost calculation of all ILECs: Apportion the per line Cost between basic voice and broadband service proportional to their corresponding average revenue per line. As an alternative to this solution, modify the benchmark by adding the average broadband revenue per line in the Benchmark.

- For the Benchmark calculation:

  - Calculate the Benchmark as a sum of Cost and Revenue Components.

  - Apply the same Benchmark for non-rural and rural ILECs.

  - To better capture the areas that are truly high-cost areas, set the Cost Component of the Benchmark as the weighted average cost in the non-rural wire centers (the current Benchmark) plus *two* standard deviations from this average.

  - Bifurcate the Benchmark: Calculate a separate (higher) Benchmark for business lines as follows: the Benchmark for residential lines plus a Revenue Component, calculated as the difference between the national average urban residential and business rates (approximately, $20).

  - Consistent with the principle that no support should be given in areas served by an unsubsidized competitor, set the Benchmark in those areas equal to the Area-Specific Cost minus Federal Explicit Loop Compensation minus Federal USF Support.[4]

  - To account for the issue that the same network supports voice and broadband services, and as an alternative to the cost-based solution to this problem: Modify the benchmark by adding the average broadband *revenue* per line in the Benchmark.

- With respect to the calculation of the Federal Explicit Loop Compensation, the Commission should order the following:

  - For non-rural ILECs, update the amounts of the per line Federal Explicit Loop Compensation to reflect the current levels of these carriers' Subscriber Line Charges ("SLC").

  - For the three rural ILECs affiliated with non-rural ILECs (CenturyLink, Citizens and United): Given that the change in the FCC support mechanism according to which high-cost support for these carriers is frozen at 2011 levels and moved to a

[4] The effect of this calculation is to set support at $0.00.

single "Frozen High-Cost Support" mechanism, the Commission should order the use of the 2011 per line levels of Interstate Common Line Support ("ICLS") and Interstate Access Support ("IAS") going forward. Except for this change, continue using the current formula for calculating the Federal Explicit Loop Compensation formula for these ILECs.

- With respect to the calculation of the Federal USF Support, the Commission should order:
  - For non-rural ILECs (ILECs for which the federal high-cost USF support is assumed to be zero in the current formula), include the IAS funding in the calculation of their Federal USF Support. Because IAS was frozen at the 2011 levels and moved to the "Frozen High Cost Support" category, use the 2011 zoned per line levels to allocate this support to the appropriate wire centers.
  - For all ILECs: include the new Connect America Fund Intercarrier Compensation funding in the calculation of the Federal USF Support.
  - For non-rural ILECs: include the new Incremental Support funding in the calculation of the Federal USF Support.

Issue 2: *What Changes Should Be Made To The Existing OUSF Related To How Funds Are Used?*

- Adopt measures to increase accountability of OUSF moneys.
- Make a policy decision to provide OUSF support only to residential primary lines or, at most, only to a residential primary and single line business lines.

Issue 3: *What Changes Should Be Made To The Existing OUSF Related To Transparency And Accountability?*

- Conduct periodic reviews of the OUSF, which will include a review of areas served by unsubsidized competitors and/or revisions to the fund cap.

II. OVERVIEW OF THE OREGON UNIVERSAL SERVICE FUND

Q. PLEASE BRIEFLY DESCRIBE THE OREGON UNIVERSAL SERVICE FUND.

A. The Oregon Universal Service Fund ("OUSF") is a fund created under the auspices of legislation (SB 622) that became effective on September 1, 1999, and is codified at

Oregon Revised Statutes ("ORS") 759.425. The express purpose of the OUSF is to ensure that basic telephone service is available at a reasonable and affordable rate. ORS 759.425 requires the following:

- the OUSF to be "competitively neutral and nondiscriminatory" (759.425(1));
- the OUSF to be used to "ensure basic telephone service is available at a reasonable and affordable rate" (759.425(1));
- the Commission to "establish the price a telecommunications utility may charge its customers for basic telephone service", and at the Commission's discretion, "periodically review and adjust as necessary the price a telecommunications utility may charge for basic telephone service" (759.425(2)(a));
- the Commission, at its discretion, to "review and evaluate the status of telecommunications services in the state and designate the services included in basic telephone service" (759.425(2)(a));
- the Commission to "establish a benchmark for basic telephone service as necessary for the administration and distribution of the universal service fund" (759.425(3)(a)) and to, at the Commission's discretion, periodically review the benchmark and adjust it as necessary to reflect certain changes (759.425(3)(b));
- the Commission to seek to limit the difference between the price a telecommunications utility may charge for basic telephone service and the benchmark (759.425(3)(c));
- OUSF funding to be "explicit" (759.425(3)(a));
- the OUSF to be calculated as the difference between the cost of providing basic telephone service and the benchmark, less explicit compensation from federal sources for recovery of local loop costs and less federal universal service support (759.425(3)(a));
- the OUSF to be funded by a uniform surcharge "imposed on the sale of all retail telecommunications services sold in this state" (759.425(4));
- the Commission to establish the universal service fund, consisting of surcharge moneys collected (759.425(5)), as well as telecommunications carriers to deposit amounts collected into the universal service fund (759.425(4)); and
- OUSF funds to "be used only for the purpose described in ORS 759.425, and for payment of expenses incurred by the commission or a third party appointed by the commission to administer" the fund (759.425(5)).

The Commission has established and implemented the OUSF primarily through dockets UM 731 (for non-rural carriers), UM 1017 (for rural carriers), and the instant docket (UM 1481) to review the OUSF.

Q. A KEY TERM IN ORS 759.425 IS "BASIC TELEPHONE SERVICE," WHICH IS THE ONLY TYPE OF SERVICE THAT CAN BE SUPPORTED BY THE OUSF. CAN YOU PROVIDE A DEFINITION OF THAT TERM?

A. Yes. ORS 759.400 defines "basic telephone service" as "local exchange telecommunications service defined as basic by rule of the Public Utility Commission." The Commission rule that defines "basic telephone service" is Oregon Administrative Rules ("OAR") 860-032-0190. Rule 860-032-0190(2) states:

> "Basic telephone service" means retail telecommunications service that is single party, has voice grade or equivalent transmission parameters and tone-dialing capability, provides local exchange calling, and gives customers access to but does not include: (a) Extended area service (EAS); (b) Long distance service; (c) Relay service for the hearing and speech impaired; (d) Operator service such as call completion assistance, special billing arrangements, service and trouble assistance, and billing inquiry; (e) Directory assistance; and (f) Emergency 9-1-1 service, including E-9-1-1 where available.

OAR 860-032-0190(3) goes on to list certain services that are classified as "basic telephone service" whether sold separately or in a package (e.g., residential and business single party flat rate local exchange service, PBX trunks), and OAR 860-032-0190(4) lists certain services that are *not* considered "basic telephone service" (e.g., ISDN, xDSL, Centrex).

Q. HAS THE COMMISSION PREVIOUSLY ADOPTED CRITERIA FOR DEFINING WHAT SERVICES SHOULD BE SUPPORTED BY THE OUSF?

A. Yes. In Order 98-094, the Commission adopted the following list of criteria to use in determining the services to be supported by the OUSF: (1) are essential to education, public health, or public safety; (2) have, through the operation of market choices by

customers, been subscribed to by a substantial majority of residential customers; (3) are being deployed in public telecommunications networks by telecommunications carriers; (4) are consistent with the public interest, convenience and necessity; (5) include not only tariffed services but also the functionalities and applications associated with the provision of services; and (6) would not burden the OUSF.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE HISTORY OF DOCKET UM 731, WHICH ADDRESSED OUSF FUNDING FOR NON-RURAL CARRIERS.

A. The Commission's efforts to establish a state universal service fund began before Oregon SB 622 was enacted and before the federal universal service fund was established in the Telecommunications Act of 1996. In late 1994, Docket UM 731 was opened by the Commission to investigate a state universal service fund.[5] The Commission's Phase I Order in that case (Order No. 95-1103, issued 10/17/95) addressed four main issues: (1) the definition of universal service, (2) the design objectives for a universal service funding mechanism, (3) the collection mechanism to acquire funds for the plan, and (4) the distribution mechanism to provide funding to support universal service goals.[6] After the Phase I Order was released, the federal Telecommunications Act of 1996 was enacted which contained a federal framework for universal service. As a result, Phase II of Docket UM 731 examined the implementation of the policies established in Phase I, and reviewed those policies to ensure that they were consistent with the new federal framework. The Phase II Order (Order No. 98-094, issued 3/13/98) revised certain design objectives to be consistent with the federal framework, adopted revised criteria for

[5] Order No. 94-1852 (12/19/94).
[6] Order No. 95-1103 (10/17/95).

defining basic universal service, established administration responsibilities, adopted (on an interim basis, pending completion of a cost model) funding of only a *primary* residential and business service, and concluded that OUSF contributions would be based on retail end-user intrastate telecommunications revenue (excluding radio communications revenues as well as interstate and international revenues). In the Phase III Order (Order No. 99-197, issued 3/11/99), the Commission addressed issues involving administration (collection and distribution) of the OUSF plan. About six months after the Phase III Order, ORS 759.425 – the Oregon state universal service fund statute – became effective. The Commission issued its Phase IV Order in Docket UM 731 on June 16, 2000 (Order No. 00-312), which completed the initial development and implementation of the OUSF for non-rural carriers. The Phase IV order included numerous important decisions related to the OUSF which are still in place today more than twelve years later, including: (i) adopting a forward-looking cost model for establishing the cost of service for non-rural carriers, (ii) setting a $21 per line benchmark for all types of lines (both residential and business), (iii) adopted the non-rural ILEC wire center level as the support area, (iv) adopted a methodology for individual components in the formula for OSF support,[7] and (v) reversed course from its previous interim decision and extended OUSF

[7] The formula for OUSF support = Cost per line minus the Benchmark minus the Explicit Federal Loop Cost Compensation minus Federal USF Support.

support to include ***all*** residential and business basic local exchange lines (both primary and non-primary lines).[8]

Q. WHEN DID OUSF COLLECTIONS AND DISBURSEMENTS BEGIN?

A. All companies holding certificates to provide intrastate service began collecting OUSF surcharges from their customers in September 2000, and the non-rural ILECs (former Qwest and Verizon study areas) received their first OUSF disbursements beginning in May 2001.

Q. HOW WERE RURAL ILECS ADDED TO THE OUSF?

A. On March 20, 2001, the Commission opened Docket UM 1017 to investigate expanding the OUSF to rural ILECs. On February 2, 2003, the Commission issued Order No. 03-082, which adopted a stipulated agreement that addressed the particulars surrounding adding rural ILECs to the OUSF. The stipulation: (i) concluded that rural ILEC costs would be determined on embedded costs rather than forward looking costs (on an interim basis); (ii) set at the study area level for rural ILECs (i.e., the total service territory within Oregon served by a particular rural ILEC); (iii) concluded that funding would be per-line for a specific service area and would be portable to competitive LECs who are designated by the Commission as eligible telecommunications carriers ("ETCs");[9] (iv) adopted the benchmark of $21 per month per line that had been established for the non-rural ILECs in

[8] The Commission, in this order, also changed its previous decision to limit only to intrastate revenues because ORS 759.425 did not expressly limit to intrastate revenues, and instead concluded that contributions would be based on both intrastate and interstate revenues from telecom services sold in Oregon. The Commission subsequently changed this in Order No. 01-1063 due to a court decision which found that applying the surcharge to interstate and intrastate revenues conflicted with federal law.

[9] It is my understanding (based on my examination of Attachment A to Staff's Data Response to OCTA Data Request No. 3) that no competitive ETC receives support in the RLEC study areas.

UM 731, and (v) set an interval for reviewing and updating the embedded cost calculations at no longer than 3 years, unless extended by the Commission. OUSF funds were required to be distributed to rural carriers beginning in November 2003.[10] The Commission has since conducted three reviews of the OUSF funding for rural carriers to update embedded cost calculations: in 2006 (Order No. 06-297), 2009 (Order No. 09-246), and 2012 (Order No. 12-204 as corrected by Orders No. 12-309).

Q. WHAT IS THE CURRENT SIZE OF THE OUSF?

A. The Commission most recently established the OUSF surcharge rate in Order No. 12-205 (Docket UM 1594). The Commission Staff's recommendation, which the Commission adopted in that Order, indicates that total annual disbursement to both rural and non-rural companies is currently $43 million annually,[11] which is split approximately 64%/36% between non-rural ILECs and rural ILECs respectively. Currently, disbursements from the OUSF are made monthly to 25 eligible carriers.[12] The OUSF currently collects money quarterly from a pool of approximately 290 certified telecommunications service providers.[13] End user customers of those telecommunications service providers are currently assessed a universal surcharge equal to 8.5% of retail intrastate service charges.

Q. HAS THE UNIVERSAL SERVICE SURCHARGE CHANGED OVER TIME?

A. Yes. The following table shows the surcharge rates for the OUSF since the fund's inception:

[10] Order No. 03-595 (10/2/03).

[11] Order No. 12-205, Appendix A, p. 2.

[12] Order No. 12-205, Appendix A, p. 2.

[13] Order No. 12-205, Appendix A, p. 2. About 110 certified providers are exempt due to very low or no intrastate revenues.

Table 1

OUSF Surcharge Rate (2000 - Present)		
Effective Date	**Surcharge Rate (%)**	**% Change**
9/1/2000	2.35	
1/1/2001	3.24	38%
10/1/2001	3.00	-7%
2/1/2002	5.50	83%
1/1/2004	6.50	18%
10/1/2004	6.00	-8%
1/1/2006	7.12	19%
4/1/2010	5.60	-21%
4/1/2011	4.05	-28%
10/1/2011	6.55	62%
7/1/2012	8.50	30%

The 83% surcharge increase in February 2002 resulted (at least in part) from the court-mandated change limiting assessment of the surcharge only to intrastate services (and excluding interstate services): Because the revenue base to which the surcharge was applied decreased, the surcharge rate itself was increased in order to provide the same level of funding. Later, the surcharge rate has fluctuated as circumstances such as estimated surpluses/deficits and disbursement amounts changed. The current rate (8.5%) is the highest since the inception of the OUSF.

Q. HOW DOES THE OUSF COMPARE TO OTHER STATE UNIVERSAL SERVICE FUNDS?

A. Based on a recent National Regulatory Research Institute ("NRRI") survey of state universal service funds, Oregon has the second highest surcharge rate of any state with a

high-cost fund (second only to Alaska).[14] The Oregon high-cost fund is approximately $43 million, which is 6th largest among states with high-cost funds.[15] Note that in terms of size of its voice telecommunications market, Oregon occupies 29th position among the states.[16]

Q. HOW DOES THE OUSF COMPARE WITH STATE UNIVERSAL FUNDS IN NEIGHBORING STATES?

A. Oregon shares its borders with four states: California, Idaho, Nevada and Washington. California has the largest high-cost fund in the country, as reported by NRRI, as well as the largest population of any state with a high-cost fund. But proportionally the California fund is smaller than OUSF: California's high-cost fund is only 1.46 times greater than the OUSF. By comparison, California's population is 9.73 times greater than Oregon's population.[17]

Washington does not currently have an explicit state high-cost universal service fund, as discussed in more detail in more detail below.[18]

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[14] The National Regulatory Research Institute ("NRRI"), *Survey of State Universal Service Funds 2012* dated July 2012, pp. 11-51. This report indicates that Oregon is one of 21 states that have a fund specifically for high-cost service, which represents 42% of survey respondents (see *NRRI report*, p. 3). Unlike the OUSF, the Alaska fund is dedicated expressly to intrastate access loss replacement. Thus, OUSF has the highest rate in the country for a purely high cost intrastate USF.

[15] *NRRI report*, p. 53.

[16] Determined from the FCC *Local Telephone Competition*, data as of June 30, 2011 ("*2011 FCC Local Competition report*"), Table 9 contained the total counts of end user switched access lines and VoIP subscriptions by state.

[17] High cost fund amounts taken from *NRRI report*. Demographic data taken from U.S. Census Bureau Quick Facts. http://quickfacts.census.gov/qfd/index.html.

[18] Note however, that Washington LECs charge intrastate switched access rate per minute rate elements labeled "High Cost fund" and "interim USF," which effectively represent subsidies to LECs collected from interexchange carriers and their customers.

Compared to neighboring Idaho's high-cost fund, Oregon's USF is 23.5 times larger even though Oregon has a population only 2.4 times greater than Idaho's.[19] Nevada was the only state that did not respond to the NRRI survey.[20] However, the administrator of the Nevada universal service fund (Solix) indicates that the Nevada USF fund disburses approximately $1.32 million annually.[21] Hence, the OUSF is more than 30 times larger than Nevada's USF. By comparison, Oregon's population is only 1.4 times greater than Nevada's population. [22]

Q. YOU MENTIONED THAT WASHINGTON DOES NOT CURRENTLY HAVE A STATE UNIVERSAL SERVICE FUND SIMILAR TO THE OUSF. IS THE WASHINGTON COMMISSION CONSIDERING ESTABLISHING A STATE UNIVERSAL SERVICE FUND?

A. Yes. The Washington Utilities and Transportation Commission ("WUTC") in Docket No. UT-100562 evaluated various universal service objectives and concluded that "[s]ubject to a thorough earnings review of the state's smaller telephone companies, [the Commission recommends] creat[ing] a targeted state universal service fund, with rigid funding criteria and of limited duration, for the transitional support of voice services...."[23] The WUTC has since drafted proposed legislation and sought the comments of interested parties. The WUTC's proposed legislation would cap annual distributions from the fund

[19] High cost fund amounts taken from *NRRI report*. Demographic data taken from U.S. Census Bureau Quick Facts. http://quickfacts.census.gov/qfd/index.html.

[20] *NRRI report*, footnote 5.

[21] http://www.solixinc.com/internet/Nevada_USF_Program_.aspx.

[22] Demographic data taken from U.S. Census Bureau Quick Facts. http://quickfacts.census.gov/qfd/index.html.

[23] *Report Reviewing State Telecommunications Policies on Universal Service*, Docket UT-100562, November 29, 2010.

at a total of five (5) million dollars,[24] and limit the distribution of funds only to carriers serving forty-thousand access lines or less.[25] Hence, if the legislation is ultimately passed, the OUSF would be more than 8 times greater than the Washington fund. By comparison, Washington has a population 1.76 times greater than Oregon's population. To date, no legislation has been adopted in Washington.

Q. HOW DOES OREGON COMPARE TO ITS NEIGHBORS IN TERMS OF TELEPHONE PENETRATION?

A. The FCC's December 2011 Telephone Subscribership Report indicates that Oregon has a telephone penetration rate of 97.7% as of July 2011. This is slightly lower than the penetration rates in Nevada and Washington, and slightly higher than the penetration rate in California and Idaho.[26]

These statistics suggest that at a high level, telephone penetration rates are similarly high in all five states. In addition, there is also no indication that spending over $40 million annually in subsidies going forward in Oregon will have any measurable impact on Oregon's telephone penetration rates. For example, based on the FCC's 2011 Telephone Subscribership Report, the telephone availability rate was 97.9% in March 2009 and 98.1% as of July 2011. Hence, during a three-year time period when the OUSF disbursed tens of millions in high-cost subsidies, the percentage of households in Oregon with a telephone available increased by only two-tenths of a percent.

[24] WUTC Draft Legislation § 3(1), "The program may not exceed five million dollars in annual distributions."
[25] WUTC Draft Legislation § 3(6).
[26] The penetration rates of all 5 states range between 98.4% and 95.8% (a range of 2.6 percentage points).

III. ISSUE 1: WHAT CHANGES SHOULD BE MADE TO THE EXISTING OUSF RELATED TO THE CALCULATION, COLLECTION AND DISTRIBUTION OF FUNDS?

(a) Overview

Q. ARE YOU PROPOSING THAT CHANGES BE MADE TO THE OUSF?

A. Yes.

Q. ARE THERE CERTAIN PRINCIPLES THE COMMISSION SHOULD KEEP IN MIND WHEN EVALUATING THE OREGON UNIVERSAL SERVICE FUND AND YOUR PROPOSED CHANGES?

A. Yes. Some of the principles are captured in the OUSF statute as discussed above. For example, the OUSF must: (1) be used to ensure basic telephone service is available at a reasonable and affordable rate, (2) be competitively neutral and nondiscriminatory, (3) provide explicit funding and (4) follow the statutory support formula, which is Cost minus Benchmark minus Explicit Federal Loop Cost Compensation minus Federal USF Support. The statute also provides that (5) the Commission may review the Benchmark to account for (a) Changes in competition in the telecommunications industry; (b) Changes in federal universal service support; and (c) Other relevant factors as determined by the commission.

The Commission likewise established design objectives for the OUSF when the fund was originally established. Specifically, in Order No. 98-094, the Commission concluded that the OUSF should be governed by the following additional criteria: (6) be administratively simple and low cost, (7) be sufficient to provide for quality basic network access service at just, reasonable, and affordable rates, (8) promote operating efficiency and eliminate

artificial investment incentives, and (9) be specific, predictable and sufficient when combined with federal mechanisms to preserve and advance universal service.

So, as the Commission embarks on its review of the OUSF mechanism, it should consider whether the mechanism as it currently exists meets these objectives, as well as whether changes could be made to better meet them.

Q. WHY ARE CHANGES TO THE OUSF NEEDED?

A. There are several reasons why changes are needed. As noted above, the OUSF surcharge is the second highest in the nation, far higher per capita than surcharges in nearby states. This imposes an unreasonable burden on Oregon customers and raises the cost of doing business in Oregon. As I stated above, many paying in to the fund – such as customers of competitive carriers and urban customers see little benefit, while rural carriers benefit from subsidized voice and even advanced broadband services not envisioned by the statute. Moreover, some rural ILECs are net payers to the fund, while the two non-rural ILECs are net recipients of the fund, [27] meaning that rural customers of those rural ILECs pay more into OUSF than the direct benefits (subsidy) their ILEC receives from the fund.

Further, the OUSF funding for non-rural LECs has not been reviewed since it was created a dozen years ago. Since that time, there has been little or no accountability or transparency related to where the tens of millions of dollars were spent or what the money was spent on. Moreover, the current funding for rural carriers is not even based on the mechanism originally established for these carriers, or on a showing of need.

[27] As discussed below, CenturyTel and United study areas appear to be net payers to the fund, while the former Qwest and Verizon study areas appear to be net recipients of OUSF.

Instead, rural carrier funding is based on a bargain struck for the purposes of avoiding applying the established mechanism which would lead to skyrocketing OUSF funding obligations for end users.

It does not make sense from the public policy perspective that the OUSF surcharge is higher than it has ever been. Technological developments and the growth of competition should be lowering the overall cost of providing local basic service, and subsidies should be decreasing. For these reasons, the OUSF should be as small as it has ever been (if it is needed at all). Instead, the OUSF is growing because the mechanism is set to compensate rural LECs for the loss of lines to competitive forces. The OUSF subsidy – designed to "ensure basic telephone service is available at a reasonable and affordable rate" even in high-cost areas – should not continue to subsidize rural and non-rural ILECs in areas where those carriers face competition from an unsubsidized facilities-based alternative provider. Those changes should be accounted for going forward.

Q. WHAT CHANGES SHOULD BE MADE TO THE OUSF?

A. I propose the following changes:

- Modify the methodology for calculating OUSF support based on the following principles:
  - The overall size of the fund should be capped. The cap should be based on the fund size calculated under the modifications to the methodology for calculating support adopted by the Commission in this docket.
  - Areas in which one or more unsubsidized competitor is present should not receive OUSF support.
  - Affordability varies by customer class, and business lines should be supported to a lesser extent than residential lines.

- There is no need to support non-primary residential and business lines. In addition, the Commission should also open a rulemaking to modify the definition of basic service to support only single-line residential service.

- There is no need to support non-rural ILEC study areas.

➢ Make the following changes to the methodology for calculating the components of the OUSF support formula:

- For the per line Cost calculation of rural ILECs: Reduce the allowable costs and the assumed cost of capital used in the RLEC cost studies;

- For the per line Cost calculation of all ILECs: Apportion the per line Cost between basic voice and broadband service proportional to their corresponding average revenue per line;

- For the Benchmark calculation:

  - To better capture the areas that are truly high-cost areas, set the Cost Component of the Benchmark as the weighted average cost in the non-rural wire centers (the current Benchmark) plus two standard deviations from this average.

  - Bifurcate the Benchmark: Calculate a separate (higher) Benchmark for business lines as the Benchmark for residential lines by adding a Revenue Component – the difference between the national average urban residential and business rates (approximately, $20).

  - To account of the principle that no support should be given in areas served by unsubsidized competitor(s), set the Benchmark in those areas equal to the Area-Specific Cost minus Federal Explicit Loop Compensation minus Federal USF Support.

  - To account for the fact that the same network supports voice and broadband services, and as an alternative to the cost-based solution to this problem: Modify the benchmark by adding the average broadband revenue per line to the Benchmark.

- For the calculation of the Federal Explicit Loop Compensation:

  - Update the amounts of the per line Federal Explicit Loop Compensation to reflect the current levels of these carriers' Subscriber Line Charges ("SLC") and the change in the federal support mechanism for the three rural carriers affiliated with non-rural carriers (CenturyLink, Citizens and United).

- For the calculation of the Federal USF Support:

- For non-rural ILECs, include the IAS funding in the calculation of their Federal USF Support.

- For all ILECs: include the new Connect America Fund Intercarrier Compensation funding in the calculation of the Federal USF Support.

- For non-rural ILECs: include the new Incremental Support funding in the calculation of the Federal USF Support.

(b) Proposed Changes to the Calculation of Support

(i) The Calculation of the Cost of Providing Basic Telephone Service Should be Modified.

Q. WHY IS IT APPROPRIATE TO CALCULATE THE COST OF PROVIDING BASIC TELEPHONE SERVICE IN CONJUNCTION WITH THE OUSF?

A. There is a relatively simple equation that is used to calculate OUSF support, and the cost of providing basic telephone service is one variable in that equation. ORS 759.425.3(a) states that "[t]he universal service fund shall provide explicit support to an eligible telecommunications carrier that is equal to the difference between the cost of providing basic telephone service and the benchmark, less any explicit compensation received by the carrier from federal sources specifically targeted to recovery of local loop costs and less any explicit support received by the carrier from a federal universal service program." Therefore, the equation for calculating OUSF support can be expressed as follows:

OUSF Support = Cost – Benchmark – Federal Explicit Loop Compensation – Federal USF Support

Q. HOW IS THE COST VARIABLE DETERMINED FOR OREGON LECS?

A. For the two largest ILEC study areas, the former Qwest and Verizon territories, the Commission adopted a forward-looking cost methodology for establishing these carriers' cost of providing basic service. The forward-looking per line cost estimates for these non-rural LECs are generated by the FCC Synthesis Model using the Commission-approved inputs.[28] These cost estimates date back to 2000, and have not been updated since that time.

In contrast, for the rural ILEC study areas, an embedded cost methodology is used to establish the cost of providing basic service. This embedded cost methodology was adopted for rural carriers on an interim basis because there were no reliable forward-looking cost models available for rural carriers.[29]

Cost Model Estimates

Q. ARE THERE ANY NEWER COST MODELS THAT YOU ARE AWARE OF THAT WOULD DO A BETTER JOB OF DETERMINING THE COST OF BASIC TELEPHONE SERVICE IN THE FORMER QWEST AND VERIZON TERRITORIES?

A. No. For the Former Qwest and Verizon study areas, the Synthesis Model remains the most current federal cost model designed to estimate the cost of basic telephone service. Its estimates still constitute the basis for the federal non-rural High Cost Model support

[28] Order No. 00-312 pp. 6-16.
[29] Order No. 03-082, p. 3.

(now part of the "frozen support" mechanism).[30] The FCC is currently working on a new cost model for price cap territories to be used in implementing Phase II CAF support,[31] but that model is under development and far from being finalized, and its purpose will be to estimate the cost of *broadband* service, rather than basic telephone service, as required by ORS 759.425.3(a).

However, the broadband model may still be useful for the purposes of identifying relatively high-cost areas for basic telephone service because the cost of both basic telephone and broadband are driven largely by the same factors, including lengths and placement cost of cable facilities and the associated conduit and poles. For example, in the *USF/ICC Transformation Order*, the FCC noted that "the record contains evidence that the forward-looking cost of deploying voice- and broadband-capable networks today is generally not significantly higher than deploying voice-only networks."[32] It also noted that "the same characteristics that make it expensive to provide voice service to a wire center (e.g., lack of density) make it expensive to provide broadband service to that wire

[30] *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform – Mobility Fund,* WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, released on November 18, 2011 ("*USF/ICC Transformation Order"*), ¶ 22.

[31] USF/ICC Transformation Order, ¶ 116. On the current status of the model development, see two public notices released on October 19, 2012 in the FCC WC Docket Nos. 10-90, 05-337, (Public Notice, *Wireline Competition Bureau Releases Additional Discussion Topics For Connect America Phase II Cost Model Virtual Workshop* and Public Notice, *Wireline Competition Bureau Announces Deadline For Commenting On Connect America Phase II Cost Model Virtual Workshop Discussion Topics).*

[32] *USF/ICC Transformation Order,* ¶ 65, footnote 72. This footnote goes on to say as follows: "*, see, e.g.*, Letter from Donna Epps, Verizon, to Marlene H. Dortch, Secretary, FCC, GN Docket No. 09-51 at 2-3 (filed Feb. 12, 2010) ("Fiber networks are . . . more efficient, and more reliable than the legacy copper network. . . . [T]hey are cheaper to maintain and have fewer potential points of failure than copper lines."). Indeed, although we are updating the high cost fund to support modern voice and broadband networks, we are not increasing the overall size of the fund to do so."

center as well." Further, the preliminary results of the broadband cost model that is currently being developed at the FCC suggest that at least 75% of total cost of providing broadband consists of cost for cable, trenching, conduit and poles, while the remaining 25% of the cost is split approximately evenly between broadband circuit equipment, and land and buildings.

Once the FCC broadband model is finalized, the Commission may want to consider using its results to identify (or cross-check) the locations of relatively high-cost areas within the state.

Q. SHOULD THE COMMISSION CONTINUE USING THE SYNTHESIS MODEL COST ESTIMATES, GENERATED AT THE TIME THE CURRENT OUSF WAS ESTABLISHED?

A. Yes; that would be the most practical approach.[33] I propose that the benchmark continue to be set with regard to the average cost, and under this approach, it is the *relative* differences in cost (rather than absolute levels of cost) that identify the supported wire centers. The FCC used similar reasoning in the USF/ICC Transformation Order to justify its use of the Synthesis Model cost estimates going forward to fund broadband services as part of the CAF Phase I. Specifically, the FCC said as follows: "Using a cost estimation function based on our existing [Synthesis] model will help to identify *which* wire centers are likely to be the most expensive to provide broadband service to, even if it does not

[33] While discussion of cost issues in this testimony are generally wireline LEC centric, the Commission should not necessarily preclude cost considerations based on the use of alternative technologies for providing phone service, such as cable or wireless.

reliably identify precisely *how expensive* those wire centers will be to serve." [34] Note also that the Synthesis Model cost estimates used currently by the FCC date back to 2003, when the model inputs were updated last time.[35]

RLEC Cost Studies

Q. ARE YOU AWARE OF ANY NEW COST MODELS THAT HAVE BECOME AVAILABLE THAT COULD BE USED TO ESTIMATE THE COST OF BASIC TELEPHONE SERVICE FOR RURAL STUDY AREAS?

A. No. The FCC does not have, and is unlikely to develop in the foreseeable future a forward-looking cost model for rural (rate-of-return) ILEC territories. However, there are changes that can be made that would increase the efficiency of embedded cost estimations for rural carriers. In fact, the FCC made changes to the embedded cost calculations of rate-of-return LECs in the *USF/ICC Transformation Order* in order to eliminate "waste and inefficiency and improve incentives for rational investment and operation by rate-of-return LECs."[36] Specifically, the *USF/ICC Transformation Order* adopted the use of statistical techniques (regression analyses) to limit the amount of RLEC's reimbursable capital and operating expense to the amounts observed for similarly situated companies.[37] The rationale for adopting these limits was the observation that the USF system that reimburses 100% of actual capital and operating expenses creates incentives for carriers to increase their loop cost and punishes carriers

[34] *USF/ICC Transformation Order*, ¶ 137, footnote 220 (emphasis original to source).

[35] See the FCC WC Docket No. 05-337, CC Docket No. 96-45, Notice Of Inquiry, adopted on April 5, 2009, ¶ 22.

[36] *USF/ICC Transformation Order*, ¶ 195.

[37] *USF/ICC Transformation Order*, ¶¶ 214- 216.

that cut their costs.[38] The FCC's new approach discourages rural carriers from excessive spending compared to their peers, [39] and also helps identify areas where past investment may have been excessive.[40]

The Commission should adopt a similar approach of limiting the amounts of capital and operating expenses in the embedded cost studies used to determine OUSF support for rural carriers to discourage waste and inefficient spending.

Q. PLEASE PROVIDE ADDITIONAL DETAILS ON THE NEWLY ADOPTED FCC APPROACH OF LIMITING THE RURAL CARRIER CAPITAL AND OPERATING EXPENSE WHEN CALCULATING THE PER LINE COST FOR PURPOSES OF USF.

A. This approach of limiting capital and operating expense to the levels observed for similarly situated companies was finalized in the FCC April 25, 2012 Order.[41] This Order adopted a methodology of using regression analysis to estimate capital and operating expense limits (caps) for each rate-of-return company. The caps calculated using this methodology will be updated and published annually.[42] This Order published a numerical comparison of then-current company-specific actual per line capital and operating expenses, and the corresponding limits resulting from the application of the

[38] *USF/ICC Transformation Order,* ¶ 211.

[39] *USF/ICC Transformation Order,* ¶ 220.

[40] *USF/ICC Transformation Order,* ¶ 219 footnote 351.

[41] See FCC WC Docket Nos. 10-90, 05-337, Order adopted on April 25, 2012, including Appendix B that contains company-specific limits ("benchmarks") for capital and operating expense to be used in place of company-specific cost for purposes of High Cost Loop Support calculation between July 1, 2012 and December 31, 2012.

[42] *USF/ICC Transformation Order,* ¶ 218.

regression methodology.[43] This comparison contains information on all Oregon RLECs for which the embedded cost methodology is used for purposes of OUSF except for the RLECs affiliated with non-rural carriers (former CenturyTel, Frontier Citizens and United Telephone study areas).[44] Based on this comparison, two Oregon RLECs – Pine and Scio Mutual ("Scio") – have capital expense per line exceeding the FCC limits. For Pine, the FCC-capped cost per line is 29% lower than the actual uncapped cost, and for Scio this percentage measure is 6%.[45] By way of background, Pine's current per line OUSF support is the highest in the state at $95.03 per month, and Scio's per line support is 21st at $15.41 per month.[46]

Q. ARE THERE ANY LIMITS TO THE EXPENSE REIMBURSABLE UNDER THE FEDERAL HIGH COST MECHANISM FOR RURAL CARRIERS?

A. Yes. The federal mechanism limits the amount of corporate operations (overhead) expense used in the calculation of support for rate-of-return ILEC territories. The cap on the corporate operations expense had been used for many years in the calculation of the federal High Cost Loop support, but the *USF/ICC Transformation Order* extended it to the calculation of the federal Interstate Common Line Support.[47] The list of carriers for

[43] Appendix B to the FCC WC Docket Nos. 10-90, 05-337, Order adopted on April 25, 2012. Per ¶ 4 of this Order, benchmark values in Appendix B will be used in place of company-specific cost for purposes of High Cost Loop Support calculation between July 1, 2012 and December 31, 2012.

[44] Cost of these companies are not addressed Appendix B to the FCC WC Docket Nos. 10-90, 05-337, Order adopted on April 25, 2012 because they are no longer supported under the federal rate-of-return mechanism. See *USF/ICC Transformation Order*, ¶¶ 129-130.

[45] Calculated from Appendix B to the FCC WC Docket Nos. 10-90, 05-337, Order adopted on April 25, 2012 as follows: Pine (p. 63): "Cost per Loop Used to Determine Support" of $3,570 divided by "Current Cost per Loop" of $4,411; Scio Mutual (p. 65): "Cost per Loop Used to Determine Support" of $1,665 divided by "Current Cost per Loop" of $1,781. Note that the cost figures represent annual cost.

[46] Order No. 12-309 Attachment 1.

[47] *USF/ICC Transformation Order*, ¶¶ 227, 229 and 232.

which this cap affected the calculation of the per loop cost (for which actual corporate overhead was higher than the cap) can be seen in the annual cost filing of the National Exchange Carrier Association ("NECA") – the cost data used to calculate the federal support under the rural high cost loop mechanism.[48] For example, in the most recent NECA cost filing three Oregon carriers had their corporate overhead expense limited by the cap – Canby, Colton and Pine.[49] Among these three companies, the difference between actual and capped corporate overhead expense was the highest for Pine, for which the actual corporate overhead per line was almost twice the amount of the capped level.[50]

The Commission should adopt a similar approach of limiting the amounts of corporate expense per line in the embedded cost studies used to determine OUSF support to discourage waste and inefficient spending.

Q. ARE THERE OTHER ADJUSTMENTS THAT SHOULD BE MADE TO THE RURAL CARRIER EMBEDDED COST STUDIES?

A. Yes. One obvious adjustment is to reduce the rate of return (cost of capital) assumption used in the embedded cost studies. Based on Order No. 03-082, the rate of return used in these cost studies is 11.1%.[51] By comparison, the cost of capital assumption used by the Commission to generate the cost estimates for the former Qwest and Verizon wire centers

[48] These data are available at http://transition.fcc.gov/wcb/iatd/neca.html, subsection titled "Universal Service Fund Data: NECA Study Results."

[49] See http://transition.fcc.gov/wcb/iatd/neca.html, subsection titled "Universal Service Fund Data: NECA Study Results," archive under item *2011 Report*, file USF2012LC12.xls, columns CZ through DB. Column DA is an indicator of whether the company's corporate expense was limited or not; column CZ contains the cap, while column DB contains the actual level of corporate expense per line.

[50] The specific numbers were as follows: $133.13 (actual) and $69.49 (capped).

[51] Order No. 03-082, Attachment A, p. 5.

was 9.98%.[52] It is common knowledge that interest rates (and therefore, cost of capital) has gone down significantly in recent years. Rural ILECs have access to loans with particularly low interest rates. One example is the actual interest rate on CenturyTel of Eastern Oregon's current debt, which consists of two Rural Utilities Services ("RUS")_ loans. The larger loan bears interest rate of only 2%, while the second loan has interest rate of only 5%.[53] The level of 11.1% used in the Oregon RLEC cost studies is very similar to the interstate rate of return of 11.25%, for which the FCC recently initiated a review, noting that "fundamental changes in the cost of debt and equity since 1990 no longer allow us to conclude that a rate of return of 11.25 percent is necessarily 'just and reasonable' as required by section 201(b)."[54] Recent cases involving RLECs show that some state commissions have approved cost of capital inputs in the neighborhood of 6 or 7%.[55]

[52] Order No. 00-312, p. 10.

[53] CenturyLink's Response to OCTA Data Request No. 1 (Set 1), attachment *OCTA Set 1, No. 1 CONFID - 2011 Form O CT of Eastern OR.PDF*, Table B-4 (public).

[54] See *USF/ICC Transformation Order*, ¶ 1046.

[55] See the following examples of commission-approved cost of capital: Utah Public Utilities Commission USF Dockets: Docket No. 11-2180-01, *In the Matter of the Application of All West Communications, Inc. for USF Eligibility*, Order Approving Stipulation, issued on November 30, 2011, p. 4 citing intrastate rate of 7.14%; Docket No. 09-2419-01, *In the Matter of the Petition of Direct Communications Cedar Valley, LLC, for a Review of Rates and Support from the State Universal Service Support Fund*, Report And Order Approving Stipulation, issued on May 26, 2010, p. 3 citing a cost of debt of 5.05%; an authorized Return on Equity of 12.24% and capital structure of 35% equity; resulting in a 7.57% weighted average cost of capital calculated as 5.05% * (1 - 0.35) + 12.24% * 0.35. Georgia Public Service Commission, USF Docket No. 17142-U, *In Re: Universal Access Fund, De Minimus Claims Under O.C.G.A. § 46-5-167*, 12th Amendatory Order dated February 24, 2009, p. 1 setting the rate of return at the lesser of 9% and the LEC actual weighted average cost of capital. New York PSC Rate Cases: Case 09-C-0431, Minor Rate Filing of Crown Point Telephone to Increase its Annual Revenues by $159,628, Order Authorizing Rate Increase, issued on December 28, 2009, pp. 14-15 setting the overall rate of return to 6.09%; Case 09-C-0532, Minor Rate Filing of Germantown Telephone Company Inc. to Increase its Annual Revenues by $300,000 in its PSC No. 9 Telephone Tariff, Order Authorizing Rate Increase, issued on February 12, 2010, p. 14 adopting Staff's adjustment to the study, including an overall rate of return of 7.52%.

The Commission should reduce the rate of return assumption used in the RLEC embedded cost studies to levels that reflect current financial markets. I expect that the updated rates of return should be at or below the below 9% level.

Broadband Shares Network with Voice Services

Q. YOU HAVE SAID THAT THE OUSF IS TO ENSURE THE AVAILABILITY OF BASIC VOICE SERVICE AT REASONABLE AND AFFORABLE RATES. ARE THE NETWORKS ON WHICH OUSF DOLLARS ARE SPENT USED TO PROVIDE ONLY BASIC VOICE SERVICE?

A. No. The networks operated by OUSF recipients are generally used to provide both basic (supported) services as well as non-basic (non-supported) services. For example, it is common practice in a typical arrangement, for voice and broadband services of a residential customer to be provisioned over the same cable loop facility that connects this customer to the ILEC central office. This presents challenges for the OUSF because both the Synthesis Model and the embedded cost study assign 100% of the loop facility cost to basic voice service. As a result, a USF subsidy that is based on these cost estimates would subsidize not only the supported (voice) services, but also unsupported services that use the same loop. This flaw should be resolved in the OUSF mechanism going forward by making the adjustments I propose below.

This flaw of a narrowband USF mechanism is widely recognized. For example, in the *USF/ICC Transformation Order*, the FCC acknowledged that "in the absence of any federal mandate to provide broadband, rate-of-return carriers have been deploying broadband to millions of rural Americans, often with support from a combination of loans

from lenders such as RUS and ongoing universal service support."[56] The US Government Accountability Office explained that "[w]hile access to advanced services, such as broadband, is not included among the designated list of services supported by the high-cost program, the program has indirectly facilitated broadband deployment in many rural areas. In recent years, some carriers have been using high-cost program support to upgrade their telephone networks, including upgrading to fiber optic cable and extending it closer to their customers… In rural areas served by rural carriers, the high-cost program allows the carrier to recoup a large portion of the investment that facilitates broadband service since, as we mentioned earlier, these carriers receive high-cost program support based on their costs."[57] A Congressional Office Budget paper reported that "[r]ecent surveys of investment patterns among rural carriers offer more-direct evidence of the dual purpose of such investments. In a survey of its rural members, the National Telecommunications Cooperative Association found that 81 percent of respondents were using their investment in fiber loop to extend the reach of DSL service."[58] And finally, an executive of Pine, the Oregon RLEC that receives the highest per line support in the State, recently stated that "Pine Telephone and other small rural phone companies have utilized financial assistance from the Universal Service Fund to make the necessary network upgrades for full-scale broadband networks… Thanks to the Universal Service

[56] See *USF/ICC Transformation Order*, ¶ 205.

[57] United States Government Accountability Office, Report to Congressional Committees, *Telecommunications. FCC Needs to Improve Performance Management and Strengthen Oversight of the High-Cost Program*, June 2008, p. 22 (footnote omitted).

[58] Congressional Budget Office, *Factors That May Increase Future Spending from the Universal Service Fund*, June 2006, p. 26 (footnote omitted).

Fund, we've successfully brought our customers affordable broadband Internet service."[59]

Q. DOES THIS ISSUE CONCERN COST ESTIMATES OF BOTH RURAL AND NON-RURAL ILECS?

A. Yes. The cost estimates resulting from either the Synthesis Model (used by the non-rural carriers) or the embedded cost studies (used by the rural carriers) overstate the actual cost of providing basic voice services because they assign 100% of network cost to voice services, while in reality the network cost is shared between basic and non-basic services.[60]

That said, the problem is likely more pronounced for rural LECs because their USF funding is directly linked to their embedded (or book) cost, such that each dollar the rural carrier actually invests in its telecommunications plant increases that rural carrier's average cost per loop and, in turn, increases potential USF support. This is in contrast to non-rural carriers whose OUSF funding is determined based on the costs of a hypothetical efficient carrier and not based on their actual book investment. As a result, rural carriers have an incentive to "gold plate" their network and RLEC customers often have access to advanced services that are, ironically, not available in urban areas. For example, many Oregon RLECs offer Fiber to the Home ("FTTH") service to their

[59] See John B. Hemphill, Vice President, Pine Telephone System, Inc. *Rural Broadband Access Could Take a Huge Step Backwards*, Hells Canyon Journal, Vo. 29 No. 38, September 21, 2011 available at http://www.pinetel.com/JBHOPEDSEPT21.HTML.

[60] Other non-voice services such a video may be using the same network facilities. I am focusing here on broadband services because they are widely available through ILECs and/or their affiliates.

residential customers,[61] a service that is not available to the CenturyLink (Qwest) residential customers in the Portland metropolitan area.[62]

Q. HOW WOULD YOU CHARACTERIZE THE RLECS THAT ARE CURRENTLY DRAWING THE MOST MONEY FROM THE OUSF ON A PER-LINE BASIS?

A. There are five Oregon RLECs that currently draw over $50.00 per line per month from the OUSF. While these RLECs generally had fairly humble, rustic origins, they have transformed themselves into thoroughly modern, full service telecommunications, Internet access, and (in some cases) video and/or wireless service providers. Moreover, because they have enjoyed substantial financial support from the federal high-cost USF and OUSF mechanisms for years, they have been able to offer their services at prices that are often set well below comparable urban services' price levels. The following are brief profiles of these five RLECs, in descending order of their per-line draws from the OUSF in 2012:

- Pine Telephone Company ("Pine"), which I discuss earlier in my testimony, has the highest per-line cost differential (above the average per-line cost set by the Commission) and per-line OUSF draw, at $95.03.[63] Pine started as a telephone cooperative in the early 1900s, but has been privately owned since 1945, and presently serves under 1,000 customers in the Halfway and Granite exchanges in

[61] Some examples include Pine (see http://www.pinetel.com/internet.html offering FTTH at speeds 6Mbps/2Mbps for $37.95); Molalla (see http://www.molalla.com/internet.html offering FTTH branded "XFon" (Xtreme fiber optic network) product at speeds 50Mbps/20Mbps starting at $29.95 per month for the first 3 months); Monitor (see http://www.monitorcoop.com/index.php/community/fiber-to-the-home-update -- offering FTTH; pricing and speeds not listed); Stayton and Peoples (see http://www.sctcweb.com/internet/ offering FTTH at speeds 15Mbps/3Mbps at 49.95 and 50Mbps/5Mbps for $64.95 per month).

[62] It is my understanding that some Frontier residential customers in the Portland metropolitan area may have grandfathered Verizon FiOS FTTH service.

[63] Order No. 12-309, Attachment 1.

northeastern Oregon and the Three Rivers Exchange in central Oregon.[64] The company's website proclaims that "[a]pproximately three fourths of Pine Telephone's customers have fiber to the home which enables broadband service if desired."[65] Pine's advertised speed for its FTTH broadband offering, 6 Mb/2 Mb download/upload, exceeds the FCC's 4 Mb/1 Mb download/upload standard, and is offered to customers at a price of $37.95 per month.[66] Pine's current monthly rates for basic telephone service are $12 per month for residential, and $17 per month for business service.[67] These rates are reflective of rate increases that took place in 2012, when residential rates were increased by $2.50, and business rates – by $3.00 per line per month.[68]

- Helix Telephone Company ("Helix") has the second-highest per-line OUSF draw for 2012, at $77.64.[69] It serves less than 250 lines[70] in the community of Helix, in northeastern Oregon. Other than the FCC-imposed ARC surcharge of $0.50, Helix has not changed its basic local exchange rates over the past five years. Its current residential basic exchange rates (with ARC) vary from $14.30 to $18.30, and its business basic exchange rates vary from $17.60 to $22.60 per month per line depending on the zone.[71] At the same time Helix offers several speeds of

[64] Source: www.pinetel.com/about.html.
[65] *Id.*
[66] Source: http://www.pinetel.com/internet.html.
[67] See attachment contained in OTA Response to Verizon Data Request No. 3.
[68] Pine's Response to OCTA Data Request No. 6. The new rates include a $0.50 Access Recovery Charge ("ARC") surcharge that was created by the FCC USF/ICC Transformation Order as a method of recovery the FCC-mandated intercarrier compensation rate reductions.
[69] Order No. 12-309, Attachment 1.
[70] Order No. 12-309, Attachment 1.
[71] See Helix Response to OCTA Data Request 1-6.

DSL service, ranging from 3 Mbps at $32.00 per month up to 6 Mbps at $62.00 per month.[72]

- The Monitor Cooperative Telephone Company ("Monitor") dates back to 1906, and currently serves under 500 exchange lines, [73] with the third highest OUSF per line support of $72.01 per month. [74] The company began providing cable television service in 1987, and DSL Internet access service in 2001; as described in its website, "over the course of a few years, DSL speeds increased, as well as, the number of customers wanting high speed Internet."[75] Monitor has been deploying FTTH broadband since 2009, and advertises that "you can have 10M download/3M upload, with completely unlimited monthly use, for only $59.90 a month" with no contract, and $54.90 per month under a two-year contract.[76] Monitor's basic local telephone rates are $14.05 per month for residential service and $17.20 per month for single-line business service.[77] Other than the FCC-imposed ARC surcharge of $0.50, Monitor has not changed its basic local exchange rates over the past five years. [78]
- .The fourth highest per-line OUSF recipient is Eagle Telephone Company ("Eagle") at $57.00 per month, which serves under 500 lines in the Richland area. [79] Eagle's website indicates that it began as a small RLEC providing party line

[72] Source: http://www.helixtel.net/services/. These advertised speeds presumably refer to download speed.
[73] Order No. 12-309, Attachment 1.
[74] Order No. 12-309, Attachment 1.
[75] Source: http://www.monitorcoop.com/index.php/about-us/our-history.
[76] Source: http://www.monitorcoop.com/wp-content/images/3rd-Quarter-2012-MCTC-Newsletter-WEB.pdf (accessed 10/16/12).
[77] See attachment contained in OTA Response to Verizon Data Request No. 3.
[78] See Monitor Response to OCTA Data Request 1-6.
[79] Order No. 12-309, Attachment 1.

service in the Richland area, but "[r]ecently Eagle expanded their territory to include the Connor Creek area in the Snake River Corridor between Huntington and Richland Oregon," and "has continued to expand their service offerings to include High Speed DSL, Wireless Internet and most recently, Fiber to the Home within the Richland city limits."[80] Its advertised rates for basic local telephone service are $11.60 per month for a residential exchange line, and $16.95 for a business exchange line.[81] At the same time, based on its Oregon Annual Report Form O, which contains information on switched access lines and gross Oregon billed revenue, Eagle's monthly ARPU for local exchange switched services was only *** __ *** in 2011, including *** __ *** for residential and *** __ *** for business lines. [82] It offers DSL and fiber to the home broadband, with the latter advertised at $56.05 per month for "3 Mb" residential service.[83] It is also interesting that Eagle's wireless affiliate, Eagle Telephone Systems Inc. d.b.a. Snake River PCS,[84] receives federal USF support for its lines located in Eagle, as well as Pine's study areas. More specifically, based on the Universal Service Administrative Company ("USAC") FCC filing for the first quarter of 2012 (the last quarter in which these data were reported), Snake River PCS claimed federal USF support for approximately 170 lines in Eagle's study area, and 440 lines in

[80] Source: http://www.eagletelephone.com/about.shtml.

[81] Source: http://www.eagletelephone.com/services_eagletelephone.shtml. The same rates are listed in the attachment contained in OTA Response to Verizon Data Request No. 3.

[82] Calculated as annual Gross Oregon Billed local exchange switched revenue divided by local exchange switched lines and by 12 months, where the line counts and revenue are taken from Eagle's Form O provided as attachment C to Eagle's Responses to OCTA Data Request No. 1, confidential Table G10.

[83] Source: http://www.eagletelephone.com/services_internet.shtml.

[84] Federal Competitive Eligible Telecommunications Carrier Study Area Code 539007. The company became an ETC per Commission's Order No. 06-680.

Pine's study area.[85] Snake River PCS offers wireless service for as little as $22.50 per month.[86] Eagle proclaims on its website that "[w]e can provide our customers reliable, quality cellular service with our basic mobile mini plan at a price comparable to that of our local basic wire-line service."[87] In other words, Eagle's wireless arm actively competes with its ILEC arm. Because Eagle's cellular plan is "comparable" to the wireline plan, customer migration from Eagle's wireline to Eagle's wireless business does not reduce the holding company's overall revenue, but increases the ILEC's per line cost, and consequently, the required draw from the federal USF and OUSF. In addition, Eagle's affiliate Eagle Valley Communications, offers cable television service, with its basic television package advertised at $31.95 per month.[88] Eagle also has been a recipient of a telecommunications loan from the Rural Development Services (formerly RUS) of the U.S. Department of Agriculture.[89]

- Oregon-Idaho Utilities, Inc. began service in January 1990, with its acquisition of three exchanges in Oregon and one in Idaho from Contel of the West.[90] It currently serves over 500 exchange lines in Oregon at a cost differential of $55.59.[91] Its monthly residential basic telephone rates range from $11.65 to $18.65 depending upon the exchange, and single line business exchange rates

[85] See USAC FCC Filings, 1st Quarter 2012 available at http://www.usac.org/about/tools/fcc/filings/2012/q1.aspx, Appendix HC19 ICLS CETC Lines 1Q2012.
[86] Source: http://www.eagletelephone.com/services_snakeriverpcs.shtml.
[87] *Id.*
[88] Source: http://www.eagletelephone.com/services_eaglevalley.shtml.
[89] Source: www.rurdev.usda.gov/SupportDocuments/Mar2010BorrDirectory.pdf.
[90] Source: http://oiutelecom.net/company-history.php.
[91] Order No. 12-309, Attachment 1.

similarly vary from $23.35 to $31.35.[92] It also offers basic and "premium" DSL services for Internet access, although its pricing is not advertised on its website.

As these profiles illustrate, the many of the Oregon RLECs are by no means old-fashioned "Mom and Pop" utilities struggling to provide basic local telephone service, but instead are sophisticated telecommunications companies that have taken full advantage of the existing federal and Oregon USF mechanisms to modernize their networks and offer advanced broadband as well as basic telephone services.

Q. HAS THIS ISSUE BEEN RAISED BEFORE IN THE CONTEXT OF OUSF SUPPORT?

A. Yes. Staff's comments in response to the issues list in the earlier phase of UM 1481 explained that "DSL revenues or revenues derived from providing internet services," should be used to reduce support if OUSF support remains directed at carriers.[93] Staff also commented that "as a principle, a company's total communications earnings should be considered when determining if a company needs support for serving a particular geographic area."[94]

Q. HOW SHOULD THE COMMISSION ADJUST THE COST ESTIMATES FOR NON-RURAL AND RURAL CARRIERS TO ENSURE THAT ONLY BASIC SERVICE IS SUPPORTED AS INTENDED?

A. The Commission should apportion the per line cost estimates between basic voice and broadband services. As I said earlier, the networks operated by OUSF recipients are

[92] Source: Attachment D to OTA Response to Verizon Data Request No. 3. The quoted rates exclude the Extended Area Service additive.

[93] UM 1481,*Staff's Comments,* October 25, 2010, at Issue 29.

[94] *Id*., at Issue 38.

generally used to provide both basic (supported) services, as well as non-basic (non-supported) services. This apportionment needs to be done in order to properly implement the statutory formula for OUSF support, according to which the cost of only basic telephone service be used when calculating support. I recommend an apportionment method based on the relative prices (or average revenue per unit) of basic voice telephony and broadband services adjusted for take rates of broadband services (expressed as the number of broadband subscribers per voice line). Here the calculation of the price or average revenue per line for voice and broadband service should be based only on the classes of customers supported by OUSF. The following hypothetical example illustrates this method:

Table 4.

Apportionment of the Cost Study Cost Per Line Between Voice and Broadband Services (Hypothetical Example)

Line	Measure	Value	Formula
L1	Average Cost per Line from the "Traditional" Cost Study	$ 70.00	input
L2	Average Revenue per Unit -- Basic Voice Service	$ 15.00	input
L3	Average Revenue per Unit -- Broadband Service	$ 35.00	input
L4	Average Broadband Take Rate (% Voice Lines)	65%	input
	Apportionment Factors:		
L5	Basic Voice	40%	L2 / (L2 + L3 * L4)
L6	Broadband	60%	1 - L5
L7	**Average Cost per Line of Basic Voice Service**	**$ 27.81**	**L1 * L5**

As shown in Table 4 above, the cost estimates based on the Synthesis Model or RLEC embedded cost studies is $70 per line. The apportionment factor for Basic Voice service is 40%, which is derived from the assumed levels of the average revenue per unit ("ARPU") for basic voice ($15) and broadband ($35) services, as well as the broadband take rate (65%). Application of this apportionment factor to the cost estimate results in the cost of basis voice service at $27.81 per line. Note that to the extent the benchmark remains to be based on cost, it will also decrease. For example, assuming that the same apportionment factor of 40% for Basic Voice applies to all wire centers, the average cost in the former Qwest and Verizon wire centers (the basis for the current benchmark) would go down by 40% --from $21 to approximately $8.

Q. HOW SHOULD THE COMMISSION DETERMINE THE PARAMETERS OF YOUR PROPOSED APPORTIONMENT OF COST – THE AVERAGE REVENUE PER UNIT FOR VOICE AND BROADBAND SERVICES, AS WELL AS BROADBAND TAKE RATES?

A. I propose these parameters are determined for each ILEC territory using the ILEC data. This approach would be competitively neutral and nondiscriminatory because it will take account of potential differences in the customer base: For example, an ILEC with predominantly elderly customer base may have lower broadband take rates, and/or may be offering lower broadband prices, than an ILEC with a younger, more affluent customer base. In this example the first ILEC would have a higher percentage of its network cost apportioned to voice services compared to the second ILEC. However, the Commission may instead choose the use of generic parameters – price and take rate information meant to reflect the reasonably expected levels. The advantage of this approach over the option of using ILEC-specific parameters is that the possibility of gaming (manipulating rates to maximize OUSF draw) is minimized, and the fund levels are more stable over time.

Q. HAVE THE ILECS PROVIDED ANY DATA THAT CAN HELP THE COMMISSION DETERMINE THE PARAMETERS OF YOUR PROPOSED APPORTIONMENT OF COST?

A. Oregon Annual Report Form O contains information on xDSL lines and gross revenue, as well as switched access lines and revenue, that can help the Commission establish parameters for my proposed apportionment. OCTA requested this information from the

ILECs, but the ILECs generally provided only a redacted version of Form O, in which broadband information is not available.[95] Frontier was the only company that provided the OCTA unredacted versions of its Form O.[96] Based on its 2011 Form O, Frontier's monthly APRU on xDSL service was *** ___ *** per line per month,[97] and its monthly ARPU for local exchange switched services was *** ___ ***,[98] including *** ___ *** for residential lines and *** ___ *** for business lines.[99] Frontier's xDSL "take rate" (the ratio of xDSL and local exchange switched lines) was *** ____***. [100] Based on these data, Frontier's apportionment factor under my method would be *** ___ *** voice / *** *** broadband.

More generally, I expect that if LEC-specific data are used to establish the apportionment factors, the factors will vary significantly by ILEC. This expectation is based on my observation that the ARPU for voice services (the data for which was not redacted in other ILECs' Forms O provided to OCTA) vary significantly. For example, CenturyLink's ARPU for local exchange switched services was *** ___ *** in 2011,[101] which is lower than the above discussed Frontier's monthly ARPU for local exchange

[95] On November 14, 2012, OCTA filed motions to compel production of the requested information. On December 3, 2012, ALJ Arlow issued a Ruling denying the motions to compel. On December 10, 2012, OCTA and Commission Staff filed a Joint Request for Certification of the Ruling to the Commission.
[96] See attachments to Frontier Responses to OCTA Data Request No. 1.
[97] Calculated as annual Gross Oregon Billed xDSL revenue divided by xDSL lines and by 12 months, where the xDSL line counts and revenue are taken from Frontier's Form O provided as attachment to Frontier Responses to OCTA Data Request No. 1, confidential Table I1.
[98] Calculated as annual Gross Oregon Billed local exchange switched revenue divided by local exchange switched lines and by 12 months, where the line counts and revenue are taken from Frontier's Form O provided as attachment to Frontier Responses to OCTA Data Request No. 1, confidential Table G10.
[99] *Id.*
[100] Calculated as xDSL lines divided by local exchange switched lines, where the xDSL and switched line counts are taken from Frontier's Form O provided as attachment to Frontier Responses to OCTA Data Request No. 1, confidential Tables I1 and G10 (respectively).
[101] Calculated as annual Gross Oregon Billed local exchange switched revenue divided by local exchange switched lines and by 12 months, where the line counts and revenue are taken from CenturyLink's Form O provided as attachment C to CenturyLink's Responses to OCTA Data Request No. 1, confidential Table G10.

switched services (***___ ***). For Pine, monthly ARPU for local exchange switched services was only *** ___ *** in 2011, [102] and for Eagle, this measure was even lower at *** ___ *** in 2011. [103]

Q. DO YOU HAVE AN ALTERNATIVE PROPOSAL FOR DEALING WITH THIS ISSUE?

A. Yes. Rather than apportioning cost between voice and broadband services, the Commission could include a component in the benchmark rate that captures average broadband service related revenues. I address this proposal in more detail below in section III (c).

(ii) The Commission Should Modify the Benchmark for Determining OUSF Support.

Q. WHAT IS THE CURRENT BENCHMARK FOR THE OUSF AND HOW WAS THE CURRENT BENCHMARK ESTABLISHED?

A. The current benchmark is $21.00 per line. It applies to all types of lines (residential and business lines, and for both primary and secondary lines). The current benchmark is set equal to the weighted average cost per line in the former Qwest and Verizon wire centers. These wire center-level cost estimates were generated by the FCC's Synthesis Model using inputs approved by the Commission in Order No. 00-312. The stipulation which

[102] Calculated as annual Gross Oregon Billed local exchange switched revenue divided by local exchange switched lines and by 12 months, where the line counts and revenue are taken from Pine's Form O provided as attachment C to Pine's Responses to OCTA Data Request No. 1, confidential Table G10.
[103] Calculated as annual Gross Oregon Billed local exchange switched revenue divided by local exchange switched lines and by 12 months, where the line counts and revenue are taken from Eagle's Form O provided as attachment C to Eagle's Responses to OCTA Data Request No. 1, confidential Table G10.

added rural carriers to the OUSF adopted the same $21.00 benchmark.[104] However, this benchmark was not used when determining the current (2012) levels of rural OUSF support. Instead, the parties to the stipulation that set the levels of the current support agreed upon a benchmark of approximately $30, which was the result of adjusting the original benchmark for inflation.[105]

Q. DOES THE COMMISSION HAVE THE AUTHORITY TO ADJUST THE BENCHMARK?

A. Yes. ORS 759.425 states as follows:

> The commission in its discretion shall periodically review the benchmark and adjust it as necessary to reflect:
> (A) Changes in competition in the telecommunications industry;
> (B) Changes in federal universal service support; and
> (C) Other relevant factors as determined by the commission.[106]

Q. PLEASE DESCRIBE THE MODIFICATIONS YOU PROPOSE TO THE BENCHMARK.

A. I propose four modifications to the benchmark. First, instead of using the current formula "Benchmark = average cost," the Commission should establish the benchmark as follows:

Benchmark = average cost + two standard deviations above the average.

Second, I propose that the benchmark for business lines consider additional revenue that a business line generates compared to residential lines. Third, for areas served by unsubsidized competitors, I propose to set a special benchmark so as to produce zero

[104] Order No. 03-082, p. 4.
[105] Order No. 12-204, pp. 3-4.
[106] ORS 759.425.3(b).

support for these areas. Fourth, as an alternative to my proposal to apportion the existing cost estimates between voice and broadband services (services that share the same network), I propose to include in the benchmark revenue associated with broadband and other unsupported services that share telecommunications network with basic voice service. At a high level, when taken together, my proposals create a benchmark composed of two components – (1) cost component and (2) revenue component. I explain these proposals in more detail below.

Note that in this section I do not incorporate any of my proposals regarding cost – for example, when discussing the levels of the per line cost, I use existing cost estimates, rather than cost estimates resulting from my proposal to apportion the existing cost estimates between voice, and broadband and other unsupported services.

Measure High Cost as Two Standard Deviation Above the Average

Q. PLEASE EXPLAIN YOUR PROPOSAL TO USE STANDARD DEVIATIONS WHEN CALCULATING THE BENCHMARK.

A. The drawback of the current formula, which sets the benchmark equal to the weighted average cost of the former Qwest and Verizon wire centers, is that it classifies as "in need of support" too many wire centers. I illustrate this point by looking at the cost and line count information used to derive the current benchmark and support levels for the former Qwest and Verizon wire centers:[107] Out of the total 136 wire centers, 76% of wire centers have cost per line exceeding the average cost of $21 (the benchmark). Based on

[107] This information was provided in PUC Staff's Data response to OCTA Data Request No. 1, which included the cost and line count information in Attachment A.

this benchmark 58% of the total wire centers were identified as in need of support.[108] These wire centers continue to receive support today. In this group are wire centers that are just "barely above the average," as well as "very high cost" wire centers. An example of the "barely above the average" wire center is the Orient Gresham (metro Portland) wire center with the average cost per line of $26.47 per month. An example of a "very high cost" wire center is the Imnaha (Joseph rate center), which is located in the mountains in the north-eastern corner of the state and has the average cost per line of $711.35 per month.

Because the current benchmark is based on cost, its implied logic is to allocate support to "high-cost" wire centers. While it is clear that the Imnaha wire center is a high-cost wire center, the case of Orient Gresham wire center (and other wire centers on the "low" side of above average cost) is less clear cut. Mathematically, in a group of 136 wire centers there would always be "below average" and "above average" wire centers.[109] But intuitively it matters whether the wire center is "just above" the average, or "far above" the average. From the public policy perspective, when allocating limited funds, the priority in funding should be given to wire centers that are "far above" the average, or in other words, wire centers that are "clearly above" the average in terms of cost. A well-known technique that takes account of this need to focus on wire centers that are "clearly above" the average is the standard deviation analysis, which I propose to use here.

[108] Not all wire centers with cost above the benchmark receive support because the support formula is based on cost minus benchmark minus the federal explicit support.

[109] The probability that all wire centers will have the same per line cost is close to zero.

Q. PLEASE ELABORATE ON YOUR RECOMMENDATION TO USE THE STANDARD DEVIATION ANALYSIS WHEN SETTING THE BENCHMARK.

A. The standard deviation analysis is a technique used to identify data points significantly different from the general "population." It was adopted by the FCC in 2003 for the calculation of the High Cost Model support of price cap LECs.[110] The FCC has been using this methodology when distributing High Cost Model support since that time.[111] More specifically, the FCC adopted a cost benchmark equal to two standard deviations above the national average cost per line.[112] I am proposing the same formula, except that the Oregon average would be used instead of the national average.

The *FCC Benchmark Order* justified this technique as follows:

> Standard deviation analysis is a commonly used statistical analysis that measures dispersion of data points from the mean of those data points. Both the Commission and state commissions have employed standard deviation analysis as a statistical standard for determining parity or comparability. In this proceeding, we use standard deviation analysis to measure the dispersion of statewide average costs per line, as estimated by the cost model, in order to identify states with significantly higher costs than the national average. [113]

The FCC's implementation of the benchmark calculation based on standard deviation analysis is contained in the FCC 2004 Support Spreadsheet, which is available on the

[110] FCC CC Docket No. 96-45, *In the Matter of Federal-State Joint Board on Universal Service*, Order On Remand, Further Notice Of Proposed Rulemaking, And Memorandum Opinion And Order, adopted on October 16, 2003 ("*FCC Benchmark Order*").

[111] Note that *the USF/ICC Transformation Order* (¶ 133) froze the levels of then-current High Cost Model support, meaning that the there is no longer a need to perform this calculation. However, the current frozen levels of High-Cost Model support are based on this technique.

[112] *FCC Benchmark Order*, ¶ 1.

[113] *FCC Benchmark Order*, ¶ 62 (footnoted omitted).

FCC web site.[114] I am attaching the FCC 2004 Support Spreadsheet as part of my Exhibit AHA-2 (OCTA/102). The same exhibit also contains my calculation of the Oregon benchmark using the same algorithm.

Q. HOW DOES THE BENCHMARK CHANGE IF YOUR PROPOSED FORMULA "AVERAGE COST PLUS TWO STANDARD DEVIATIONS" IS USED?

A. The benchmark increases from $21 per line to $43.25 per line per month.[115] The number of supported former Qwest and Verizon wire centers decreases from 58% to 29%, and the total OSUF funding for the former Qwest and Verizon wire centers decreases by approximately 75% (if using total lines on which the weighted average cost is calculated).[116]

Q. DO YOU PROPOSE THE SAME BENCHMARK WHEN DETERMINING SUPPORT FOR RLEC STUDY AREAS, AND IF SO, WHAT IS THE IMPACT OF THIS PROPOSAL ON THE RLEC OUSF FUNDING?

A. Yes, to the extent the benchmark is based on cost,[117] I propose to use the same benchmark for both non-rural and rural LECs – just like the current mechanism. I calculate the impact of this proposal on the RLEC funding by using Staff's cost

[114] See http://www.fcc.gov/wcb/tapd/hcpm/welcome.html, item "Year 2004 State-by-State Summary of Cost and Support Speadsheet" [sic]. Note that not only the average, but also the standard deviation is calculated as a weighted measure, using line counts as weights.

[115] For the derivation of this amount, see Exhibit AHA-2 (OCTA/102).

[116] When discussing the impact of my proposed changes on the OUSF funding in the former Qwest and Verizon study areas, I am not providing absolute dollar figures because my calculation is based on the original (2000) line counts used to establish the current benchmark, rather than current line counts.

[117] As explained below, I propose adding "non-cost-based" components to the benchmark, which may create differences between the benchmark for rural and non-rural LECs.

calculations used during the 2012 Triennial review,[118] which Staff provided to OCTA through discovery.[119] Based on these data, the total annual funding for all RLECs under the benchmark of $43.25 per line per month would result in an annual funding of just over $3 million[120] – down by 80% from the 2012 level of approximately $15.6 million.[121]

Higher Benchmark for Business Lines

Q. PLEASE EXPLAIN YOUR SECOND PROPOSAL, WHICH IS TO CREATE A SEPARATE (HIGHER) BENCHMARK FOR BUSINESS LINES.

A. The ultimate goal of OUSF is to ensure that the basic voice service is available at reasonable and affordable rates. The thresholds of affordability and reasonableness vary by customer class, which is evident from the fact that business rates have traditionally been higher than residential rates, indicating that business customers have higher thresholds for affordability compared to residential customers. For example, based on the FCC data, flat-rated urban business rates equal to $35.17 on average nationwide, which is $19.55 higher than the average flat-rated residential rates.[122] It does not make sense from the public policy perspective to subsidize business lines at the same level as residential lines (if business lines are to be subsidized at all) given that business customers are

[118] Order No. 12-204.

[119] PUC Staff's Data response to OCTA Data Request No. 2, which included the cost, line count and federal support information in Attachment A.

[120] For the derivation of this amount, see Exhibit AHA-2 (OCTA/102).

[121] Order No. 12-204.

[122] Based on the FCC *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, 2008 ("*Reference Book on Rates*"), tables 1.2 (showing monthly representative residential rate without SLC and surcharges is $15.62) and 1.9 (showing monthly representative single line business rate without SLC and surcharges as $35.17). Note that this is the most recent edition of this FCC report.

typically willing to pay significantly higher end user charges compared to residential customers and able to treat business rates as tax deductible expenses.

In Oregon, the gap between residential and business rates is smaller than the national average. Specifically, CenturyLink's flat-rated business rates in the former Qwest territories exceed residential rates by $13.20-$15.70 per month.[123] Note that CenturyLink Qwest's Oregon business rates are lower than the national average, which, as I understand, is driven partially by the fact that business rates of former Qwest and Verizon ILECs were reduced as part of OUSF implementation.[124] In other words, the gap between business and residential rates observed in Oregon may be understating the levels of relative affordability.

Therefore, I propose that the national difference in the average flat-rated business and residential rates (currently $19.55) be used to increase the benchmark for business services. The FCC *Reference Book on Rates*, from which I derived the national difference in the average flat-rated business and residential rates, is the source on which the FCC relies to define "reasonably comparable" rates per requirements contained in Section 254(b)(3) of the federal Telecommunications Act.[125]

This proposal means that for business services the "revenue gap component" of $19.55 is added to the "cost component" of the benchmark. Recall that the current (cost-based)

[123] Based on CenturyLink Response to OCTA Discovery 1-4, Attachment OCTA-4 showing residential rates 1FR of $12.48-$18.91 and business rates 1FB of $26.00-$30.50 per month.

[124] UM 1481, Staff's Comments, October 25, 2010, p. 3

[125] See *2003 Benchmark Order*, ¶ 30.

benchmark is $21.00.[126] Adding these two components results in a benchmark for business lines of $40.55 per line per month. For residential services, the benchmark would be still $21.00 (if ignoring for a moment OCTA's other proposals regarding the benchmark).

Benchmark for Areas Served by Unsubsidized Competitors

Q. PLEASE EXPLAIN YOUR THIRD PROPOSAL TO SET A SPECIAL BENCHMARK FOR AREAS SERVED BY UNSUBSIDIZED COMPETITORS.

A. OUSF should not provide support to areas served by unsubsidized competitors. To implement this policy, I propose setting a special benchmark in areas served by unsubsidized competitors. In this case the benchmark should be set so as to result in zero support. The formula for calculating support is as follows:

Support = Area-specific Cost - Benchmark - Federal Explicit Loop Cost Compensation - Federal USF Support.

Mathematically, in order to generate zero Support, the Benchmark in areas served by unsubsidized competitors ($Benchmark^{U}$) should be as follows:

$Benchmark^{U}$ *= Area-specific Cost - Federal Explicit Loop Cost Compensation - Federal USF Support*.

This last formula contains my proposal. The following hypothetical example illustrates this formula: Assume that in wire center A the average cost per line is $70 per month (*Area-specific Cost)*. Assume that the *Federal Explicit Loop Cost Compensation* is $6

[126] For simplicity and to illustrate my proposals as "incremental" (rather than cumulative) changes, I am utilizing the current benchmark as the cost component (rather than utilizing the cost benchmark based on my other proposal to use two standard deviations when determining the cost benchmark).

per line per month, and the *Federal USF Support* is $10 per line per month. If this wire center is served by unsubsidized competitors, *Benchmark* ^{U} *= $70 - $6 - $10 = $54*. Under this benchmark, the support calculated straight from the support formula will be *$70 - $54- $6 - $10 = $0*, which was the intended result.

Factor in Broadband Revenue

Q. PLEASE EXPLAIN YOUR FOURTH PROPOSAL, WHICH IS AS AN ALTERNATIVE TO APPORTIONING COST BETWEEN BASIC TELEPHONE SERVICE AND BROADBAND AND WHICH IS TO FACTOR IN BROADBAND AND SIMILAR REVENUE IN THE BENCHMARK.

A. The same telecommunications plant, and particularly, loop facilities, are used to provide not only basic voice, but also broadband and other non-supported services. At the same time cost estimates currently used to determine support under OUSF are based on cost studies that assign 100% of this plant to voice services. I propose, above, to apportion the per line cost between basic voice and unsupported services such as broadband in relation to the average revenues per line associated with basic voice and broadband services (where the broadband revenue is adjusted for take rates). As a second-best alternative to that proposal (instead of apportioning cost) I propose here to account for this issue through an adjustment to the benchmark: Add to the "cost component of the benchmark" a component that consists of the average revenue associated with unsupported services times the take rate of unsupported services (expressed as percentage of voice line).

The specific values of the broadband average revenue per line and take rates can be determined for each ILEC territory using the ILEC data (which would take into account potential differences in the customer base but will cause the benchmark to be different for different ILECs), or based on some generic (statewide average or "reasonably expected") levels.

To illustrate this proposal with a numerical example, assume that the ILEC's average revenue per unit for broadband services is $35 per month, and the broadband take rate is 65%.[127] The resulting average revenue for broadband service is $22.75 per voice line, which I call here the "revenue component" of the benchmark. Recall that the current cost component of the benchmark is $21.00 per line per month. Adding the cost ($21.00) and the revenue ($22.75) components together produces an overall benchmark of $43.75 per line per month.

This benchmark reflects the fact that the cost of telecommunications network is shouldered today not only by telephone, but also broadband services. While the actual levels of the broadband revenue component may be different than the numerical value used in this hypothetical example, I expect that the broadband revenue component will substantially increase the benchmark, and therefore, bring substantive savings to Oregon consumers who today shoulder one of the highest state USF burdens in the country.

[127] These are illustrative levels that OCTA may update as specific data on the ILEC broadband revenue and take rates becomes available.

(iii) Update the Levels of Explicit Compensation from Federal Sources Specifically Targeted to Recover Loop Cost Used in the Formula for OUSF support.

Q. HOW IS FEDERAL EXPLICIT LOOP COST COMPENSATION ACCOUNTED FOR WHEN DETERMINING OUSF SUPPORT?

A. Under ORS 759.425.3(a), federal explicit loop compensation is subtracted from the cost (along with the benchmark and federal USF support) to determine the level of OUSF support. The specific term used in ORS 759.425.3(a) is "any explicit compensation received by the carrier from federal sources specifically targeted to recovery of local loop costs," and is separate from the fourth component of the OUSF support formula, which is "any explicit support received by the carrier from a federal universal service program" and which is addressed in the next section.

SLC for Non-Rural ILECs

Q. HOW DID THE COMMISSION CALCULATE THE AMOUNT OF FEDERAL EXPLICIT LOOP COST COMPENSATION FOR NON-RURAL LECS FOR PURPOSES OF OUSF SUPPORT?

A. For the non RLEC companies (former Qwest and Verizon territories), Order No. 00-312 adopted Staff's proposal, which was to measure the federal explicit loop cost compensation as consisting of 25% of the embedded loop cost, comprised of the sum of Subscriber Line Charges ("SLC), Presubscribed Interexchange Carrier Charge ("PICC") and Carrier Common Line Charge ("CCLC") reduced by Long Term Support ("LTS")

per line.[128] Numerically, the application of this method resulted in the following amounts of federal explicit loop cost compensation: $5.98 per line per month for the former Qwest wire centers, and $5.15 per line per month for the former Verizon wire centers.[129] These are the amounts of federal explicit loop cost compensation used to determine the current support in the former Qwest and Verizon wire centers.

Q. HOW SHOULD THESE AMOUNTS BE CHANGED?

A. These amounts should be increased to the levels of the explicit federal loop cost compensation the non-rural ILECs receive today. For the former Qwest, the current levels of the Subscriber Line Charges are $6.45 per line per month for primary residential and single line business lines, and $6.48 per line per month for residential non-primary lines.[130] Frontier's current levels of the Subscriber Line Charges in the former Verizon territory are $6.50 per line per month for primary residential and single line business lines, and $7.00 per line per month for residential non-primary lines.[131] These amounts should replace the federal explicit loop cost compensation amounts $5.98 per line per month for the former Qwest wire centers, and $5.15 for the former Verizon wire centers. More specifically, if the Commission adopts my proposal not to provide support to secondary residential lines, the relevant amounts of the per line monthly federal explicit loop cost compensation should be $6.45 for the former Qwest wire centers, and $6.50 for the former Verizon wire centers.

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[128] Order No. 00-312, pp. 22-23.

[129] PUC Staff's Data response to OCTA Data Request No. 1.

[130] See tariff Qwest FCC No. 1, *Access Service*, Section 4, pp. 4-11, 4-11.1 and 4-12 (line item EUCL, which stands for "End User Common Line").

[131] See tariff Frontier Telephone Companies FCC No. 5, *Facilities for Interstate Access*, Section 13, p. 13-5 (line item "monthly rates for Common Line").

Q. WHAT ABOUT OTHER COMPONENTS OF THE FEDERAL EXPLICIT LOOP COST COMPENSATION ADDRESSED IN ORDER NO. 00-312 – PICC, CCLC AND LONG-TERM SUPPORT?

A. These components no longer apply because they are equal to zero.[132]

New Federal Mechanism for Rural Affiliates of Non-Rural LECs

Q. HOW DID THE COMMISSION CALCULATE THE AMOUNT OF FEDERAL LOOP EXPLICIT COST COMPENSATION FOR RURAL LECS FOR PURPOSES OF OUSF SUPPORT?

A. For the rural LECs, the methodology per Order No. 03-082 was as follows: the federal explicit loop cost compensation is the greater of (a) 25% of the common line loop cost as calculated by the Commission; or (b) the sum of residential SLC, LTS, the applicable portion of Interstate Common Line Support ("ICLS") and the applicable portion of Interstate Access Support ("IAS").[133] As noted above, the LTS is currently zero for all carriers because this mechanism no longer exists.

Q. DO YOU PROPOSE TO CHANGE THE METHODOLOGY OF CALCULATING THE FEDERAL EXPLICIT LOOP COST COMPENSATION FOR RURAL LECS FOR PURPOSES OF DETERMING OUSF SUPPORT?

A. Yes. The methodology should be changed for the three RLECs that are affiliated with the non-rural ILECs – CenturyTel, United and Citizens. The change in methodology is

[132] See the following sources: Qwest FCC No. 1, *Access Service*, Section 3 p. 3-24 (zero CCLC), Section 4 p. 4-14 (zero PICC); Frontier Telephone Companies FCC No. 5, *Facilities for Interstate Access*, Section 12, p. 12-13 through 12-19 (showing no PICC on residential or single line business lines), p. 12-20 (zero CCLC); and USAC High Cost fund disbursements (showing no Long Term Support disbursements for Oregon non-rural ILECs. [expand this last citation]

[133] Order No. 03-082, Attachment A, p. 6.

necessary because the federal support mechanism has been changed for these companies as a result of the reforms contains in the *USF/ICC Transformation Order*. More specifically, for these companies, the components of the federal support that are utilized under the current OUSF methodology (ICLS and IAS) were affected. Paragraph 133 of this Order explained these reforms as follows:

> effective January 1, 2012, we freeze all support under our existing high-cost support mechanisms, HCLS [High Cost Loop Support], forward-looking model support (HCMS), safety valve support, LSS [Local Switching Support], IAS, and ICLS, on a study area basis for price cap carriers and their rate-of-return affiliates. On an interim basis, we will provide frozen high-cost support to such carriers equal to the amount of support each carrier received in 2011 in a given study area. [ft 212]
>
> ft 212: Frozen high-cost support amounts will be calculated by USAC [Universal Service Administrative Company], and will be equal to the amount of support disbursed in 2011, without regard to prior period adjustments related to years other than 2011 and as determined by USAC on January 31, 2012. … As a consequence of this action, rate-of-return operating companies that will be treated as price cap areas will no longer be required to perform cost studies for purposes of calculating HCLS or LSS, as their support will be frozen on a study area basis as of year-end 2011.[134]

In other words, the FCC froze the high-cost support for all price cap carriers and there rate-of-return affiliates at then-current levels. A practical consequence of this reform was that funding from all high-cost programs was merged into a single new category – "Frozen High Cost Support."[135]

This change to the federal support mechanism had the following effect on the federal UFS disbursements of the three RLECs in question: Prior to the FCC reform, Citizen and United were receiving IAS, while CenturyTel was receiving ICLS. In addition, Citizen

[134] *USF/ICC Transformation Order* ¶ 133 (footnote 211 omitted).

[135] See Universal Service Administration Company ("USAC") disbursement data for 2012 available at http://www.usac.org/hc/tools/disbursements/results.aspx.

was receiving LSS and CenturyTel was receiving HCLS funding. As a result of the FCC reform, the dollar amounts for IAS, ICLS, LSS and HCLS these companies were receiving at the time of *USF/ICC Transformation Order* were frozen, and were moved into a single support category "Frozen High Cost Support." The bottom line is that for these companies the support categories that constitute the federal explicit loop cost compensation under the current OUSF methodology are no longer separated from other types of federal USF support. In other words, it is no longer possible to perform the calculation under the current methodology for determining federal explicit loop cost compensation because the federal USF disbursement data no longer contains categories included in the methodology.

Q. HOW DO YOU PROPOSE TO ACCOUNT FOR THIS CHANGE TO THE FEDERAL USF SUPPORT MECHANISM IN THE CALCULATION OF OUSF SUPPORT?

A. For these three companies, I propose to use the federal USF disbursement amounts for 2011 – which are level at which all types of the federal support were frozen for these companies. This means that on a going forward basis, the three RLECs would be receiving the same levels of IAS and ICLS as they received in 2011 – if the IAS and ICLS mechanisms were not merged with other high cost support mechanisms into a single "Frozen Support" category. This proposal requires no other changes to the current methodology, which requires a calculation of the federal explicit loop cost compensation as the greater of (a) 25% of the common line loop cost as calculated by the Commission;

or (b) the sum of residential SLC, LTS, the applicable portion of Interstate Common Line Support ("ICLS") and the applicable portion of Interstate Access Support ("IAS").[136]

As a clarification, this proposal concerns only the three rural LECs that are affiliated with non-rural ILECs (CenturyTel, United and Citizens) and for which the historical categories of the federal support mechanisms were merged into a single Frozen High Cost Support category. I am not proposing any changes to the calculation of the federal explicit loop cost compensation for other RLECs, which continue to receive ICLS as a separate category in the new federal support mechanism (and for which IAS does not apply).

(iv) Fully Account for Support from the Federal Universal Service Programs in the Formula for OUSF support.

Q. HOW IS SUPPORT FROM THE FEDERAL USF PROGRAMS ACCOUNTED FOR IN THE FORMULA FOR OUSF SUPPORT?

A. This is the fourth (last) component of the statutory formula for OUSF support. The support from federal USF is subtracted from the cost of providing basic telephone service (along with the benchmark and explicit federal loop cost compensation) to generate OUSF support. The statute (ORS 759.425.3(a)) formulates this component as "any explicit support received by the carrier from a federal universal service program."

[136] Order No. 03-082, Attachment A, p. 6.

IAS / Frozen High Cost Support

Q. HOW IS SUPPORT FROM THE FEDERAL USF PROGRAMS CURRENTLY CALCULATED WHEN DETERMINING OUSF SUPPORT FOR THE NON-RURAL ILEC TERRITORIES?

A. The levels of OUSF support for the non-rural areas are currently calculated under an assumption of zero support from the federal USF programs.[137] Order No. 00-312 explained this result by noting that explicit support received by a carrier from a federal universal service program "is not relevant here because Oregon's two non-rural carriers will not receive any federal universal service support."[138] However, shortly after this Order,[139] the FCC created a new federal USF program within its high-cost mechanism, IAS, under which Oregon price cap carriers started receiving, and have been receiving significant amounts of support.

For example in 2003 (the oldest year for which detailed USAC disbursement data are available[140]), the former Qwest and Verizon received in total approximately $16.6 million in IAS annually for Oregon. In 2011 CenturyLink and Frontier received in total over $8.9 million in IAS for their Oregon former Qwest and Verizon study areas. These are amounts comparable to the overall size of OUSF that should have been taken into

[137] PUC Staff's Data response to OCTA Data Request No. 1.

[138] Order No. 00-312, p. 25.

[139] Order No. 00-312 is dated June 16, 2000. The IAS mechanism was created by the FCC *CALLS Order* (FCC CC Docket Nos. 96-262, 94-1, 99-249, 96-45 *In the Matter of Access Charge Reform Price Cap Performance Review for Local Exchange Carriers Low-Volume Long Distance Users Federal-State Joint Board On Universal Service*, Sixth Report And Order In CC Docket Nos. 96-262 and 94-1. Report and Order in CC Docket No. 99-249. Eleventh Report and Order in CC Docket No. 96-45, adopted May 31, 2000 ("CALLS Order"), which became effective after its publication in the Federal Register on June 21, 2000.

[140] See USAC disbursement database at http://www.usac.org/hc/tools/disbursements/.

account when determining the levels of support for the former Qwest and Verizon wire centers.

Q. IS IAS AN EXPLICIT FEDERAL USF MECHANISM?

A. Yes. By design, the IAS is an explicit support mechanism targeted to the density zones that have the greatest need for it and provided on a portable, per-line basis.[141] In other words, IAS clearly falls into the statutory category "any explicit support received by the carrier from a federal universal service program." The IAS support is set at different levels depending on a IAS zone, with the least dense zone receiving the highest per line support. This means that IAS support is channeled mostly to high-cost wire centers. Specifically, in 2011, the former Qwest wire centers were receiving support for residential and single line business lines in the amounts ranging from $0 in IAS zone 1 to $10.47 in IAS zone 3 (per line per month).[142] The former Verizon wire centers were receiving support for residential and single line business lines in the amounts ranging from $2.35 in IAS zone 1 to $12.65 in IAS zone 3 (per line per month).[143] The following observation confirms the expectation that IAS support is concentrated in relatively high cost wire centers: all wire centers in IAS zones 2 and 3 are currently supported under OUSF; while in IAS zone 1 only a few wire centers are supported.

[141] *CALLS Order*, ¶ 186.

[142] See USAF FCC Filings, 4Q2011 Appendices (available at http://www.usac.org/about/tools/fcc/filings/2011/q4.aspx), Appendix HC13.

[143] Id.

Q. HOW WOULD OUSF FUNDING TO THE NON-RURAL LECS CHANGE IF IAS IS ACCOUNTED FOR WHEN CALCULATING OUSF SUPPORT?

A. The OUSF support in the former Qwest and Verizon wire centers would decrease by approximately 24% if the IAS support is properly accounted. This calculation is contained in my Exhibit AHA-3 (OCTA/103), and is performed in isolation from my other proposals (keeping constant all other things – the cost estimates, the benchmark, and the explicit federal loop cost compensation). I made this estimate by adjusting down the current levels of OUSF support by the IAS per line per month support cited in the previous answer,[144] and utilizing the original (2000) line counts used to derive the current benchmark (the weighted average cost) – the same line counts I used when discussing my benchmark proposal.

Q. YOU STATED IN THE PREVIOUS SECTION THAT THE FCC *USF/ICC TRANSFORMATION ORDER* FROZE THE LEVELS OF NON-RURAL ILECS SUPPORT AND MOVED IAS INTO A NEW CATEGORY, "FROZEN HIGH COST SUPPORT." HOW SHOULD THE COMMISSION ACCOUNT FOR THE FEDERAL FROZEN HIGH COST SUPPORT MECHANISM IN ITS CALCULATION OF OUSF SUPPORT?

A. Going forward, the Frozen High Cost Support funding for the former Qwest and Verizon Oregon study areas is equal to their IAS funding in 2011. This result is due to the fact

[144] More specifically, a wire center that currently receives $0.62 per line per month in OUSF (Verizon Coos Bay CLLI CSBYORXX) will receive zero OUSF support after its IAS Support ($2.35) is taken into account. A wire center that currently receives the highest level of support at $685.20 per line per month (Verizon Imnaha CLLI IMNHORXX) will receive $672.20 in OUSF support after its IAS ($12.65 per line per month) is factored in.

that IAS was the only high-cost mechanism these two companies were receiving in 2011, and that the FCC froze the levels of the non-rural ILEC support at the 2011 levels. Therefore, I propose that going forward the Commission use the 2011 zoned per line IAS levels of support in the OUSF support formula.

New FCC Mechanisms: Connect America Fund Intercarrier Compensation Support and Incremental Support Mechanisms

Q. DID THE FCC *USF/ICC TRANSFORMATION ORDER* CREATE ANY OTHER NEW EXPLICIT FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS THAT SHOULD BE TAKEN INTO ACCOUNT WHEN CALCULATING OUSF SUPPORT?

A. Yes. The FCC *USF/ICC Transformation Order* created two new mechanisms, which are reported as the following separate categories in the USAC disbursement data: the Connect America Fund Intercarrier Compensation Support ("CAF ICC") and Incremental Support ("IS").

The CAF ICC mechanism is designed to compensate ILECs for the reduction in intercarrier compensation revenue mandated by the FCC multi-year transition plan.[145] The *USF/ICC Transformation Order* characterized this mechanism as "explicit," [146] noting that it replaces the system in which "ICC revenues have traditionally been a means of having other carriers (who are now often competitors) implicitly support the costs of

[145] *USF/ICC Transformation Order*, ¶ 801 (containing the multi-year plan for the intercarrier compensation reform), ¶¶ 850-851 (outlining intercarrier compensation revenue eligible for recovery) and 853 (describing CAF ICC mechanism).

[146] *USF/ICC Transformation Order*, ¶ 853.

the local network." [147] The CAF ICC mechanism applies to both non-rural and rural LECs. Companies started receiving it in July 2012, and the Oregon ILEC total disbursements from this mechanism amount to $0.9 million per month, which is equivalent to an annualized amount of $3.67 million. Almost 99% of this amount is distributed to the rural LECs.

The Incremental Support mechanism concerns only price cap carriers and their rate of return affiliates and is designed to provide additional federal funding in exchange for an obligation to deploy broadband-capable service to previously un-served locations. [148] By design, the IS mechanism is an explicit support mechanism. Oregon LECs started receiving support from this mechanism in July 2012, and currently three LEC study areas receive support – the former Qwest and Verizon study areas, and CenturyTel study area. In the first three months for which the support was received (July-September 2012), these carriers received in total approximately $1.6 million.

To summarize, CAF ICC and IS mechanisms clearly fall into the statutory category "any explicit support received by the carrier from a federal universal service program." In addition, as noted above, broadband and voice services are provided over the same network, and therefore, if an ILEC receives funding to expand and maintain its broadband network, this funding will also help expand and maintain its voice network. For example, the *USF/ICC Transformation* Order noted that "over time, we expect that

[147] *USF/ICC Transformation Order*, ¶ 853.
[148] *USF/ICC Transformation Order*, ¶ 138.

voice service will increasingly be provided over broadband networks."[149] This is another reason why all of the above discussed federal USF support mechanisms should be included in the formula used to calculate OUSF support.

Q. WHAT IS YOUR PROPOSAL REGARDING THE FEDERAL CAF ICC AND IS FUNDING?

A. I propose that the federal CAF ICC and IS funding be included in the statutory formula for calculating OUSF support under its fourth component, the support from federal USF sources.

Q. IS THERE A PROBLEM THAT THE FEDERAL CAF ICC AND INCREMENTAL SUPPORT FUNDING COME WITH OBLIGATIONS TO BUILD OUT BROADBAND NETWORKS, WHILE OUSF IS A NARROWBAND FUND?

A. No. First, the statutory language says that "any" explicit federal universal service support should be factored in the OUSF support formula. A plain English meaning of word "any" would include the federal CAF ICC and IS mechanisms. Second, due to their Carrier of Last Resort obligations, incumbent local exchange carriers provide not only broadband but also voice services. When an ILEC telecommunications network is extended to provide broadband service to previously un-served location, this network will also be capable of supporting voice services. In other words, while the federal funding

[149] *USF/ICC Transformation Order*, ¶ 49.

may be targeting support of broadband services, the same funding will also be supporting narrowband services.

(c) The Commission Should Cap the OUSF at 2011 levels.

Q. ARE YOU PROPOSING THAT A NOT-TO-EXCEED BUDGET BE ESTABLISHED FOR THE OUSF?

A. Yes. I recommend that the Commission implement the above discussed proposals and size the fund based on those adopted proposals and current line counts ("Post-Reform Fund Size"). Then I recommend that the Commission cap the OUSF fund at its Post-Reform Fund Size level. The fund has been growing primarily because the ILECs were losing lines to competitors – not because the total cost of basic telephone service was actually growing. As noted above, the purpose of OUSF is to serve consumers, rather than compensate ILECs for competitive losses. The amount of the fund should be decreasing, not increasing – which, as evidenced by the triennial reviews and recently increased surcharge rate – would be the likely result of continuing the fund without a firm budget in place. This will ensure that OUSF costs are controlled while proposed changes are investigated. As I describe below, the Commission should also adopt certain changes that would reduce the overall size of the fund and better meet the parameters set on the OUSF by the Legislature.

Q. IS SETTING A NOT-TO-EXCEED BUDGET FOR THE OUSF IN THE PUBLIC INTEREST?

A. Yes. The OUSF should fairly balance the interests of all stakeholders. The OUSF does not strike a fair balance as currently designed. First, the surcharge rate assessed on end

user customers – those who pay the OUSF monies that are remitted to rural and non-rural carriers – are paying more today into the OUSF than they ever have, and are paying more than customers in the majority of other states that have a high-cost fund. This strongly suggests that the current OUSF mechanism tilts the scales in favor of the OUSF funding recipients. Second, the current mechanism continues to subsidize non-rural and rural ILECs even when an alternative unsubsidized provider competes with the ILEC in the high-cost area. This subsidy provides a cost advantage to the OUSF fund recipients over their competitors, and is not competitively neutral, which conflicts with the statutory principles of the fund (ORS 759.425(1)). These two examples indicate that the current funding mechanism is not balancing the goals of all stakeholders, and that reaping the benefits of the OUSF are the fund recipients, at the expense of Oregon consumers and competitors.

Faced with the similar experience of ever-growing fund size and consumer surcharge levels, the FCC came to a conclusion that the federal universal service fund should be based on a firm and comprehensive budget "to help stabilize the contribution burden on consumers.[150] The current mechanism does not result in a firm budget, but instead has calculated ever-increasing OUSF funding obligations.

Furthermore, there is no indication that a direct relationship exists between the size of the OUSF and the availability of basic telephone service at a reasonable and affordable rate. In other words, there is no evidence that pouring more money into the fund will further the Legislature's goal of affordable phone service in high-cost areas of the state. For

[150] *USF/ICC Transformation Order*, ¶ 14.

example, there has been no showing that Oregon's telephone penetration rate has improved as a result of the tens of millions of dollars that have been disbursed from the OUSF. The OUSF should be capped until such time as the Commission can be confident that the OUSF funds are meeting their intended objective.

Q. THE FCC RECENTLY REFORMED THE FEDERAL UNIVERSAL SERVICE FUND AND ESTABLISHED THE CONNECT AMERICA FUND ("CAF"). DID THE FCC ESTABLISH A FIRM BUDGET FOR THE CAF?

A. Yes. In its *USF/ICC Transformation Order* the FCC found that a fixed budget not to exceed 2011 levels would "provide more predictable funding for carriers and … protect consumers and businesses that ultimately pay for the fund through fees on their communications bills." [151]

Q. THE FCC RECOGNIZED THAT A NOT-TO-EXCEED BUDGET WOULD PROTECT CONSUMERS AND BUSINESSES WHO PAY FOR THE FUND THROUGH FEES ON THEIR TELEPHONE BILLS. SHOULD THIS BE A CONSIDERATION FOR THE COMMISSION AS IT CONSIDERS MAKING CHANGES TO THE OUSF?

A. Yes. As on the federal level, the Oregon USF is funded by fees assessed on end user customers' telephone bills. These end users will be protected by capping the OUSF at new 2013 levels until changes to the fund are further examined. The fact that Oregon end users are paying more into the OUSF (as a percentage of their bills) today than ever

[151] *USF/ICC Transformation Order*, ¶ 18.

before and are paying more than customers in other states signals the need for safeguarding their interests.

(d) OUSF Funding Should be Limited to Areas Without Unsubsidized Competitors

Q. YOU EXPLAINED ABOVE THAT THE OUSF WAS ORIGINALLY ESTABLISHED A DOZEN YEARS AGO IN 2000. HAS THE OREGON TELECOMMUNICATIONS INDUSTRY CHANGED SINCE 2000?

A. Yes. Over the twelve years since the OUSF was initiated, there have been many changes in the competitive landscape for telecommunications services in Oregon and nationwide. These changes have led to a greater presence of alternative providers offering service in competition with non-rural and rural incumbent LECs, and often doing so over alternative technologies and network platforms that are different from the traditional Plain Old Telephone System ("POTS") network. In Oregon, these changes include an increase in competitively-provided wireline local telephone service in Oregon. According to Staff's latest Oregon competition survey, the CLECs' market share for switched access lines in Oregon has grown four-fold since the OUSF was established (from 6.4% in 2000 to over 25% in 2010).[152] According to FCC data, by June 2011 (the latest data point available), non-ILECs served 41% of total end user lines, including 47% of business lines and 41% of residential lines in Oregon. [153]

[152] Oregon PUC Economic Research and Financial Analysis Division, *Local Telecommunication Competition Survey: Year 2011 Report*, December 2011 ("2011 Competition Survey"), p. 4.

[153] FCC 2011 *Local Competition Report*, Tables 9-11. The FCC measure includes switched access lines and VoIP connections.

Another change that has occurred since 2000 is that the prominence of facilities-based Voice over Internet Protocol ("VoIP") telephony by cable companies nationwide, including in Oregon,[154] has increased significantly. In 2007, the Commission reported to the Governor and Oregon Legislature that:

> Cable TV companies are increasingly offering services, often in packages, that include Internet connectivity, telephone service that tie into the traditional telephone network, and cable TV service, all over the cable TV coaxial cable. Use of this technology is expanding, and new services and packages are now available outside the Portland metropolitan area. Cable companies offering these services must make substantial investments in a two-way transmission technology to replace the original one-way transmission design used for TV service.[155]

VoIP-based telephony is the dominant method of competitive wireline entry into residential markets: based on the latest FCC data, in June 2011, 94.6% of Oregon residential non-ILEC end user lines were VoIP-based connections. [156]

Another relevant change is the substantial growth in high-speed Internet services. As Staff remarked in its 2011 Competition Survey (page 37), "High-speed digital access used to be a dream for many Oregonians." At year-end 2000, less than 70,000 Oregon

[154] See, e.g., Dr. Jeffrey Eisenach, Empiris LLC, *Universal Service Subsidies To Areas Served By Cable Telephony*, November 2009, at page 14 ("Cox Communications deployed the first circuit-switched cable telephone system in 1997, in Orange County, California, but cable telephony did not really take off until the mid-2000s, when Voice Over Internet Protocol technology (VoIP) dramatically reduced the cost of deploying telephone service on digital cable infrastructures." (footnotes omitted)). This paper was provided as Attachment B to NCTA's Petition for Rulemaking filed with the FCC on November 5, 2009.

[155] Public Utility Commission of Oregon, *The Status of Competition and Regulation in the Telecommunications Industry*, January 2007, at page 2-2. Source: http://www.oregon.gov/puc/telecom/CompetitionRegulation.pdf (accessed 10/16/2012). See also, "Comcast Launches IP-Enabled Phone Service in Metro Portland, Oregon and Vancouver, Washington," June 24, 2005. Source: http://www.comcast.com/About/PressRelease/PressReleaseDetail.ashx?PRID=2&SCRedirect=true (accessed 11/7/2012).

[156] FCC 2011 *Local Competition Report,* Table 10.

households had high-speed Internet access service.[157] Today, that number stands at more than one million, representing two-thirds of the state's 1.5 million households.[158] Another big change that has occurred is the increase in the use of wireless phones. Wireless subscribership rates nearly tripled in Oregon over this period, from 1.2-million at year-end 2000,[159] to 3.4-million by June 2011.[160]

In short, it is common to find that an area that is served by a ILEC, which receives OUSF, is also being served by an unsubsidized competitor providing an alternative to basic telephone service (often in combination with high-speed Internet service). As explained more fully below, this means that the OUSF funding currently going to eligible telecommunications carriers in these areas is not needed in order to ensure affordable basic service in high-cost areas.

[157] The FCC reported that there were 66,261 high-speed Internet access lines in Oregon serving the Residence and Small Business category as of December 31, 2000, so that this is an upper-bounds estimate for households. See FCC Common Carrier Bureau, Industry Analysis Division, *High-Speed Services For Internet Access: Subscribership as of December 31, 2000*, rel. August 9, 2001, at Table 7. Source: http://transition.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/hspd0801.pdf (accessed 11/7/2012).

[158] FCC Wireline Competition Bureau, Industry Analysis and Technology Division, *Internet Access Services: Status as of June 30, 2011*, rel. June 2012, at Table 16. Note that Oregon 67% household penetration rate is the same as the national average reported in the same table. Like the 2001 report cited immediately above, this report applies a minimum speed threshold of 200 kbps in at least one direction (see page 1). Source: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-314630A1.pdf (accessed 11/7/2012).

[159] FCC *Local Telephone Competition: Status as of December 31, 2000*, rel. May 21, 2001, Table 9.

[160] FCC 2011 *Local Competition Report*, Table 18.

Q. SHOULD THE OUSF MECHANISM BE UPDATED TO REFLECT THE CHANGES IN THE TELECOMMUNICATIONS MARKETPLACE THAT HAVE OCCURRED IN OREGON OVER THE PAST TWELVE YEARS?

A. Yes. It makes no sense to continue to subsidize rural and non-rural incumbent LECs for providing basic telephone service in high-cost areas when it can be shown that a competitor can profitably provide an alternative service in that same high-cost area without the subsidy. Such a subsidy distorts the competitive marketplace in those areas by conferring a competitive advantage onto incumbent LECs that are competing directly with those unsubsidized facilities-based providers. Hence, OUSF subsidies should not be made available for areas where there is at least one unsubsidized provider of a basic telephone service alternative.

This "bright line" proposal fairly balances the interests of all stakeholders by protecting consumers that may reside in high-cost areas that are not served by competitors, protecting the eligible rural and non-rural telecommunications carrier fund recipients by continuing to make OUSF available for high-cost areas where they are the only option for basic service, and protects Oregon consumers, who fund the OUSF through fees on their telephone bills, by better targeting the use of these funds and reducing their financial obligations to the OUSF.

Q. IS THIS PROPOSAL CONSISTENT WITH OTHER PARAMETERS OF THE OUSF?

A. Yes. Oregon statutes require the OUSF to be "competitively neutral and nondiscriminatory."[161] Providing a subsidy to one carrier in a certain area and not to another carrier providing service in that same area is ***not*** competitively neutral and is in fact discriminatory: it provides direct cost advantages to one group of carriers over another. This is particularly egregious considering that the unsubsidized competitor's customers are funding, in part, the very subsidy that discriminates against the unsubsidized competitor.

Q. HOW SHOULD THE OUSF BE REVISED TO TAKE INTO ACCOUNT OREGON'S CONTEMPORARY COMPETITIVE LANDSCAPE?

A. No OUSF funding should be available in areas where at least one unsubsidized carrier is offering a competitive alternative to basic telephone service. In other words, "carve outs" for support would be established for high-cost areas where an unsubsidized competitor is present. The rationale for these "carve outs" was summarized by the National Cable & Telecommunications Association ("NCTA") in its 2009 petition to the FCC seeking similar reform of the federal High-Cost USF program as follows:

> [NCTA] proposes that the Commission establish procedures to reduce the amount of universal service support provided to carriers in those areas of the country where there is extensive, unsubsidized facilities-based voice competition and where government subsidies no longer are needed to ensure that service will be made available to consumers. The Commission's high-cost support mechanisms are premised on the assumption that a particular location would not have affordable service available but for the support provided by

[161] ORS 759.425(1).

> the program. But in markets with extensive facilities-based competition, that assumption no longer holds true. The presence of one or more unsubsidized wireline competitors generally should be sufficient to ensure that consumers will have access to reasonably priced service even if government subsidies are reduced or eliminated.[162]

This logic applies with equal force to the OUSF: for high-cost areas in Oregon where an unsubsidized competitor is present, it has been shown that a subsidy is not needed to ensure reasonably-priced and affordable basic service.

Q. HAS THE FCC TAKEN STEPS TO ESTABLISH SUCH SUPPORT CARVE-OUTS FOR THE FEDERAL HIGH-COST USF PROGRAM?

A. Yes. The FCC established support "carve outs" in its *USF/ICC Transformation Order* via a transitional plan to phase out support in areas served by unsubsidized competitors. For price cap carriers, in Phase I all broadband buildout obligations are conditioned on not spending the funds to serve customers in areas already served by an "unsubsidized competitor.[163] If CAF Phase II has not been implemented by January 1, 2013, additional limitations go into effect: In 2013, all carriers receiving frozen high-cost support must use at least one-third of that support to build and operate broadband-capable networks used to offer the provider's own retail broadband service in areas substantially unserved by an unsubsidized competitor. For 2014, at least two-thirds of the frozen high-cost support must be used in such fashion, and for 2015 and subsequent years, all of the frozen high-cost support must be spent in such fashion. [164] In Phase II (the stage in which support will be determined based on a combination of a new broadband cost model and

[162] NCTA, Petition for Rulemaking, November 5, 2009, at page i.

[163] *USF/ICC Transformation Order*, ¶ 103.

[164] *USF/ICC Transformation Order*, ¶ 149-150.

competitive bidding) CAF will not provide support to areas served by unsubsidized competitors.[165] For these purposes, the FCC defined an "unsubsidized competitor" as "a facilities-based provider of residential terrestrial fixed voice and broadband service that does not receive high-cost support."[166]

For rate-of-return areas, the FCC will phase out over three years support in study areas that overlap completely with an unsubsidized facilities-based terrestrial competitor that provides voice and fixed broadband service, beginning July 1, 2012. [167] The FCC explained its reasoning as follows:

> We now adopt a rule to eliminate universal service support where an unsubsidized competitor – or a combination of unsubsidized competitors – offers voice and broadband service throughout an incumbent carrier's study area, and seek comment on a process to reduce support where such an unsubsidized competitor offers voice and broadband service to a substantial majority, but not 100 percent of the study area. Providing universal service support in areas of the country where another voice and broadband provider is offering high-quality service without government assistance is an inefficient use of limited universal service funds. We agree with commenters that "USF support should be directed to areas where providers would not deploy and maintain network facilities absent a USF subsidy, and not in areas where unsubsidized facilities-based providers already are competing for customers."[168]

The FCC decided to phase out all legacy high-cost USF support received by incumbent rate-of-return carriers over three years in study areas where an unsubsidized competitor (or a combination of unsubsidized competitors) offers voice and broadband service for

[165] *USF/ICC Transformation Order*, ¶ 24.
[166] *USF/ICC Transformation Order*, ¶ 103.
[167] *USF/ICC Transformation Order*, ¶ 27.
[168] *USF/ICC Transformation Order*, at ¶ 281 (footnotes omitted).

100 percent of the residential and business locations in the incumbent's study area.[169] In the follow-up *Further Notice of Proposed Rulemaking* portion of the *USF/ICC Transformation Order*, it has also sought additional comment on a process to reduce support where such an unsubsidized competitor offers voice and broadband service to a substantial majority, but not the entirety, of the study area.[170] The FCC also adopted a rule to carve out from the CAF those areas that are overlapped by an unsubsidized competitor.[171] The FCC delegated to the Wireline Competition Bureau ("WCB") the tasks of finalizing the methodology for determining areas of overlap and publishing a list of carriers for which there is a 100 percent overlap.[172] To date, the WCB has not released an order completing those tasks.

Q. GIVEN THAT THE FCC HAS TAKEN THESE ACTIONS TO ESTABLISH SUPPORT CARVE OUTS, SHOULD THE OREGON COMMISSION SIMPLY WAIT AND ADOPT WHATEVER FINAL PROCEDURES THE FCC ULTIMATELY ESTABLISHES WITH RESPECT TO SUPPORT CARVE-OUTS?

A. No. The Commission should proceed expeditiously to reform the OUSF in ways that best serve the needs of Oregon and its telecommunications consumers and providers, with the understanding that those changes must not undermine or be inconsistent with the federal framework. Based on what we know today, establishing carve outs for the OUSF is consistent with the FCC's recent actions, and there's nothing to suggest that the

[169] *USF/ICC Transformation Order*, at ¶ 283.
[170] *USF/ICC Transformation Order*, at ¶¶. 281 and 284; *FNPRM*, at ¶¶. 1061-1078.
[171] *USF/ICC Transformation Order*, at ¶ 283.
[172] *USF/ICC Transformation Order*, at ¶ 284.

specific procedure the Oregon Commission would adopt to implement the carve outs would be inconsistent with the FCC's process, which is under development.

Q. WHAT DEFINITION OF AN "UNSUBSIDIZED COMPETITOR" SHOULD THE COMMISSION ADOPT?

A. I propose the following definition:

> An "unsubsidized competitor" is a facilities-based provider of residential and/or business voice service that does not receive federal high-cost support.

Here the terms "residential and/or business" are meant to capture the customer type supported by OUSF under the statutes. Voice services are not necessarily limited to fixed voice services, and may include wireless services.

Q. PLEASE COMPARE YOUR PROPOSED DEFINITION OF AN UNSUBSIDIZED COMPETITOR WITH THE FCC DEFINITION OF AN UNSUBSIDIZED COMPETITOR QUOTED ABOVE?

A. One difference between the two definitions is that my proposed definition allows for the Commission to also consider wireless competitors, while the FCC defined the unsubsidized competitor only as a provider of fixed terrestrial services.

There is no conflict between the two definitions because the purpose of the FCC definition is to create carve-outs for USF support of broadband services, while the purpose of my definition is to create carve-outs for USF support of narrowband (voice) service, which includes wireless service. By contrast, the FCC explained that its definition was limited to fixed terrestrial service because the FCC did not expect the non-

fixed / non-terrestrial services to meet the required broadband performance standards (speed, capacity, or latency minimums) for all locations.[173] This is not, however, an assumption applicable to narrowband wireless service.

Q. HOW SHOULD THE COMMISSION DETERMINE THE AREAS THAT ARE ELIGIBLE FOR OUSF SUPPORT CARVE-OUTS?

A. After the Commission adopts the definition of an unsubsidized competitor, the next step is to identify those high-cost areas in which an unsubsidized competitor is present. The starting point for this process is the list of high-cost areas across Oregon, (i.e., the areas for which the OUSF formula generates a non-zero subsidy amount, prior to considering the potential presence of an unsubsidized competitor). Presently, the OUSF evaluates support requirements at a different level of aggregation for the non-rural ILECs vs. the RLECs. Non-rural ILECs are analyzed at the wire center level, whereas the RLECs are analyzed with respect to their entire Oregon service territory (referred to as the "study area").[174] I will refer to both the RLEC study areas and non-rural ILEC wire centers as "OUSF support areas." In some areas unsubsidized competitors may cover 100% of the OUSF support area. In other areas unsubsidized competitor may cover less than 100% but more than 0% of the OUSF support area. This is likely to happen in some study areas because the geographic boundaries of high-cost study areas do not generally align with the service area boundaries of facilities-based competitors. Here the Commission would

[173] *USF/ICC Transformation Order*, ¶ 104.
[174] Order No. 03-082, p. 4.

need to compare the coverage of unsubsidized competitors to the geographic boundaries of the high-cost areas with a non-zero subsidy.

Q. ARE THERE RESOURCES AVAILABLE TO THE COMMISSION FOR DETERMINING THE AREAS THAT ARE ELIGIBLE FOR OUSF SUPPORT CARVE-OUTS?

A. Yes. The Commission can utilize existing data on the presence of a non-ILEC, facilities-based broadband service provider as a proxy for the presence of a facilities-based provider of voice service, since broadband service providers now almost invariably make available a VoIP-based voice service offering. These voice services are viewed by customers as being an alternative to basic telephone service. While using unsubsidized broadband providers is not a perfect solution, it constitutes a reasonable proxy and provides the Commission an option for more easily identifying areas in Oregon where continued OUSF funding is not warranted. Relative to an approach that takes into account mobile wireless voice service, the presence of a non-ILEC, facilities-based broadband service provider in a high-cost area is a conservative surrogate for identifying an unsubsidized competitor for voice service in that high-cost area. If the Commission adopts a more expanded definition of unsubsidized competitor that included mobile wireless voice services, then it would need to supplement the broadband data with wireless providers' coverage maps/data.

To identify the presence of unsubsidized broadband providers, the Commission should be able to draw upon the resources of the Oregon Broadband Mapping Project ("OBMP"), to

which it has been a significant team member as well as the NTIA's designated funding grantee.[175] As described on the OBMP's website,[176] it has been collecting data directly from facilities-based broadband service providers on the availability of their services in Oregon. The OBMP has been compiling this data into two units of geographic aggregation, namely census blocks and street segments, for presentation via an interactive mapping tool, as well as for inclusion in the NTIA's National Broadband Map. Within that Oregon-specific mapping tool, broadband service availability is shown at a census block level for census blocks smaller than 2 square miles, and by street segment for census blocks larger than 2 square miles.[177] The OBMP has applied the NTIA's standard definition for broadband services, applicable to all states undertaking broadband mapping under its grants.[178] The OBMP also attests that "[s]everal processes are in place to make the map as accurate as possible," including review and validation of the map's depiction of coverage areas by the broadband providers.[179]

[175] See http://www.oregon.gov/Broadband/Pages/about_us.aspx. While the Commission is working in partnership with the Governor's Oregon Broadband Advisory Council, it is the grantee for the NTIA's State Broadband Initiative mapping and broadband development grant for Oregon, which, with its September 2010 funding extension, now amounts to $5.7-million. Source: http://www2.ntia.doc.gov/grantee/public-utility-commission-of-oregon (accessed 11/8/2012). Further information on the history of the Oregon project is available at: http://www.oregon.gov/Broadband/Pages/state_broadband_project.aspx.

[176] Oregon Broadband Mapping Project's FAQs page. Source: http://www.oregon.gov/Broadband/Pages/FAQS.aspx.

[177] *Id*.

[178] *Id.* As stated therein, "Broadband service is "available" to an end user at an address if a broadband service provider does, or could, within a typical service interval (7 to 10 business days) without an extraordinary commitment of resources, provision two-way data transmission to and from the Internet with advertised speeds of at least 768 kilobits per second (kbps) downstream and at least 200 kbps upstream to the end user at the address." These minimum speed thresholds are sufficient to support VoIP-based telephony offerings that meet the statutory definition of basic telephone service.

[179] *Id.* The Project notes that not all broadband providers have supplied data to date, but this means that an identification of unsubsidized competitors based on the existing dataset and mapping tool would be somewhat conservative.

Q. HOW WOULD THE COMMISSION DETERMINE FUNDING IF AN UNSUBSIDIZED COMPETITOR DOES NOT SERVE THE ENTIRE ILEC SERVICE AREA?

A. Once the presence of an unsubsidized[180] competitor has been identified for a given high-cost area, the next step will be to estimate the degree to which that area is served by the unsubsidized competitor (i.e., the overlap between the unsubsidized competitor's service area and the geographic boundaries of the high-cost area). One straightforward method would be to calculate it as the number of data aggregation units (census blocks and street segments) passed by (having facilities to provide service) both the ILEC and the unsubsidized competitor within the high-cost area, divided by the total number of data aggregation units passed by the ILEC within the high-cost area: % Overlap = #Units passed by Competitor(s) ÷ #Units passed by ILEC.[181] The resulting percentage could then be applied directly against the potential subsidy value calculated for the given high-cost area to determine the total support carve-out that will be applied.

Q. CAN YOU PROVIDE A NUMERICAL EXAMPLE SHOWING HOW THIS CARVE OUT WOULD WORK?

A. Yes. For example, if the OUSF subsidy calculated for a given high-cost area is $50,000 per year and there is an unsubsidized competitor who has an overlap of 60%, then the support carve-out would be $50,000 x 60% = $30,000, and the subsidy would be adjusted

[180] If there is any doubt whether a particular provider receives federal USF support, this can be checked via the publicly-available data provided by the Universal Service Administrative Company ("USAC") on its website, e.g. at its High Cost webpage (http://www.usac.org/hc/).

[181] Various more complicated methods could be devised to quantify the degree of overlap (e.g., introducing weightings by population or population density) if the Commission is inclined to choose more accuracy over administrative simplicity.

downward to $20,000 (or $50,000 minus $30,000). If instead that unsubsidized competitor served the entire high-cost area (100% overlap), then the support carve-out would be $50,000 ($50,000 times 100%), and the subsidy would be zero for that area ($50,000 minus $50,000). If, however, it is determined that an unsubsidized competitor is not present anywhere in the high-cost area, then the entire subsidy amount continues (e.g., $50,000 x 0% = $0 and $50,000 minus $0 equals $50,000).

(e) OUSF Funding Should be Limited to Small Rural ILEC Exchanges

Q. YOU HAVE EXPLAINED THAT BOTH RURAL AND NON-RURAL INCUMBENT LECS RECEIVE OUSF FUNDING TODAY. SHOULD THIS PRACTICE CONTINUE?

A. No. The two non-rural ILECs who receive OUSF funding (CenturyLink and Frontier) are the nation's third (CenturyLink) and fourth (Frontier) largest ILECs in terms of access line counts. In Oregon, their operations are not only much larger than those of the other ILECs receiving OUSF support, they also are distinguished by serving many exchanges in relatively high-density, urban and suburban areas of the state. In addition, both companies have experienced hundreds of millions of dollars in significant operating and capital expense savings and synergies as a result of their recent merger transactions (i.e., CenturyLink's acquisition of Qwest, and Frontier's acquisition of four million Verizon access lines nationwide). Yet together, non-rural study areas of these two companies currently consume $27.4-million of the $43-million total OUSF funding

disbursed (per the year 2012 disbursement), a 64% share.[182] In light of their new merger synergies and apparent lack of financial need for OUSF support, the minimal impact that support appears to have on basic telephone service penetration generally, and the significant burden that the accompanying high customer surcharge (8.5% in 2012) places on Oregon consumers, I recommend that the Commission discontinue OUSF support for both CenturyLink and Frontier non-rural study areas.

Q. YOU JUST REFERRED TO THE CENTURYLINK-QWEST TRANSACTION. CAN YOU DESCRIBE THE EFFECT OF CENTURYLINK'S ACQUISITION OF QWEST ON THE COMPANY'S OREGON SERVICE TERRITORY?

A. Yes. Prior to its 2011 acquisition of Qwest, CenturyLink's ILEC operations in Oregon consisted of three operating companies, namely CenturyTel of Oregon, Inc., CenturyTel of Eastern Oregon, Inc., and United Telephone Company of the Northwest d/b/a CenturyLink, which together served approximately 109,000 access lines in Oregon.[183] When it acquired Qwest's 802,000 access lines in the state, CenturyLink expanded its scale of operations in the state by nearly eight-fold, to approximately 911,000 lines.[184] Moreover, as can be seen in the exchange map provided in Figure 1 below,[185] CenturyLink gained access to many of the higher-density, urbanized and suburbanized areas of the state, as Qwest's service territory includes downtown Portland, much of the

[182] The 2012 OUSF disbursement totaled $43-million, out of which $15.6-million went to the RLECs. See Order No. 12-204 (6/5/12), Appendix A, pp. 3-4. This leaves $27.4-million ($43-million minus $15.6-million) disbursed to the two non-rural ILECs; $27.4-million ÷ $43-million equals 64%.

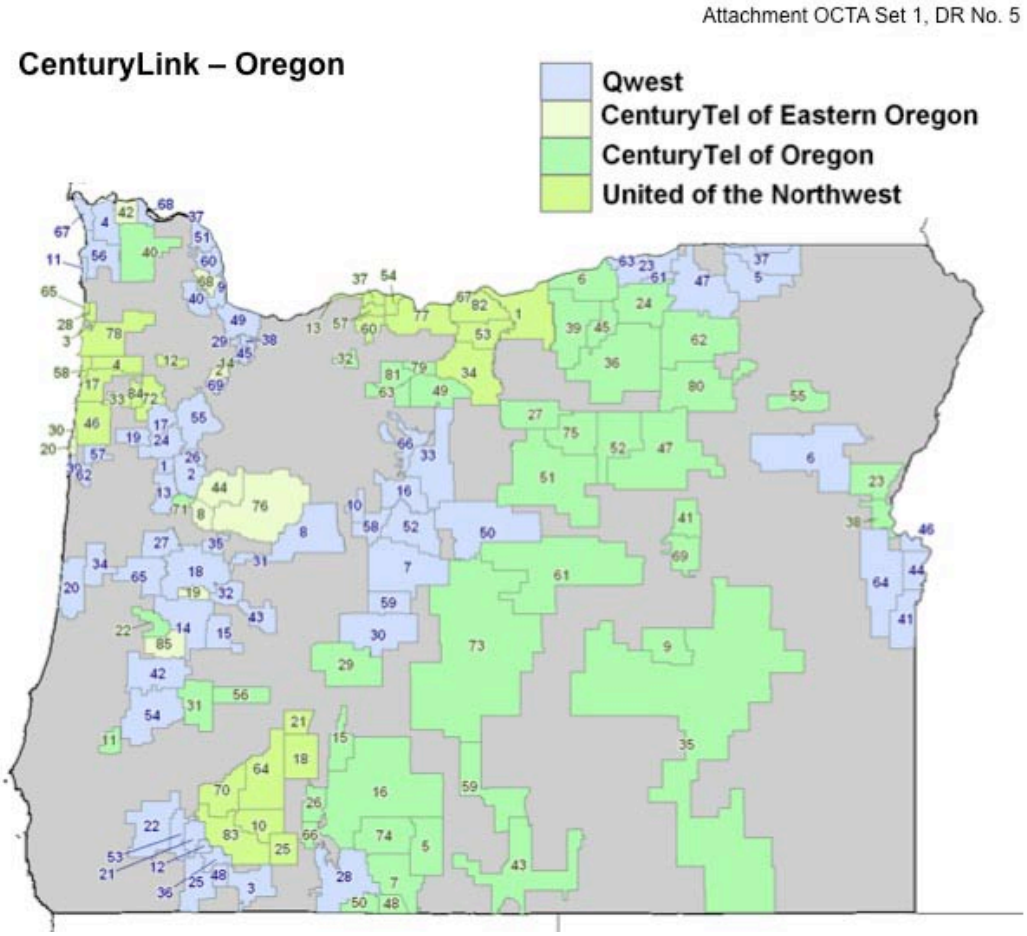
[183] Docket UM-1484, CenturyLink Merger Application, pp. 8-10.

[184] Calculated as the sum of 109,000 and 802,000.

[185] This map was provided as attachment to CenturyLink Response to OCTA Set 1 Data Request No. 5.

Willamette Valley including Salem, Corvallis, and Springfield-Eugene, and Medford to Ashland.

Figure 1:
Map of Post-Merger CenturyLink Service Territory



As the map shows, in numerous areas of the state, the two companies' exchanges fit together in a complementary fashion, like pieces of a puzzle. This has created opportunities to integrate and rationalize their combined operations over larger geographic areas than was possible before the merger. A few notable examples are:

- Just ten miles south of Eugene, the pre-merger CenturyLink was serving the Creswell exchange (the yellow #19 on the map), completely surrounded by Qwest exchanges, including Eugene-Springfield (blue #19). After the merger, Creswell

no longer had to operate as an isolated "island" and instead could be integrated into the greater Qwest operations in that area.

- Some twenty miles farther down Route 5, the Drain (green #22) and Yoncalla (yellow #85) exchanges historically served by CenturyLink could now be integrated with the Qwest exchanges adjacent to them, namely Cottage Grove (blue #14) to the north and Oakland-Sutherlin (blue #42) to the south.

- The pre-merger CenturyLink also served two small exchanges on the western border with Idaho, Durkee (green #23) and Huntington (green #38), which were more than seventy miles away from the rest of CenturyLink's service territory, but surrounded by two clusters of exchanges served by Qwest.[186] After the merger, their operations could be combined and integrated with Qwest's.

- And in a few situations, the integration could work in reverse: e.g., where Qwest's Klamath Falls (blue #28) exchange was formerly isolated, and could now be integrated with CenturyLink's cluster of exchanges surrounding it on three sides (including Chiloquin, Sprague River, Bonanza, and Merrill, green #s 16, 74, 7 and 50).

Q. DID THE COMPANIES TAKE NOTE OF THESE POTENTIAL EFFICIENCIES FROM THEIR MERGER DURING THE COMMISSION'S REVIEW OF THEIR MERGER APPLICATION IN DOCKET UM-1484?

A. Yes. CenturyLink's Senior Vice President and Treasurer, G. Clay Bailey, testified in Docket UM-1484 that one of "the important benefits flowing from the proposed transaction" would be "[i]mproved operating and capital efficiency through reductions in corporate overhead and elimination of duplicative functions and systems."[187] Qwest's Oregon State President for Qwest Corporation operations at that time, Judith A. Peppler, offered even more specific testimony on this point, stating that:

[186] To the northeast lie the Qwest exchanges of Baker, Sumpter, and North Powder (all blue #6; note that the OTA map revised August 2011 shows these as separate exchanges); to the south, Qwest served the Yale, Ontario, and Nyssa exchanges (blue #s 64, 44, and 41).

[187] Docket UM-1484, Direct Testimony of G. Clay Bailey, at page 12, lines 12-13 and page 13, lines 6-7.

> The Transaction will result in a combined enterprise that can achieve greater economies of scale and scope than the two companies operating independently. It is readily apparent that the areas served by Qwest and CenturyLink in Oregon are generally complementary, and that the combination of the serving areas will provide for increased economies of scope and/or scale. In many cases, the networks are adjacent or within close proximity to one another, and this will make it easier to implement operating efficiencies and infrastructure improvements. [Footnote omitted, emphasis supplied.][188]

Q. HAS THE POST-MERGER CENTURYLINK BEEN ABLE TO ACHIEVE THE OPERATING EFFICIENCIES THAT IT ANTICIPATED?

A. According to CenturyLink, the answer is "yes." CenturyLink's Chief Financial Officer and Executive Vice President, Stewart Ewing, has stated during quarterly earnings calls to the financial community that the Company has in fact exceeded its forecasted operating expense savings from the Qwest acquisition, both in their timing and overall size. During CenturyLink's fourth quarter 2011 earnings call held last February, Mr. Ewing stated:

> With respect to Qwest we ended 2011 having achieved an annual operating-expense synergy run rate of approximately $235 million, or about $35 million better than our expected year-end 2011 exit run rate primarily due to achieving certain synergies earlier than anticipated.[189]

During that call, Mr. Ewing also indicated that Qwest's financial and human resources systems had been converted successfully during that fourth quarter, and stated that CenturyLink ultimately expected to achieve an "annual operating-expense synergy run

[188] Docket UM-1484, Direct Testimony of Judith A. Peppler, Qwest Communications International, Inc., at page 12, lines 3-9.

[189] CTL - Q4 2011 CenturyLink, Inc. Earnings Conference Call, Edited Transcript (Thompson-Reuters), February 15, 2012, at page 4. Source: http://ir.centurylink.com/phoenix.zhtml?c= 112635&p= quarterlyEarnings. See also CenturyLink's accompanying Q4 2011 Earnings Presentation at slide 15, Integration Update. Source: http://ir.centurylink.com/phoenix.zhtml?c= 112635&p=.

rate of $575 million from the Qwest acquisition."[190] By the time of CenturyLink's next earnings call (for 1Q12) held in May, CenturyLink's Chairman and Chief Executive Officer, Glen Post III, stated that "[d]ue to better than expected synergy achievement and better visibility related to the Qwest acquisition, we have raised our annual operating expense synergy target of $650 million from $575 million, an increase of 13%."[191] Later in that call, Mr. Post indicated that some of this improvement was driven by efficiencies resulting from consolidating some of the Qwest and CenturyLink networks.[192] Unfortunately, in response to OCTA's discovery request, CenturyLink has objected to providing any analyses that it may have prepared that would shed further light on those merger synergies.[193]

Q. HOW HAS THE QWEST-CENTURYLINK MERGER IMPACTED THE COMBINED COMPANY'S ABILITY TO SERVE ITS HIGHER-COST EXCHANGES IN OREGON?

A. The merger not only increased the scale of CenturyLink's operations by eight-fold, it created opportunities to integrate and rationalize the companies' combined operations over larger geographic areas, especially where the companies' formerly-separate operations were adjacent or in close proximity. CenturyLink has in fact realized more of the economic benefits from these synergies than it had originally forecast, and now

[190] *Id.*, at pages 4-5.

[191] CTL - Q1 2012 CenturyLink, Inc. Earnings Conference Call, Edited Transcript (Thompson-Reuters), May 9, 2012, at page 3. Source: http://ir.centurylink.com/phoenix.zhtml?c= 112635&p=. See also CenturyLink's accompanying Q1 2012 Earnings Presentation at slide 5, Strategic Overview. Source: http://ir.centurylink.com/phoenix.zhtml?c= 112635&p=quarterlyEarnings.

[192] *Id.*, p. 8.

[193] CenturyLink Response to OCTA Data Request CTL 1-6.

estimates its merger-driven operating expense synergies to amount to $650-million per year going forward. Consequently, it is fair to conclude that the post-merger CenturyLink is in a significantly better position to serve its customers in high-cost areas than was the case prior to the merger.

Q. HOW DO NON-RURAL (FORMER QWEST) STUDY AREAS OF CENTURYLINK COMPARE TO ITS RURAL STUDY AREAS IN TERMS OF THE NET FLOWS OF OUSF SUBSIDIES AND CONSTRIBUTIONS?

A. Surprisingly, the former Qwest study area is a net recipient of OUSF, while the rural study areas of CenturyLink are net payers to OUSF. I made this conclusion by looking at the CenturyLink Annual Reports to the Commission (Form O), which contain information on distributions (moneys received from OUSF) and collections (moneys billed to customers for OUSF).[194] While only partial data (selected years and/or missing measures) are available, the following statistics prompted my conclusion: In 2010, Qwest received approximately *** _____ *** in OUSF distributions, and collected approximately *** ___ ***,[195] making it a net recipient of OUSF. For United, the data for 2009 are available, according to which the company received approximately *** *** in OUSF distributions, and collected approximately *** ___ ***,[196] making it a net payer of OUSF. Forms O of CenturyTel of Oregon and CenturyTel of Eastern Oregon

[194] Forms O for its study areas and various years were provided as Attachments to CenturyLink's Response to OCTA Data Request No. 1 (Set 1).
[195] Both numbers are taken from CenturyLink's Response to OCTA Data Request No. 1 (Set 1), attachment *OCTA Set 1, No. 1 - 2010 Form O - CONFIDENTIAL Attachment B.XLSX*. Tab "OR Ledger Balances." No similar data are available in the Qwest 2011 Form O provided to OCTA.
[196] Both numbers are taken from CenturyLink's Response to OCTA Data Request No. 1 (Set 1), attachment OCTA Set 1, No. 1 CONFID - 2009 *Form O EQ UTC of the NW - OR.PDF*, Table Oi-1. No similar data are available for more recent years.

provided to OCTA do not contain consistent data on OUSF distributions and collections (only collections or only distributions are reported in each form). They report that in total the two study areas collected (billed customers for OUSF) approximately *** ___ *** in 2009 and *** ___*** in 2010.[197] Based on another data response, CenturyTel received $2.9M in OUSF in 2009, and $2.7 M in 2010.[198] Because CenturyTel's distributions from OUSF are less than its collections, CenturyTel is a net payer to OUSF, just like CenturyLink's United study area.

In other words, rural customers of CenturyLink companies pay more to OUSF than the direct benefits (subsidy) their LEC receives from the fund. At the same time customers in non-rural areas contribute less to the fund than the direct benefits (subsidy) their LEC receives from the fund.

Q. DOES THIS RESULT – THAT A NON-RURAL STUDY AREA IS A NET RECEPIENT OF OUSF – HOLD TRUE FOR THE FRONTIER (FORMER VERIZON) STUDY AREA AS WELL?

A. Yes, the same observation is true for the Frontier non-rural (former Verizon) study area: For example, in 2010 Frontier received approximately *** _____ *** in OUSF distributions, and collected only approximately *** ___ *** of OUSF moneys from its

[197] Both numbers are based on CenturyLink's Response to OCTA Data Request No. 1 (Set 1), attachments *OCTA Set 1, No. 1 CONFID - 2010 Form O CT of Oregon.PDF*, *OCTA Set 1, No. 1 CONFID - 2011 Form O CT of Eastern OR.PDF*, *OCTA Set 1, No. 1 CONFID - 2009 Form O CT of Eastern OR.PDF* and *OCTA Set 1, No. 1 CONFID - 2009 Form O CT of Oregon.PDF*, Table I-1. In each year, the quoted number is a sum of the amount for CenturyTel of Oregon and CenturyTel of Eastern Oregon.

[198] CenturyLink's Response to OCTA Data Request No. 7 (Set 2), Attachment 7A.

customers.[199] Note that I do not have the data from the Frontier rural (Citizens) study area, or study areas of independent RLECs to further evaluate whether rural study areas tend to be net contributors to, rather than recipients of OUSF.

Q. TURNING TO FRONTIER, IS IT IN A BETTER POSITION TODAY TO SERVE HIGH-COST AREAS THAN IT WAS BACK IN 2000?

A. Yes. Similar to CenturyLink, Frontier Communications (the parent affiliated entity of which Frontier Northwest is a part) is a large and sophisticated ILEC with operations across the country: it is now the fourth largest ILEC in the U.S., with operations in twenty-seven states, over 5-million access lines, and 2011 revenues that exceeded $5.2 Billion on an asset base of $17.5 Billion.[200] Also like CenturyLink, Frontier recently expanded the scale of its operations in a major way via an acquisition, purchasing some four million access lines from Verizon in fourteen states in a 2010 transaction that tripled its size.[201] In its most recent Form 10-K financial filing with the Securities and Exchange Commission ("SEC"), Frontier emphasized the economic benefits of that acquisition, citing as one of its "competitive strengths":

> *Enhanced scale and scope*. Our increased scale and scope following the Transaction allows us to leverage our common support functions and systems (such as corporate administrative functions, information technology and network systems) for both operating expense and capital expenditure synergies.[202]

[199] Both numbers are taken from Frontier's Response to OCTA Data Request No. 1 (Set 1), attachment Response to DR 1 (Attachment 1) - Oregon Annual Report Form O Frontier Communications Northwest, Inc.PDF (2010 report).

[200] Frontier Communications Corp., Form 10-K for Year Ended December 31, 2011, pp. 2 and 29.

[201] See, e.g. OregonLive.com, "Frontier closes $8.6 billion deal for Verizon phone lines," July 2, 2010. Source: http://www.oregonlive.com/business/index.ssf/2010/07/frontier_closes_86_billion_dea.html.

[202] Frontier Communications Corp., Form 10-K for Year Ended December 31, 2011, at page 3 (emphasis in original).

In the Management's Discussion section of that filing, Frontier estimated that its annualized cost savings run rate from the Verizon transaction amounted to some $552 million by year end 2011, and will rise to $650 million by the end of this year.[203] Thus just like CenturyLink, Frontier is enjoying a new source of cost savings and efficiencies, which should lower its costs in high-cost areas as well as the other areas it serves.

In Oregon, the Verizon transaction increased Frontier's operation from about 50,000 to 350,000 access lines, an increase of seven fold. While this places Frontier at about one-third the size of post-merger CenturyLink as measured by their relative Oregon access line counts,[204] it also means that Frontier enjoys scale and scope economies in Oregon far beyond those that can be achieved by the state's rural LECs, which serve well under 10,000 lines in all but one case.[205] And while Frontier serves some remote exchanges with low population densities (such as the Lostine and Joseph exchanges in Oregon's northeast corner), it also serves exchanges that are within the greater Portland area, where densities are higher and costs-to-serve consequently lower. Underscoring this point is the fact that Frontier does not receive any federal High Cost Loop ("HCL") support, which is

[203] *Id.*, at page 32. Coincidently, this is exactly the same figure that CenturyLink had estimated for its merger (see above).

[204] Frontier Northwest serves about *** ___ *** access lines in Oregon, compared to the 911,000 served CenturyLink (see above). Source: Frontier Northwest Form O (Oregon Annual Report) for year ending December 31, 2011, at page OS-1, line 20, provided in confidential Attachment 1 to Frontier Response to OCTA Data Request Set 1, No. 1.

[205] According to the January 2012 line counts relied upon by Staff during the last RLEC triennial review, Pioneer Telephone serves 11,854 lines, Canby 9,024 and Cascade 7,088. Fourteen of the remaining 27 RLECs (excluding the CenturyLink, Frontier, and United entities listed) serve less than one thousand lines each. Source: Order 12-204, Attachment 1.

calculated on a study area basis that averages together both unusually low-cost and high-cost wire centers.[206]

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION WITH RESPECT TO OUSF FUNDING FOR CENTURYLINK AND FRONTIER?

A. The Commission should discontinue OUSF support for CenturyLink's legacy Qwest territory and Frontier's legacy Verizon territory.

IV. ISSUE 2: WHAT CHANGES SHOULD BE MADE TO THE EXISTING OUSF RELATED TO HOW FUNDS ARE USED?

Q. ARE YOU RECOMMENDING ANY CHANGES TO THE MANNER IN WHICH OUSF DISTRIBUTIONS ARE USED BY RECIPIENT CARRIERS?

A. Yes. I recommend that: (1) the Commission limit universal service support to only primary (one per household) residential lines, or at most, the Commission should clarify that "basic telephone service" includes only a single/primary residential or single line business line (one line per household/business); and (2) that the Commission limit use of OUSF disbursements to loop related investments and expenses that are reasonably apportioned to single line residential and business voice services. The Commission should also open a rulemaking to modify the definition of "basic telephone service" to exclude all services other than the first residential line.

[206] See the Universal Service Administrative Company ("USAC"') HC01 filing for 1Q2012. Source: http://www.usac.org/about/tools/fcc/filings/2012/q1.aspx. As shown therein, Frontier has received some $561,000 in Interstate Access support, but that is a transitional mechanism related to access rate reductions.

Q. HOW ARE OUSF DISTRIBUTIONS CURRENTLY USED BY RECIPIENT CARRIERS?

A. The simple answer to this question is: we really do not know. How and where the OUSF disbursements have been spent by non-rural carriers has never been examined, and the oversight of rural carriers has been extremely limited. The fact is that there is no evidence showing that OUSF disbursements are being used as intended: to ensure basic telephone service is available at a reasonable and affordable rate.

Q. SHOULD THE COMMISSION TAKE STEPS TO MAKE SURE THAT OUSF DISBURSEMENTS ARE USED FOR THE PURPOSES INTENDED?

A. Yes. The Commission should target OUSF disbursement monies to ensure that the intended purpose is met. I have explained above how the Commission can better target OUSF disbursements in terms of geographic areas by continuing OUSF disbursements only in areas without an unsubsidized competitor. The Commission should also better target OUSF disbursements in terms of the services they support.

Non-Primary Residential and Business Lines

Q. WHAT SERVICES ARE CURRENTLY ELIGIBLE FOR OUSF SUPPORT?

A. Services deemed “basic telephone service” are eligible for support.[207] The Commission's administrative rules at 860-032-0190 define "basic telephone service" and provide examples of services which are and are not “basic telephone service.” According to these rules, “basic telephone service” includes not only single line services, but also PBX

[207] See, for example, instructions to OUSF worksheet OUS3, which is the worksheet through which LECs report line counts eligible for OUSF distributions.

trunks, multi-line and other "complex" services. At the same time, the rules exclude from basic telephone service "Centrex-type service" and ISDN lines.

Q. SHOULD THE COMMISSION, IN THIS PROCEEDING, MAKE A POLICY DECISION AS TO WHAT LINES SHALL RECEIVE OUSF SUPPORT?

A. Yes. I recommend that OUSF support be provided only to primary (one per household) residential lines, or at most, only to a single/primary residential or single line business line (one line per household/business). Narrowing the support in this fashion is the best way to balance the interests of all stakeholders and meet the statute's stated objective of remaining "competitively neutral and nondiscriminatory."[208]

Q. PLEASE ELABORATE.

A. First, the ultimate goal of OUSF is to ensure that the basic voice service is available at reasonable and affordable rates. To meet this goal, it is important to control the size of the fund because when the OUSF surcharge becomes too high, consumer expenditures on basic telephone service increase for all customers in the State, and the service becomes less affordable. Second, as noted in Section III(b)(ii), the thresholds of affordability and reasonableness vary by customer class. Business customers have higher thresholds for affordability compared to residential customers, as reflected in the fact that business rates have traditionally been higher than residential rates. Fourth, OUSF disbursements received by eligible carriers represents a subsidy – albeit it is an *explicit* (versus an implicit) subsidy, but a subsidy nonetheless. To put it bluntly: subsidies are no friend to competition. In the case of the OUSF, the subsidy creates a competitive cost advantage

[208] ORS 759.425.

for an ILEC over its competitors, even though they may be competing (or contemplating entry) to provide basic telephone service to the very same customers in the very same "high cost" area. But the potential negative impacts do not end there. If OUSF disbursements are not narrowly targeted only to services with real need for subsidy, it leaves open the possibility that carriers who receive that subsidy (which was designed with the express intent to ensure basic telephone service is available at a reasonable and affordable rate) may use those funds to subsidize competitive services or services provided in areas that are not high-cost. Therefore, such cross-subsidization can negatively impact competition for both basic and non-basic telephone service, as well as harm competition in both high-cost and non-high-cost areas of the state.

Q. HOW WOULD LIMITING THE TYPES OF SERVICES TO BE SUBSIDIZED ENHANCE THE COMPETITIVE NEUTRALITY AND NONDISCRIMINATORY NATURE OF THE FUND?

A. The Commission should recall that the entire concept of universal service is the notion that those who contribute into the fund are advantaged along with those parties whose service is ultimately subsidized. Through their contributions to the fund, contributors are provided access to a network with more people to whom they can call, thereby increasing the overall value of their own service. However, that value proposition erodes quickly for any service beyond the basic connectivity required for contributors to reach those subsidized parties. Subsidizing multiple residential lines and/or "complex" business services provide contributors little additional value for their contributed dollars, yet they have the potential to substantially increase the required contribution level, thereby

increasing the discriminatory nature of the fund beyond what is necessary for its objective.

In addition, as noted above, business customers can afford paying significantly higher rates than residential customers. For businesses, telephone service is an instrument of making money, and telephone expenditure is a cost of doing business. A business has tax advantages over residential customers because the cost of conducting business (including expenditure on telephone service) is generally subtracted from the company taxable income. Further, the decision-making underlying where businesses choose to locate includes a number of considerations, of which the cost of telephone service is only one. While an OUSF "high-cost" area may increase the cost of telephone service, this is likely offset by other cost advantages over OUSF "low-cost"/urban areas when factors such as office rent rates, parking rates and commute times are taken into account. Given that regulators have no insight into the complex evaluations that underlie decisions of business customers to locate or not to locate in certain areas, it seems unwise to distort free market dynamics by interjecting government-mandated subsidies.

Further, business customers tend to be high-usage customers (making and receiving more local and long-distance calls than average residential customers and purchasing calling features and other "premium" services). As a result, business customers tend to generate significantly higher per line revenues than an average residential customer. All these considerations support my recommendation that there be no OUSF support for business customers.

Q. HOW WOULD LIMITING THE SERVICES TO BE FUNDED ENHANCE THE COMPETITIVE NEUTRALITY OF THE FUND?

A. It is important to note that contributions to the fund are assessed as a percentage of overall intrastate revenues. As such, businesses who purchase substantial telecommunications services in Oregon (particularly those purchasing complex business services) end up contributing substantially to the fund. To the extent their contributions go to support services beyond those necessary for basic connectivity, indeed perhaps even to support the business services of their potential business rivals in subsidized areas, the anti-competitive impact may be substantial.

Q. ISN'T IT IMPORTANT FOR RURAL AND/OR HIGH-COST AREAS TO ATTRACT AND SUPPORT THE TELECOMMUNICATIONS NEEDS OF BUSINESSES THAT MAY BE CORE TO THEIR LOCAL ECONOMIES?

A. Yes, there is little doubt that telecommunications infrastructure available to local businesses may often be a consideration for businesses who consider locating or expanding into rural and/or high-cost areas. However, communities often vigorously compete for those types of businesses by contributing local tax resources or other funds to enhance the attractiveness of their community in relation to others (including enhanced communications infrastructure). This type of competition between communities has economic value in the process of properly allocating society's finite resources. However, using OUSF moneys for this purpose can exert an equally un-economic (i.e., anti-competitive) influence and inefficient allocation in that, because of its generalized funding structure, one Oregon community (i.e., in low cost areas) ends up subsidizing

another community against which it may be competing for the same business opportunities. To illustrate my point with an example, consider a corporation deciding where to locate a new call center (multi-line business). If OUSF supports multi-line business lines, the corporation may choose a high-cost location for its call center over a low-cost location. While this outcome may be beneficial for the specific community in which the call center will be built, this outcome is not in the public interest because the overall cost are not minimized, and because addition of this multi-line business puts further strain on OUSF.

Q. ARE THERE ANY OTHER ISSUES WITH THE CLASSES OF CUSTOMERS CURRENTLY SUPPORTED BY OUSF?

A. Yes. As noted above, following the definition of "basic telephone service," OUSF provides support to PBX trunks, multi-line and other "complex" business services, but does not support lines associated with Centrex service. This classification is confusing because Centrex service is a multi-line business service along with PBX service.[209] In addition, from the standpoint of end-users, the Centrex service can be considered analogous to PBX service because both provide the same capability of connecting different telephone extensions within the same multi-line business.[210] It does not make sense for OUSF to selectively support some multi-line business service (PBX), but not support another multi-line business service (Centrex).

[209] See, for example, instructions to the FCC ARMIS report 43-08, Table III, column (fd), in which ILECs report counts of "Multiline Business Switched Access Lines – Other than Payphone Lines." The instruction prescribe to "[i]nclude the total of analog and digital multiline business access lines subject to the multiline business interstate end user common line charge including PBX trunks, Centrex-CU trunks, hotel/motel LD trunks and Centrex-CO lines."

[210] The difference is in provisioning (which should not concern OUSF): a PBX is typically located at the business customer premises, while a Centrex system is typically located at the telephone company's switch.

Q. WHEN DID THE COMMISSION LAST ADDRESS THIS ISSUE OF WHAT TYPES OF LINES SHOULD BE SUPPORTED BY OUSF?

A. It appears the Commission last addressed this issue in its June 16, 2000 Order No. 00-312. In that instance the Commission appears to have been addressing proposals by AT&T and MCI to include only primary residential lines.[211] My recommendation here contains two alternatives: the first (more aggressive) alternative is to subsidize only primary residential lines, and the second (more conservative) alternative is that, at most, one line be subsidized at each address, whether business or residential.

Q, WHAT ARGUMENTS WERE RAISED BY OPPONENTS TO LIMITING FUNDING ONLY TO PRIMARY LINES?

A. The primary argument appears to have been that "there is no such thing as primary line service and then a separate service called secondary line service."[212] ILECs do track their end user services by the type of line (primary versus non-primary; single line versus multi-line), as is evident from the examination of their tariffs. As discussed above, ILEC interstate end user access (SLC) charges are set at different levels for primary and non-primary residential lines.[213] It is unclear whether this argument was meant to stress some administrative complexity associated with ensuring only primary lines are funded, or whether it was more semantic. However, neither is very compelling. To suggest that customers with 2, 3, 5 or even 10 phone lines somehow need to be subsidized in order to ensure that everyone who wants access to the telephone system can get it at affordable

[211] Order No. 00-312, p. 20.

[212] Order No. 00-312, p. 20.

[213] See tariff Qwest FCC No. 1, *Access Service*, Section 4, pp. 4-11, 4-11.1 and 4-12 and Frontier Telephone Companies FCC No. 5, *Facilities for Interstate Access*, Section 13, p. 13-5.

rates - i.e., the primary objective of universal service – is simply unreasonable. Certainly there are telephone customers in Portland, as an example, who struggle to pay for the single telephone line in their home. Yet, those Portland customers are required to contribute into the fund so as to provide lower access line rates to someone in a higher cost area that may choose to purchase multiple subsidized lines. That just does not strike me as good economic policy.

Q. DID THE COMMISSION IDENTIFY ADMINISTRATIVE ISSUES THAT WOULD COMPLICATE LIMITING FUNDING ONLY TO PRIMARY LINES?

A. The only reference I was able to find is as follows: "[i]n addition, there are practical difficulties if support were restricted to primary lines,"[214] followed by a general conclusion that "including business and multiple lines does *not* make the fund unacceptably large." [215] At this stage of the fund, that assertion is clearly no longer true. Further, embedded within this portion of the Commission's Order is an inclination that multiple lines should be funded, unless evidence exists indicating such funding is not necessary. Indeed, the Order concludes that "no showing has been made that customers with secondary or multi-line service do not need OUS support." Yet, it strikes me that this is exactly the wrong inclination. Any subsidy program, including universal service, should conscript funds only to the extent necessary to meet the objectives of the policy, and as such, any mechanism that increases funding above the necessary minimum should be viewed skeptically in light of the specific policy objective. The specific policy objective of universal service should be that any citizen who wants access to the

[214] Order No. 00-312, p. 20.
[215] Order No. 00-312, p. 20 (emphasis added.).

communications network should be able to afford such access - though perhaps at a basic level. A single residential line (or, at most, a single residential or single business line) is sufficient for this objective, and funding should be so limited.

Network Related Investment

Q. WHICH NETWORK RELATED INVESTMENTS AND EXPENSES SHOULD BE CONSIDERED AN ACCEPTABLE USE OF OUSF DISTRIBUTIONS?

A. Its commonly accepted that local loop related investments and expenses are the primary drivers when determining high cost areas. Hence, the Commission should generally limit use of OUSF distributions to loop related investments and expenses that are reasonably apportioned to single line residential and business voice services. That said, as I discuss later in this testimony, the Commission should periodically review recipient carriers' investment and expense data to determine whether OUSF "high-cost" disbursements have been utilized to support the "high cost" aspects of providing basic telephone service.

Q. WHAT ABOUT SWITCHING COSTS?

A. While switching costs may have been relatively higher in lower density, rural areas in the past (even in 1999 when the enabling legislation was being developed), the proliferation of IP based switching equipment in the past few years has introduced enormous scalability into switching costs such that per unit costs can be reasonably managed even with small line counts. Indeed, the FCC recently stated:

> We continue to believe that the rationale for LSS has weakened with the advent of cheaper, more scalable switches and routers.[416] We also agree with the Ad Hoc Telecommunications Users Committee that the LSS funding mechanism provides a disincentive for those carriers owning

> multiple study areas in the same state to combine those study areas, potentially resulting in inefficient, costly deployment of resources.[417] Further, because qualification is solely based on the number of lines in the study area, LSS does not appropriately target funding to high-cost areas, nor does it target funding to areas that are unserved with broadband.[216]

Hence, it is unlikely that investments in new switching equipment will cause carriers to experience materially higher comparative switching costs versus carriers in less rural/high-cost areas. Accordingly, the fundamental rationale for subsidizing those investments as "high cost" simply does not hold. While the burden of proof should be on carriers who claim use of OUSF contributions on switching investments and/or maintenance is necessary to ensure basic telephone services are available at reasonable and affordable rates, the presumption should be that switching costs are not an acceptable use of OUSF distributions on a going-forward basis.

Q. HOW SHOULD INVESTMENTS AND EXPENSES ASSOCIATED WITH UNREGULATED AND/OR ADVANCED SERVICES BE TREATED?

A. The Commission should limit use of OUSF distributions to loop related investments that are reasonably apportioned to single line voice services. Hence, investments and expenses that are attributable to unregulated and/or advanced services should be recovered through end-user rates and not OUSF distributions. Where investments and expenses arguably support both single line voice services and unregulated and/or advanced services, carriers should demonstrate to the Commission's satisfaction that they have allocated costs between categories such that OUSF distributions are only used to support single line voice services.

[216] *USF/ICC Transformation Order*, ¶ 255.

V. ISSUE 3: WHAT CHANGES SHOULD BE MADE TO THE EXISTING OUSF RELATED TO TRANSPARENCY AND ACCOUNTABILITY?

Q. PLEASE DESCRIBE YOUR RECOMMENDATION FOR THIS ISSUE.

A. I recommend that the Commission perform a review of the OUSF mechanism and support for ***all carriers*** at least once every three years. I also recommend that the Commission enhance and make permanent the reporting requirements it established for the non-rural ILEC subsidiaries of Frontier and CenturyLink in Order No. 12-065.

Q. DOES THE COMMISSION PERIODICALLY REVIEW THE OUSF MECHANISM AND/OR THE AMOUNT OF SUPPORT FUNDING DISBURSED TO ELIGIBLE CARRIERS?

A. Yes. The Commission periodically reviews the funding mechanism for rural carriers, but there is no similar review performed for non-rural carriers.

Q. PLEASE DESCRIBE THE REVIEW PROCESS FOR RURAL CARRIERS.

A. Rural carriers were brought into the OUSF in February 2003 by virtue of a stipulated agreement approved by Order No. 03-082 (Docket UM 1017), which requires a periodic review process described as follows:

> The interval for reviewing and updating the embedded cost calculations will not be longer than three years, unless extended by the Commission. Companies may request, or the Commission may initiate, a more frequent review, but not more frequently than once a calendar year. A company requesting a more frequent review will do so by November 15 for the previous calendar year. The OUSF study area support per line per month amount will remain unchanged until the next embedded cost review.[217]

[217] Order No. 03-082, Attachment A, p. 4.

There have been three triennial[218] reviews to date: 2006, 2009, and 2012. Each review resulted in stakeholders departing from the initial benchmarking mechanism in favor of ***negotiated*** funding levels and disbursements. The primary reason in each case was the extreme increases in the fund that would have resulted had the parties simply calculated, collected and distributed funds per the Commission approved mechanism.

Q. PLEASE ELABORATE.

A. The 2006 Triennial Review culminated in a Memorandum of Understanding ("MOU") that was adopted in Order No. 06-297 (6/14/06). Appendix A to that Order (which is the Commission Staff memo describing the circumstances surrounding the 2006 review and MOU) explains that Staff's 2006 cost review indicated that the approved benchmarking mechanism would result in an 81% increase in rural company support per line *based on the difference in costs between 2003 and 2006.*[219] Given Staff's concern over the magnitude of this increase, workshops were held to discuss Staff's findings and potential options. To avoid revisiting decisions made in Order No. 03-082, the rural companies ultimately agreed to a 15% increase in per line support.[220] Instead of increasing the rural carriers' annual disbursements from the OUSF by 81% ($7.4 million), it increased by 16% ($1.4 million). This increase was deemed "interim" and was put in place until the next triennial review, which occurred in 2009.

[218] I refer to it as a "triennial" review because the language in the stipulated agreements requires the review to take place at least every three years (unless extended by the Commission).

[219] Order No. 06-297, Appendix A, p. 3. Staff's memo indicated that the annual disbursements from the fund "would increase from $8.9 million to $16.3 million, an 81 percent increase." The actual increase based on these numbers is 83%. I use 81% in the testimony because that is the number calculated by Staff. Staff's memo explains that this increase was driven by: (1) decrease in lines, (2) increase in plant in service primarily to support xDSL service which is not a basic service supported by the OUSF, and (3) increase in operating expenses. *Id.*, pp. 2-3.

[220] Order No. 06-297, Appendix A, p. 4.

Q. DID STAFF AND THE PARTIES REACH A SIMILAR SETTLEMENT IN 2009?

A. Yes. During the 2009 triennial review, a second MOU was signed, basically extending the terms of the agreement reached in 2006. Again, this was done (at least in large part) to avoid skyrocketing rural carrier disbursements.[221] The results of Staff's 2009 review indicated that if the approved mechanism were used, annual disbursements would have increased from $10.3 million (the amount agreed upon in the 2006 MOU) to $25.6 million[222] – ***a 149% increase*** over a three year period.

Q. WAS THE EXPERIENCE IN 2012 SIMILAR?

A. Yes. As Staff explained in a memo to the Commission:

> Expressed as aggregate annual disbursements, the model results had the support for the rural companies going from approximately $6.8 million per year to $30 million per year. To support this $23 million dollar increase, the surcharge rate would have had to be well over 10 percent. All parties were concerned about the effect this rate would have on the public.[223]

Parties met to discuss this issue, and like in 2006, it was determined that annual disbursements to rural carriers would be established not by their actual embedded costs but instead be capped at a significantly lower level. This time, rural disbursements were capped at about $15.6 million per year.[224] Rural carriers then met to decide how to divvy up this money.[225]

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[221] Order No. 09-246, Appendix A ("If the Motion had not been signed, the support per line amounts would have been updated to reflect the current costs of the rural companies and those costs would have triggered a docket to review ways to control the increase in the surcharge rate.")

[222] Order No. 09-246, footnote 4.

[223] Order No. 12-204, Appendix A, p. 3.

[224] Order No. 12-204, Appendix A, p. 3.

[225] Order No. 12-204, Appendix A, p. 4.

Q. DID THE MOUS SIGNED IN 2006, 2009 AND 2012 LIMIT USF FUNDING AND DISBURSEMENTS WHEN COMPARED TO THE AMOUNT OF OUSF FUNDING THAT WOULD HAVE BEEN REQUIRED BY THE OUSF MECHANISM?

A. Yes, absolutely. Had OUSF disbursements to rural carriers been based on the rural carriers' actual embedded cost (which was the original intent when rural carriers were added to the OUSF), an additional $106.8 million would have been collected and distributed over nine years, versus the actual distributions resulting from the stipulated agreements.[226] As a result, it is clear that the review process was an integral component of the overall OUSF program that has resulted in a higher level of fiscal responsibility and accountability. However, it must also be recognized that agreements reached between the parties during the triennial reviews have delayed a more extensive review of the OUSF that could fix what are clear structural problems in the original funding mechanism.

Q. IF RURAL CARRIERS CONTINUE TO RECEIVE OUSF FUNDING AS A RESULT OF THE CHANGES MADE TO THE OUSF IN THIS DOCKET, SHOULD THE COMMISSION CONTINUE TO PERIODICALLY REVIEW THE OUSF MECHANISM AND RESULTING DISBURSEMENTS TO RURAL CARRIERS?

[226] Calculated as the sum of: (a) the difference between $16.3 million and $10.3 million for three years, (b) the difference between $25.6 million and $10.3 million for three years, and (c) the difference between $30 million and $15.6 million for three years (the 2012 MOU term is for one year, with two one-year extensions).

A. Yes. First, it is critical for the Commission to resolve the inherent problems in the OUSF mechanism. If, after these problems are fixed, rural carriers continue to receive OUSF high cost funding, reviews should continue on a periodic basis. In addition, as explained below, the reviews should be expanded to include an update to the maps and/or other data used to establish areas served by unsubsidized competitors (areas that are not eligible for support under my proposal).

Q. SHOULD THIS REVIEW BE EXTENDED TO NON-RURAL CARRIERS?

A. Yes. The triennial review process for rural carriers was a requirement of the stipulated agreement adopted in Order No. 03-082, which was specific to rural carriers. Non-rural carriers have not been included in those reviews.[227] As a result, the OUSF mechanism and resulting funding received by non-rural carriers (former Qwest, now CenturyLink and former Verizon, now Frontier) have not been reviewed in any detail for more than 12 years. Clearly, the Commission's experience with the rural carriers indicates that some review is important to ensure reasonable funding levels, and this docket is the proper place to implement such controls. Implementing a review process for non-rural carriers is not only logical, it is perfectly consistent with the Commission's stated objective to

[227] The Commission's Phase I Order (Order No. 95-1103) in Docket UM 731 which addressed decided certain OUSF policies required a review after two years to allow the Commission adjust the plan as necessary to recognize changes in the industry. To my knowledge, such as review has not been conducted for non-rural carriers. However, this shows that from the outset, the Commission recognized the importance of reviewing the OUSF plan as it relates to non-rural carriers.

increase the transparency and accountability for non-rural carriers,[228] and consistent with the "competitively neutral" and "nondiscriminatory" underpinnings of the OUSF.[229]

Q. PLEASE BRIEFLY DESCRIBE WHAT ISSUES SHOULD BE ADDRESSED DURING PERIODIC REVIEWS?

A. This depends largely on the changes the Commission decides to make to the OUSF mechanism in this proceeding. However, the reviews should, at a minimum, analyze the primary components that determine per line support, including cost calculations, federal support, and the benchmark. This review should also consider factors impacting the extent to which the Legislature's intent is being achieved, including prices of basic telephone service, supported services, how funds are being used, whether additional investment through the use of an OUSF subsidy is in the public interest, level of competition, etc. In addition, if the Commission adopts my recommendation not to provide OUSF support in areas served by one or more unsubsidized competitors, these reviews should include an update to the maps and/or other data used to establish areas served by unsubsidized competitors. Further, periodic reviews may be necessary to coordinate OUSF with the ongoing federal USF reforms. In short, these reviews should be structured so that they can identify any concerns with the OUSF mechanism as a whole and resolve them.

[228] See, e.g., Order No. 12-065 (2/28/12).

[229] ORS 759.425(1) states: "The Public Utility Commission shall establish and implement a competitively neutral and nondiscriminatory universal service fund."

Q. SHOULD THE COMMISSION ADOPT A SCHEDULED SUNSET PROVISION FOR THE OUSF?

A. Yes, and this can be incorporated as part of the review process. For example, any OUSF funding should sunset after the three years unless the Commission determines during the triennial review that continued funding is necessary. This type of sunset provision would provide incentives for all parties to work diligently and efficiently to perform the triennial reviews in a timely fashion.

Q. PLEASE DESCRIBE THE MEASURES TO INCREASE ACCOUNTABILITY AND TRANSPARENCY PUT IN PLACE IN ORDER NO. 12-065.

A. Staff's memo (which is Appendix A to Order No. 12-065) indicates that, on an interim basis, non-rural LEC investments made in high cost areas by wire centers would be tracked on an annual basis, according to the following categories: (i) local loop, (ii) central office, and (iii) interoffice facilities. Engineering, construction and maintenance expenses will be allocated to the high-cost wire centers. According to Staff's memo, the report will identify how much is being spent in the high-cost areas on a year-by-year basis, and can be compared to what the company is receiving in those areas from support and revenues derived from customers in those areas. Staff's report noted that total revenues from customers and universal service support should "match up" over time if the OUSF distributions are set correctly.[230] Otherwise, OUSF contributions may actually subsidize other regulated and unregulated services and contribute to exorbitant salaries and/or corporate profits.

[230] See Order No. 12-065 at Appendix A, p.6.

Q. HOW SHOULD THE ORDER NO. 12-065 REPORTING REQUIREMENTS BE ENHANCED?

A. I recommend four enhancements to these reports. First, for simplicity and convenience, I recommend that line count data (supported lines and broadband connections) - by wire center - be added to the reports. Next, I recommend that the Commission require carriers receiving OUSF distributions to provide revenue data by wire center, including total regulated revenue, basic residential and business single line revenue; carrier access revenue; and broadband revenue. I also recommend the Commission require OUSF recipients to report, again - by wire center - on FUSF and OUSF distributions. Finally, in order to put more clarity around the investment and expense data already included in the 12-065 reports, I recommend that the OUSF recipients be required to describe all reported investments, their corresponding amounts and the percentage of those investments which is directly attributable to basic telephone services to single line customers as opposed to unregulated services, data offerings and other non-basic telephone services.

Q. SHOULD CARRIERS BE PERMITTED TO PROVIDE ADDITIONAL DATA THAT EXPLAIN HOW OUSF DISTRIBUTIONS HAVE BEEN USED TO SUPPORT THE STATUTORY OBJECTIVES?

A. Yes. It may well be the case that after certain carriers prepare their annual reports, the data indicate that contributions have not been used to support universal service objectives. For example, it may be that while very little investment occurred in a particular wire center over the past year, but in the two years preceding the current

reporting period, necessary investments out-weighed OUSF and FUSF contributions. Carriers should be free to present any data to the Staff and Commission they determine support their request for continued OUSF distributions and, as such, all such data should be included with their reports and should be made available to interested parties who enter into appropriate confidentiality and non-disclosure agreements.

Q. PLEASE DISCUSS YOUR RECOMMENDATION THAT THESE REPORTING REQUIREMENTS BE MADE PERMANENT.

A. The Staff report adopted in Order No. 12-065 states that tracking "annual investments made in high cost areas by wire center would be a ***good interim step***." *(emphasis added)*. And, although the Staff Report and Commission Order do not place an end date on the "interim" nature of the reporting requirements, I recommend the Commission clarify here in this proceeding that the reporting requirements will remain in place until modified or eliminated by Commission Order such that all potentially impacted parties are on notice that they must track, record and report the data discussed in Order 12-065 and, to the extent modified as I have proposed here, the Commission Order in this proceeding. Without such a clarification, my fear is the Commission will not have access to all of the data it needs to focus an examination in areas that may be critical to determining the extent to which OUSF distributions have been used to support basic telephone service at reasonable and affordable rates and whether or to what extent an OUSF is required on a going-forward basis.

Q. IS IT YOUR RECOMMENDATION THAT ENHANCEMENTS TO THE COMMISSION'S REPORTING REQUIREMENTS BE REVISITED AT SOME POINT IN THE FUTURE?

A. Yes. Although I recommend that these reporting requirements be made permanent, the purpose of these reports is to provide data to the Commission on an important topic. I acknowledge that the Commission's needs may change over time such that it has the data it needs to fully ascertain the extent to which OUSF distributions have been used to support basic local telephone service at reasonable and affordable rates. Hence, I also recommend that the Commission consider whether certain of the data in these reports is no longer useful for the intended purpose and that the Commission also contemplate whether additional data are necessary to achieve its objectives. The triennial review process discussed above is the most logical time for the Commission to solicit comment on these issues and provides a good opportunity for the Commission to update its reporting requirements to best suit its needs.

Q. PLEASE DISCUSS YOUR RECOMMENDATION THAT THESE REPORTING REQUIREMENTS BE EXTENDED TO ALL CARRIERS WHO RECEIVE OUSF DISTRIBUTIONS.

A. Non-rural and rural ILECs alike may serve end-user customers in high cost wire centers that qualify for OUSF support. To the extent carriers receive support, they should also accept responsibility for providing data the Commission needs to assess the extent to which support should be revised on a going-forward basis. If reporting requirements are extended to all carriers who receive distributions, the Commission should have the data it

needs within the triennial proceedings to address these critical issues and the Commission should not wait until the next triennial review process only to be told that carriers were not tracking - and cannot reach backward into their accounting and financial systems and records - to obtain and provide data the Commission requires. It is for this reason that I recommend all carriers receiving OUSF support be required to track and record these data and to provide the Commission annual reports as discussed herein.

Q. SHOULD THE COMMISSION BE CONCERNED THAT THE ENHANCED REPORTING REQUIREMENTS YOU HAVE DISCUSSED WILL BE OVERLY BURDENSOME?

A. No. Oregon rate payers contribute approximately $43 million per year to the OUSF in order to support basic telephone service at affordable rates throughout Oregon and, as recently noted by the FCC, fund "recipients must be held accountable for how they spend that money."[231] Ratepayers should be protected from waste, abuse and/or potentially contributing more than is required to meet the state's statutory objectives in this regard, particularly when the United States' economy is struggling to maintain an anemic growth rate, and unemployment rates remain high. Moreover, most, if not all, of the carriers who receive OUSF support also receive federal high cost and other support and, as such, are subject to the FCC's annual reporting requirements. Section 47 CFR §54.313 of the FCC's rules, for example, are more robust in many respects than the reporting requirements set forth in the Commission's Order No. 12-065 and discussed herein, yet the FCC implemented a number of new reporting requirements, concluding "the critical

[231] *USF/ICC Transformation Order*, ¶ 568.

benefit of such reporting - to ensure that statutory and regulatory requirements associated with the receipt of USF funds are met - outweighs the imposition of some additional time and cost on individual ETSs to make the necessary reports."[232]

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

[232] *USF/ICC Transformation Order*, at ¶ 575.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1481

EXHIBIT AHA-1

TO

DIRECT TESTIMONY
OF

AUGUST H. ANKUM, Ph.D.

ON BEHALF OF

THE OREGON CABLE TELECOMMUNICATIONS ASSOCIATION

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Biography

Dr. Ankum is a founding partner of QSI, serves as Senior Vice President, and is the firm's Chief Economist. Dr. Ankum is an economist and consultant specializing in both domestic and international telecommunications issues. Before co-founding QSI, Dr. Ankum worked directly with a number of the country's largest communications firms in his own practice. Prior to that, in 1996, he served as Senior Economist for MCI Telecommunications Corporation's Public Policy Division, and before that, in 1995, as a Manager in the Regulatory and External Affairs Division of Teleport Communications Group, Inc. (subsequently purchased by AT&T). While at MCI and TCG, Dr. Ankum provided advice and expert testimony regarding the economics of telecommunications and public policy before the FCC and in contested proceedings before state public utility commissions. Over the course of his career, Dr. Ankum has worked on virtually all issues pertaining to the introduction of competition in telecommunications markets. Dr. Ankum began his career in telecommunications with the Texas Public Utility Commission, where he served as the Commission Staff's Chief Telecommunications Economist before leaving in 1994.

Educational Background

Ph.D., Economics
University of Texas, Austin, Texas 1992

Master of Arts, Economics
University of Texas, Austin, Texas 1987

Bachelor of Arts, Economics
Quincy College, Quincy, Illinois 1982

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Professional Experience

QSI Consulting (1999 to Current)	Founding Partner and Senior Vice President
Ankum & Associates (1996 - 1999)	Founding partner and President
MCI (1995 - 1996)	Senior Economist
TCG (1994 - 1995)	Manager
Texas Office of Public Utility Commission (1987 – 1994)	Chief Economist, and Economist.

PROCEEDINGS BEFORE STATE PUBLIC UTILITY COMMISSIONS IN WHICH DR. ANKUM HAS FILED EXPERT WITNESS TESTIMONY

Before the Arizona Corporation Commission
Docket Nos. T-01051B-10-0194, et al.
Joint Notice and Application of Qwest Corporation, et al. and CenturyLink Communications, et al. for Approval of the Proposed Merger of Their Parent Corporations Qwest Communications International Inc. and CenturyTel, Inc.
On behalf of Integra Telecom, tw telecom, Level 3 Communications and PAETEC Business Services

Before the Arizona Corporation Commission
Docket No. T-01051B-11-0378
In the matter of the application of Qwest Corporation D/B/A CenturyLink QC ("CenturyLink") to classify and regulate retail local exchange services as competitive, and to classify and deregulate certain services as non-essential
On behalf of the United States Department of Defense and all Other Federal Executive Agencies

Before the California Public Utilities Commission
Consolidated Docket
Joint Application of AT&T Communications of California, Inc. (U 5002 C) and WorldCom, Inc. for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Switching in Its First Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050
On behalf of ATT and MCI

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Before the Public Utilities Commission of the State of Colorado
Docket No. 10A-350T
Joint Application of Qwest Communications International, Inc. and CenturyLink, Inc. for Approval of Indirect Transfer of Control of Qwest Corporation, et al.
On behalf of Integra Telecom, Level 3 Communications, PAETEC Business Services, Cbeyond Communications, and Covad Communications Company

Before the Public Utilities Commission of the State of Colorado
Docket No. 08F-259T
Qwest Communications Company, LLC, (Complainant), v. MCIMetro, XO Communications Services, Time Warner Telecom, Granite Telecommunications, Eschelon Telecom, Arizona DialTone, CAN Communications, Bullseye Telecom, Inc., ComTel Telecom Assets, LP, Earnest Communications, Inc., Level3 Communications, LLC, and Liberty Bell Telecom, LLC. (Respondents)
On behalf of Eschelon Telecom, XO Communications Services, Granite Telecommunications, and ACN Communication Services

Before the Public Utilities Commission of the State of Colorado
Docket No. 07A-211T
In the Matter of Qwest Corporation's Application, Pursuant to Decision Nos. C06-1280 and C07-0423, Requesting that the Commission Consider Testimony and Evidence to Set Costing and Pricing of Certain Network Elements Qwest Is Required to Provide Pursuant to 47 U.S.C. §§ 251(B) and (C)
On Behalf of CBeyond Communications, Comcast Phone of Colorado, Covad Communications Company, Integra Telecom, PAETEC Business Services, XO Communications Services

Before the Connecticut Department of Public Utility Control
Docket No. 02-05-17
DPUC Investigation of Intrastate Carrier Access Charges
On behalf of AT&T and MCI

Before the Connecticut Department of Public Utility Control
Docket Nos. 09-04-21, 08-12-04
DPUC Investigation into the Southern New England Telephone Company's Cost of Service Re: Reciprocal Compensation and Transit Services
On Behalf of the Connecticut Department of Utility Control

Before the Delaware Public Service Commission
PSC Docket No. 00-025
Petition of Focal Communications Corporation of Pennsylvania For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Bell Atlantic – Delaware, Inc.

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On behalf of Focal Communications Corporation of Pennsylvania

Public Service Commission of the District of Columbia
Formal Case No. 1040
In the Matter of the Investigation into Verizon Washington, D.C. Inc.'s Universal Emergency Number 911 Services Rates in the District of Columbia
Advisor to the Public Service Commission of the District of Columbia

Before the Federal Communications Commission
CC Docket No. 01-92
In the Matter of Developing a Unified Intercarrier Compensation Regime
On behalf of NuVox Communications

Before the Florida Public Utilities Commission
Docket No. 990649B-TP
Investigation into Pricing of Unbundled Network Elements
On behalf of AT&T Communications of the Southern States, MCImetro Access Transmission Services, MCI WorldCom Communications, and Florida Digital Network

Before the Florida Public Utilities Commission
Docket No. 030829-TP
In the Matter of Complaint of FDN Communications for Resolution of Certain Billing Disputes and Enforcement of UNE Orders and Interconnection Agreements with BellSouth Telecommunications, Inc.
On behalf of Florida Digital Network d/b/a FDN Communications

Before the Georgia Public Service Commission
Docket No. 6352-U
AT&T Petition for the Commission to Establish Resale Rules, Rates and terms and Conditions and the Initial Unbundling of Services
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 94-0048
Adoption of Rules on Line-Side Interconnection and Reciprocal Interconnection
On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission
Docket No. 94-0096
Proposed Introduction of a Trial of Ameritech's Customer First Plan in Illinois
On behalf of Teleport Communications Group, Inc.

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Before the Illinois Commerce Commission
Docket No. 94-0117
Addendum to Proposed Introduction of a Trial of Ameritech's Customer First Plan in Illinois
On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission
Docket No. 94-0146
AT&T's Petition for an Investigation and Order Establishing Conditions Necessary to Permit Effective Exchange Competition to the Extent Feasible in Areas Served by Illinois Bell Telephone Company
On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission
Docket No. 95-0315
Proposed Reclassification of Bands B and C Business Usage and Business Operator Assistance/Credit Surcharges to Competitive Status
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket 94-480
Investigation Into Amending the Physical Collocation Requirements of 83 Ill. Adm. Code 790
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 95-0458
Petition for a Total Local Exchange Wholesale Tariff from Illinois Bell Telephone Company d/b/a Ameritech Illinois and Central Telephone Company Pursuant to Section 13-505.5 of the Illinois Public Utilities Act
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 95-0296
Citation to Investigate Illinois Bell Telephone Company's Rates, Rules and regulations For its Unbundled Network Component Elements, Local Transport Facilities, and End office Integration Services
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 96-AB-006
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois

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On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 96-AB-007
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Central Telephone Company of Illinois
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 96-0486
Investigation into forward looking cost studies and rates of Ameritech Illinois for interconnection, network elements, transport and termination of traffic
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 98-0396
Phase II of Ameritech Illinois TELRIC proceeding
On behalf of MCIWorldCom

Before the Illinois Commerce Commission
Docket No. 00-0700
Illinois Commerce Commission On its Motion vs Illinois Bell Telephone Company Investigation into Tariff Providing Unbundled Local Switching with Shared Transport
On behalf of AT&T Communications of Illinois, Inc., and WorldCom, Inc.

Before the Illinois Commerce Commission
Docket No. 02-0864
In the Matter of: Illinois Bell Telephone Company, Filing to Increase Unbundled Loop and Nonrecurring Rates (Tariffs Filed December 24, 2002)
On Behalf of WorldCom, Inc., McLeodUSA Telecommunications Services, Inc., Covad Communications Company, TDS Metrocom, Allegiance Telecom of Illinois, RCN Telecom Services of Illinois, Globalcom, Z-Tel Communications, XO Illinois, Forte Communications, and CIMCO Communications

Before the Indiana Regulatory Commission
Cause No. 39948
In the matter of the Petition of MCI Telecommunications Corporation for the Commission to Modify its Existing Certificate of Public Convenience and Necessity and to Authorize the Petitioner to Provide certain Centrex-like Intra-Exchange Services in the Indianapolis LATA Pursuant to I.C. 8-1-2-88, and to Decline the Exercise in Part of its Jurisdiction over Petitioner's Provision of such Service, Pursuant to I.C. 8-1-2.6

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On behalf of MCI Telecommunications Corporation

Before the Indiana Regulatory Commission
Cause No. 40178
In the matter of the Petition of Indiana Bell Telephone company, Inc. For Authorization to Apply a Customer Specific Offering Tariff to Provide the Business Exchange Services Portion of Centrex and PBX Trunking Services and for the Commission to Decline to Exercise in Part Jurisdiction over the Petitioner's Provision of such Services, Pursuant to I.C. 8-1-2.6
On behalf of MCI Telecommunications Corporation

Before the Indiana Regulatory Commission
Cause No. 40603-INT-01
MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Indiana Bell Telephone Company d/b/a Ameritech Indiana
On behalf of MCI Telecommunications Corporation

Before the Indiana Regulatory Commission
Cause No. 40611
In the matter of the Commission Investigation and Generic Proceeding on Ameritech Indiana's Rates for Interconnection Service, Unbundled Elements and Transport and Termination under the Telecommunications Act of 1996 and Related Indiana Statutes
On behalf of MCI Telecommunications Corporation

Before the Indiana Regulatory Commission
Cause No. 40618
In the Matter of the Commission Investigation and Generic Proceeding on GTE's Rates for Interconnection, Service, Unbundled Elements, and Transport under the FTA 96 and related Indiana Statutes
On behalf of MCI Telecommunication Corporation

Before the Indiana Regulatory Commission
Cause No. 40611-S1
In the matter of the Commission Investigation and Generic proceeding on the Ameritech Indiana's rates for Interconnection, Unbundled Elements, and Transport and Termination Under the Telecommunications Act of 1996 and Related Indiana Statutes
On behalf of WorldCom, Inc., AT&T Communications of Indiana

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Before the Indiana Utility Regulatory Commission
Cause No. 42393
In the Matter of the Commission Investigation and Generic Proceeding of Rates and Unbundled Network Elements and Collocation for Indiana Bell d/b/a SBC Indiana Pursuant to the Telecommunications Act of 1996 and Related Indiana Statues
On Behalf of WorldCom, McLeodUSA Telecommunications Services, Covad Communications Company, Z-Tel Communications

Before the Iowa Utilities Board
Docket No. SPU-2010-0006
In RE: Qwest Communications International, Inc. and CenturyTel, Inc.
On behalf of PAETEC Business Services

Before the Iowa Utilities Board
Docket No: RPU-00-01
IN RE: US West Communications, Inc.
On behalf of McLeodUSA Telecommunications Services

Before the State of Maine Public Utilities Commission
Dockets Nos. 2007-611, 2008-214 through 2008-218, 2009-41-44.
CRC Communications of Maine, Inc., Investigation Pursuant to 47 U.S.C. §251(f)(1) Regarding CRC Communications of Maine's Request of Lincolnville, Telephone Company, UniTel, Inc., Oxford Telephone Company, Oxford West Telephone Company, Tidewater Telecom, Inc.
On behalf of CRC Communications and Time Warner Cable

Before the Maryland Public Utilities Commission
Case No. 8988
In the matter, The Implementation of the Federal Communications Commission's Triennial Review Order
On behalf of Cavalier Telephone

Before the Massachusetts Department of Energy and Transportation
D.P.U. 96-83
NYNEX/MCI Arbitration
On behalf of MCI Telecommunications Corporation

Before the Massachusetts Department of Energy and Transportation
Docket 01-20
Investigation into Pricing based on TELRIC for Unbundled Network Elements and Combinations of Unbundled Networks Elements and the Appropriate Avoided Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services
On behalf of Allegiance, Network Plus, El Paso Networks, and Covad Communications Company

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Before the Massachusetts Department of Energy and Transportation
Docket 01-03
Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Regulatory Plan to succeed Price Cap Regulation for Verizon New England, Inc. d/b/a Verizon Massachusetts' intrastate retail telecommunications services in the Commonwealth of Massachusetts
On behalf of Network Plus

Before the Massachusetts Department of Telecommunications and Energy
D.T.E. 03-60
Proceeding by the Department on its own Motion to Implement the Requirements of the Federal Communications Commission's Triennial Review Order Regarding Switching for Mass market Customers
On behalf of Conversent Communications of Massachusetts

Before the Massachusetts Department of Telecommunications and Cable
D.T.E. 06-61
Investigation by the department on its own Motion as to the Propriety of the rates and Charges Set Forth in the following tariff: M.D.T.E. No. 14, filed with the Department on June 16, 2006, to become Effective July 16, 2006, by Verizon New England, Inc. d/b/a Verizon Massachusetts
On behalf of Broadview networks, DSCI Corporation, InfoHighway Communications, Metropolitan Telecommunications of Massachusetts a/k/a MetTel, New Horizon Communications, and One Communications

Before the Massachusetts Department of Telecommunications and Cable
D.T.E. 07-9
Department Investigation into the Intrastate Access Rates of Competitive Local Exchange Carriers
On behalf of One Communications, PAETEC Communications, RNK Communications, and XO Communications Services

Before the Massachusetts Department of Telecommunications and Cable
D.T.E. 10-2
Petition of Choice One Communications of Massachusetts Inc., Conversent Communications of Massachusetts Inc., CTC Communications Corp. and Lightship Telecom LLC For Exemption from Price Cap on Intrastate Switched Access Rates as Established in D.T.C. 07-9
On behalf of One Communications

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Before the Michigan Public Service Commission
Case No. U-10647
In the Matter of the Application of City Signal, Inc. for an Order Establishing and Approving Interconnection Arrangements with Michigan Bell Telephone Company
On behalf of Teleport Communications Group, Inc.

Before the Michigan Public Service Commission
Case No. U-10860
In the Matter, on the Commission's Own Motion, to Establish Permanent Interconnection Arrangements Between Basic Local Exchange Providers
On behalf of MCI Telecommunications Corporation

Before the Michigan Public Service Commission
Case No. U-11280
In the Matter, on the Commission's Own Motion, to consider the total service long run incremental costs and to determine the prices for unbundled network elements, interconnection services, resold services, and basic local exchange services for Ameritech Michigan
On behalf of MCI Telecommunications Corporation

Before the Michigan Public Service Commission
Case No. U-11366
In the matter of the application under Section 310(2) and 204, and the complaint under Section 205(2) and 203, of MCI Telecommunications Corporation against Ameritech requesting a reduction in intrastate switched access charges
On behalf of MCI Telecommunications Corporation

Before the Michigan Public Service Commission
Case No. U-13531
In the matter, on the Commission's own motion, to review the costs of telecommunications services provided by SBC Michigan
On behalf of AT&T, Worldcom, McLeodUSA, and TDS Metrocom

Before the Michigan Public Service Commission
Case No. U-11831
In the Matter of the Commission's own motion, to consider the total service long run incremental costs for all access, toll, and local exchange services provided by Ameritech Michigan
On behalf of MCIWorldCom, Inc.

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Before the Michigan Public Service Commission
Case No. U-11830
In the matter of Ameritech Michigan's Submission on Performance Measures, Reporting, and Benchmarks, Pursuant to the October 2, 1998 Order in Case No. U-11654
On behalf of Covad Communications, McLeodUSA Telecommunications Services, LDMI Telecommunications, Talk America, and XO Communications Services

Before the Michigan Public Service Commission
MPSC Case No. U-14952
In the matter of the formal complaint of TDS Metrocom, LLC, LDMI, Telecommunications, Inc and XO Communications Services, Inc against Michigan Bell Telephone Company, d/b/a AT&T Michigan, or in the alternative, an application
On behalf of TDS Metrocom, LDMI Telecommunications, and XO Communications Services

Before the Minnesota Public Utilities Commission
Docket No. P-421, et al./PA-10-456
In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink
On behalf of Cbeyond Communications, Charter FiberLink, Integra Telecom, Level 3 Communications, PAETEC Business Services, TDS Metrocom, Orbitcom and POPP.com

Before the Minnesota Public Utilities Commission
PUC Docket No. P-442, 421, 3012 /M-01-1916
In Re Commission Investigation Of Qwest's Pricing Of Certain Unbundled Network Elements
On behalf of Otter Tail Telecom, Val-Ed Joint Venture d/b/a 702 Communications, McLeodUSA Telecommunications, Eschelon Telecom, and USLink

Before the Minnesota Public Utilities Commission
PUC Docket No . P-421/AM-06-713
OAH Docket No. 3-2500-17511-2
In the Matter of Qwest Corporation's Application for Commission Review of TELRIC rates Pursuant to 47 U.S.C. § 251
On behalf of Integra Telecom of Minnesota, McLeodUSA Telecommunications Services, POPP.com, Covad Communications Company, TDS Metrocom, and XO Communications

Before the Minnesota Public Utilities Commission
PUC Docket #P-421/CI-05-1996
OAH Docket No. 12-2500-17246-2
In the Matter of a Potential Proceeding to Investigate the Wholesale Rate Charged by Qwest
On behalf of Integra Telecom, McLeodUSA Telecommunications Services, POPP.com, Covad Communications Company, TDS Metrocom, and XO Communications

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Before the Montana Public Service Commission
Docket No. D2010.5.55
In the Matter of Joint Application of Qwest Communications International, Inc. and CenturyLink, Inc., for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company, LLC, and Qwest LD Corp.
On behalf of Integra Telecom

Before the New Jersey Board of Public Utilities
Petition of Focal Communications Corporation of New Jersey For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Bell Atlantic
On behalf of Focal Communications Corporation of New Jersey

Before the New Jersey Board of Public Utilities
Docket No. TO00060356
I/M/O the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic-New Jersey, Inc.
On behalf of WorldCom, Inc.

Before the New Jersey Board of Public Utilities
Docket No. TO03090705
In The Matter, The Implementation Of the Federal Communications Commission's Triennial Review Order
On behalf of Conversent Communications of New Jersey

Before the New Jersey Board of Public Utilities
Docket No. TX08090830
In the Matter of the Board's Investigation and review of Local Exchange Carrier Intrastate Access Rates
On behalf of One Communications, PAETEC Communications, US LEC of Pennsylvania, Level3 Communications, and XO Communications Services

Before The New Mexico Public Regulation Commission
Docket No. 96-307-TC
Brooks Fiber Communications of New Mexico, Inc. Petition for Arbitration
On behalf of Brooks Fiber Communications of New Mexico, Inc.

Before The New Mexico Public Regulation Commission
Utility Case No. 3495, Phase B
In the matter of the consideration of costing and pricing rules for OSS, collocation, shared transport, non-recurring charges, spot frames, combination of network elements and switching.
On behalf of the Commission Staff

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Before the New York Public Service Commission
Case Nos. 95-C-0657, 94-C-0095, 91-C-1174
Commission Investigation into Resale, Universal Service and Link and Port Pricing
On behalf of MCI Telecommunications Corporation

Before the New York Public Service Commission
Case 99-C-0529
In the Matter of Proceeding on Motion of the Commission To Reexamine Reciprocal Compensation
On behalf Of Cablevision LightPath, Inc.

Before the New York Public Service Commission
Case 98-C-1357
Proceeding on the Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements
On behalf of Corecomm New York, Inc.

Before the New York Public Service Commission
Case 98-C-1357
Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements
On behalf of MCIWorldCom

Before the State Of New York Public Service Commission
Case 02-C-1425
In The Matter, Proceeding on Motion of the Commission to Examine the Processes, and Related Costs of Performing Loop Migrations on a More Streamlined (e.g., Bulk) Basic
On behalf of Conversent Communications of New York, LLC

Before the Public Utilities Commission of Ohio
Case No. 96-888-TP-ARB
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Ameritech Ohio
On behalf of MCI Telecommunications Corporation

Before the Public Utilities Commission of Ohio
Case No. 96-922-TP-UNC.
In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements, and Reciprocal Compensation for Transport and Termination of Local Telecommunications Traffic
On behalf of MCI Telecommunications Corporation

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Before the Public Utilities Commission of Ohio
Case No. 00-1368-TP-ATA
In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements, and Reciprocal Compensation for Transport and Termination of Local Telecommunications Traffic. Case No. 96-922-TP-UNC and In the Matter of the Application of Ameritech Ohio for Approval of Carrier to Carrier Tariff
On behalf of MCIWorldCom and AT&T of the Central Region

Before the Public Utilities Commission of Ohio
Case No. 97-152-TP-ARB
In the Matter of the Petition of MCI Telecommunications Corporation for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Cincinnati Bell Telephone Company
On behalf of the MCI Telecommunications Corporation

Before the Public Utility Commission of Ohio
Case No. 02-1280-TP-UNC
In the Matter of the Review of SBC Ohio's TELRIC Costs for Unbundled Network Elements
On Behalf of MCImetro Access Transmission Services, McLeodUSA Telecommunications Services, Covad Communications Company, XO Communications, and NuVox Communications

Before the Public Utility Commission of Ohio
Case No. 08-45-TP-ARB
In the Matter of the Petition of Communication Options, Inc. for Arbitration of Interconnection Rates, Terms and Conditions and Related Arrangements with United Telephone Company of Ohio d/b/a Embarq Pursuant to Section 252(b) of the Telecommunications Act of 1996
On behalf of Communications Options, Inc.

Before the Oregon Public Utility Commission
Docket UM 1484
In the Matter of CenturyLink, Inc. Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.
On behalf of Covad Communications Company, Charter FiberLink, Integra Telecom, Level 3 Communications and tw telecom

Before the Pennsylvania Public Utility Commission
Docket No. I-00940035
In Re: Formal Investigation to Examine Updated Universal Service Principles and Policies for telecommunications Services in the Commonwealth Interlocutory order, Initiation of Oral Hearing Phase
On behalf of MCI Telecommunications Corporation

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Before the Pennsylvania Public Utility Commission
Docket No. M-0001352
Structural Separation of Verizon
On behalf of MCI WorldCom

Before the Puerto Rico Telecommunications Regulatory Board
Docket No. 97-0034-AR
Petition for Arbitration Pursuant to 47 U.S.C. & (b) and the Puerto Rico Telecommunications Act of 1996, regarding Interconnection Rates Terms and Conditions with Puerto Rico Telephone Company
On behalf of Cellular Communications of Puerto Rico, Inc.

Before the Public Service Commission of South Carolina
Dockets Nos. 2008-325-C, 2008-326-C, 2008-327-C, 2008-328-C, and 2008-329-C
In Re: Docket No. 2008-325-C - Application of Time Warner Cable Information Services (South Carolina), LLC d/b/a Time Warner Cable to Amend its Certificate of Public Convenience and Necessity to Provide Telephone Services in the Service Area of Farmers Telephone Cooperative, Inc. and for Alternative Regulation
On behalf of Time Warner Cable

Before the Public Utility Commission of South Dakota
Docket TC07-117
In the Matter of the Petition of Midcontinent Communications for the Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company-Specific Cost-Based Switched Access Rates
On Behalf of Midcontinent Communications, Inc.

Before the State of Rhode Island and Providence Plantations Public Utilities Commission
Docket No. 2252
Comprehensive Review of Intrastate Telecommunications Competition
On behalf of MCI Telecommunications Corporation

Before the State of Rhode Island and Providence Plantations Public Utilities Commission
Docket Nos. 3550 and 2861
In The Matter, Implementation of the Requirements of the FCC's Triennial Review Order ("TRO")
On behalf of Conversent Communications of Rhode Island, LLC

Before the Tennessee Public Service Commission
Docket No. 96-00067
Avoidable Costs of Providing Bundled Services for Resale by Local Exchange Telephone Companies
On behalf of MCI Telecommunications Corporation

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Before the Public Utility Commission of Texas
Docket No. 7790
Petition of the General Counsel for an Evidentiary Proceeding to Determine Market Dominance
On behalf of the Public Utility Commission of Texas

Before the Public Utility Commission of Texas
Docket No. 8665
Application of Southwestern Bell Telephone Company for Revisions to the Customer Specific Pricing Plan Tariff
On behalf of the Public Utility Commission of Texas

Before the Public Utility Commission of Texas
Docket No. 8478
Application of Southwestern Bell Telephone Company to Amend its Existing Customer Specific Pricing Plan Tariff: As it Relates to Local Exchange Access through Integrated Voice/Data Multiplexers
On behalf of the Public Utility Commission of Texas

Before the Public Utility Commission of Texas
Docket No. 8672
Application of Southwestern Bell Telephone Company to Provide Custom Service to Specific Customers
On behalf of the Public Utility Commission of Texas

Before the Public Utility Commission of Texas
Docket No. 8585
Inquiry of the General Counsel into the Reasonableness of the Rates and Services of Southwestern Bell Telephone Company
On behalf of the Public Utility Commission of Texas

Before the Public Utility Commission of Texas
Docket No. 9301
Southwestern Bell Telephone Company Application to Declare the Service Market for CO LAN Service to be Subject to Significant Competition
On behalf of the Public Utility Commission of Texas

Before the Public Utility Commission of Texas
Docket No. 10382
Petition of Southwestern Bell Telephone Company for Authority to Change Rates
On behalf of the Public Utility Commission of Texas

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Before the Public Utility Commission of Texas
Docket No. 14658
Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Approval of Flat-rated Local Exchange Resale Tariffs Pursuant to PURA 1995 Section 3.2532
On behalf of the Office of Public Utility Counsel of Texas

Before the Public Utility Commission of Texas
Docket No. 14658
Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Interim Number Portability Pursuant to Section 3.455 of the Public Utility Regulatory Act
On behalf of the Office of Public Utility Counsel of Texas

Before the Public Utility Commission of Texas
Docket Nos. 16226 and 16285
Application of AT&T Communications for Compulsory Arbitration to Establish an Interconnection Agreement Between AT&T and Southwestern Bell Telephone Company, and Petition of MCI for Arbitration under the FTA96
On behalf of AT&T and MCI

Before the Public Utility Commission of Texas
Docket No. 21982
Proceeding to examine reciprocal compensation pursuant to section 252 of the Federal Telecommunications of 1996
On behalf of Taylor Communications

Before the Public Utility Commission of Texas
Docket No. 25834
Proceeding on Cost Issues Severed from PUC Docket 24542
On behalf of AT&T and MCIMetro

Before the Public Utility Commission of Texas
PUC Docket No. 31831
Staff's Petition to Determine whether Markets of Incumbent Local Exchange Carriers (ILECs) Should Remain Regulated
On behalf of the Office of Public Utility Counsel of Texas

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Before the Public Utility Commission of Texas
PUC Docket No. 34723
Petition for Review of Monthly Per-Line Support Amounts from the Texas High Cost Universal Service Plan Pursuant to PURA § 56.031 and P.U.C. Subst. R. 26.403
On behalf of the Office of Public Utility Counsel of Texas

Before the Public Utility Commission of Texas
Docket No. 33323
Petition of UTEX Communications Corporation for Post-Interconnection Dispute resolution with AT&T Texas and petition of AT&T Texas for Post Interconnection Dispute Resolution with UTEX Communications Corporation
On behalf of UTEX Communications Corporation

Before the Public Utility Commission of Texas
SOAH Docket No. 473-07-1365
PUC Docket No. 33545
Application of McLeodUSA Telecommunications Services, Inc. for Approval of Intrastate Switched Access rates Pursuant to PURA Section 52.155 and PUC Subst. R. 26.223
On behalf of McLeodUSA Telecommunications Services

Before the Utah Public Service Commission
Docket No. 10-049-16
Joint Application of Qwest Communications International, Inc. and CenturyTel, Inc. for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company, LLC and Qwest LD Corporation
On behalf of Integra Telecom, Level 3 Communications, PAETEC Business Services and tw telecom

Before the Utah Public Service Commission
Docket No. 01-049-85
In the Matter of the Determination of the Costs Investigation of the Unbundled Loop of Qwest Corporation, Inc.
On behalf of AT&T and WorldCom

Before the Public Service Commission of Utah
Docket No. 09-049-37
In the Matter of the Complaint of Qwest Corporation against McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services
On behalf of McLeodUSA Telecommunications Services

August H. Ankum, Ph.D.
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Before the Vermont Public Service Board
Docket No. 5713
Investigation into NET's tariff filing re: Open Network Architecture, including the Unbundling of NET's Network, Expanded Interconnection, and Intelligent Networks
On behalf of MCI Telecommunications Corporation

Before the Washington Utilities and Transportation Commission
Docket No. UT-100820
In the matter of Joint Application of Qwest Communications International, Inc. and CenturyTel, Inc. for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company LLC, and Qwest LD Corp.
On behalf of Cbeyond Communications, Covad Communications Company, Integra Telecom, Level 3 Communications, PAETEC Business Services and tw telecom

Before the Washington Utilities and Transportation Commission
Docket No. UT-090892
Qwest Corporation (Complainant) v. McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services (Respondent)
On Behalf of McLeodUSA Telecommunications Services

Before the Public Service Commission of Wisconsin
Cause No. 05-TI-138
Investigation of the Appropriate Standards to Promote Effective Competition in the Local Exchange Telecommunications Market in Wisconsin
On behalf of MCI Telecommunications Corporation

Before the Public Service Commission of Wisconsin
Docket 670-TI-120
Matters relating to the satisfaction of conditions for offering interLATA services (Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin)
On behalf of MCI Telecommunications Corporation

Before the Public Service Commission of Wisconsin
Docket Nos. 6720-MA-104 and 3258-MA-101
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin
On behalf of MCI Telecommunications Corporation

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Before the Public Service Commission of Wisconsin
Docket No. 05-TI-349
Investigation Into The Establishment of Cost-Related Zones For Unbundled Network Elements
On behalf of AT&T Communications of Wisconsin, McLeodUSA Telecommunications Services, TDS Metrocom, and Time Warner Telecom

Before the Public Service Commission of Wisconsin
Docket No. 6720-TI-161
Investigation into Ameritech Wisconsin's Unbundled Network Elements
On behalf of AT&T Communications of Wisconsin, WorldCom, Rhythms Links, KMC Telecom, and McLeodUSA Telecommunications Services

AFFIDAVITS AND DECLARATIONS SUBMITTED TO THE FEDERAL COMMUNICATIONS COMMISSION

Before the Federal Communications Commission
File No. EB-04-MD-006
EarthLink, Inc. (Complainant) v. SBC Communications Inc., SBC Advanced Solutions, Inc. (Defendants)
On behalf of Earthlink, Inc.

Before the Federal Communications Commission
CC Docket No. 04-223
In the Matter of Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. §160(c) in the Omaha Metropolitan Statistical Area
On behalf of McLeodUSA Telecommunications Services

Before the Federal Communications Commission
CC Docket No. 01-92
In the Matter of Developing a Unified Intercarrier Compensation Regime
On behalf of NuVox Communications

Before the Federal Communications Commission
CC Docket No. 01-92
In the Matter of Developing a Unified Intercarrier Compensation Regime
On Behalf of Cavalier Telephone, Inc.

Before the Federal Communications Commission
WC Docket No. 05-337 CC Docket No. 96-45 WC Docket No. 03-109 WC Docket No. 06-122 CC Docket No. 99-200 CC Docket No. 96-98 CC Docket No. 01-92 CC Docket No. 99-68 WC Docket No. 04-36

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In the Matter of High-Cost Universal Service Support Federal-State Joint Board on Universal Service Lifeline and Link Up Universal Service Contribution Methodology, Numbering Resource Optimization Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, Developing a Unified Intercarrier Compensation Regime, Intercarrier Compensation for ISP-Bound Traffic IP-Enabled Services
On behalf of PAETEC

Before the Federal Communications Commission
WC Docket No. 07-97
In the Matter of Petitions of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Denver, Minneapolis-St. Paul, Phoenix, and Seattle Metropolitan Statistical Areas
On behalf of PAETEC

Before the Federal Communications Commission
WC Docket No. 09-223
In the Matter of: Cbeyond, Inc. Petition for Expedited Rulemaking to Require Unbundling of Hybrid, FTTH, and FTTC Loops Network Elements Pursuant to 47 U.S.C. §251(c)(3) of the Act
On behalf of Covad Communications Company

Before the Federal Communications Commission
GN Docket Nos. 09-47, 09-51, 09-137
Comments Sought on Broadband Study Conducted by the Berkman Center for Internet and Society, NBP Public Notice #13
On behalf of Covad Communications Company

MISCELLANEOUS

U.S. District Court, Northern District of Illinois Eastern Division
Case No. 05-C-6250
Cingular Wireless, LLC, a Delaware Limited Liability Company V Omar Ahmad
On behalf of Omar Ahmad

Ingham County Circuit Court
Case No. 04-689-CK
T&S Distributors, LLC Custom Software, Inc., Arq, Inc., Absolute Internet, Inc., CAC Medianet, Inc, ACD Telecom, Inc., and Telnet Worldwide, Inc. V. Michigan Bell Telephone Company, d/b/a SBC Michigan
On behalf of ACD Telecom, and Telnet Worldwide

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United States District Court, Northern District of Texas Dallas Division
Civil Action No. 09-CV-1268
Southwestern Bell Telephone Company, et. al. Plaintiffs, vs. IDT Telecom, Inc., Entrix Telecom, Inc., and John Does 1-10, Defendants.
On behalf of IDT

Before the Michigan House Committee on Energy and Technology
Presentation on House Bills 4257
On behalf of Michigan Internet and Telecommunications Alliance

Before Illinois Commerce Commission
Docket 11-0710
In re Proposed Contracts between Chicago Clean Energy, Inc. and Ameren Illinois Company and Between Chicago Clean Energy, Inc. and Northern Illinois Gas Company for the Purchase and Sale of Substitute Natural Gas Under the Provisions of Illinois Public Act 97-0096.
On behalf of Illinois Power Agency
White Paper: *Chicago Clean Energy Coke/Coal Gasification to SNG Project, Analysis of Return on Equity per Section 9-220(h-3)(1)(B) of Public Act 97-96*, October 12, 2011
Submitted to the Illinois Commerce Commission on behalf of Illinois Power Agency

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1481

EXHIBIT AHA-3

TO

DIRECT TESTIMONY
OF

AUGUST H. ANKUM, Ph.D.

ON BEHALF OF

THE OREGON CABLE TELECOMMUNICATIONS ASSOCIATION

PUBLIC

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1481

EXHIBIT AHA-3

TO

DIRECT TESTIMONY
OF

AUGUST H. ANKUM, Ph.D.

ON BEHALF OF

THE OREGON CABLE TELECOMMUNICATIONS ASSOCIATION

PUBLIC

This Tab contains the source data for the per line IAS Support per Line and source link to IAS zones per USAC.

USAC FCC Filing for 4Q 2011, Appendix "HC13 IAS Proj Per Line 4Q2011"

Source: http://www.usac.org/about/tools/fcc/filings/2011/q4.aspx

OR rows

State	SAC	Study Area Name	Zone 1		Zone 2		Zone 3		Zone 4	
			Res & Single Line Business	Multi-line Business	Res & Single Line Business	Multi-line Business	Res & Single Line Business	Multi-line Business	Res & Single Line Business	Multi-line Business
OR	532400	UTC OF THE NW - OR	$ -	$ -	$ -	$ -	$ 2.35	$ 0.51	$ 16.06	$ 14.23
OR	532416	FRONTIER COMMUNICATIONS NORTHWEST, INC.	$ 2.35	$ 0.29	$ 5.91	$ 3.47	$ 12.65	$ 10.21	$ -	$ -
OR	533401	CITIZENS-FRONTIER-OR	$ 2.96	$ -	$ 2.96	$ -	$ 2.96	$ -	$ 2.96	$ -
OR	535163	QWEST CORP-OR	$ -	$ -	$ 1.91	$ -	$ 10.47	$ 8.29	$ -	$ -

OCTA Summary Table of the IAS per Line (for Lookup):

SAC	LEC		Res & Single Line Business
535163	QWEST CORP-OR	LEC+Zone	$ -
535163	QWEST CORP-OR	Q1	$ 1.91
535163	QWEST CORP-OR	Q2	$ 10.47
532416	FRONTIER COMMUNICATIONS NORTHWEST, INC.	Q3	$ 2.35
532416	FRONTIER COMMUNICATIONS NORTHWEST, INC.	VZ1	$ 5.91
532416	FRONTIER COMMUNICATIONS NORTHWEST, INC.	VZ2	$ 12.65
		VZ3	

Source for IAS Zone by WC:

http://www.usac.org/hc/tools/wctozone/IASWCtoZoneSearch.aspx

CERTIFICATE OF SERVICE
UM 1481

I hereby certify that on December 10, 2012, the foregoing **DIRECT TESTIMONY OF AUGUST H. ANKUM AND EXHIBITS ON BEHALF OF OREGON CABLE TELECOMMUNICATIONS ASSOCIATION** was sent by UPS Overnight Mail to the Oregon Public Utilities Commission, 550 Capitol Street NE, #215, Salem OR 97308-2148, emailed to puc.filingcenter@state.or.us, and served on the following persons by email:

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