CenturyLink™

January 30, 2013

Oregon Public Utility Commission
Filing Center
550 Capitol St., NE, Suite 215
P.O. Box 2148
Salem, OR 97308-2148

RE: UM 1481 – Oregon Universal Service Fund

Dear:

Enclosed for filing please find an original and five copies of the Reply Testimony of John M. Felz on behalf of CenturyTel of Oregon, Inc., CenturyTel of Eastern Oregon, Inc., United Telephone Company of the Northwest and Qwest Corporation, along with a certificate of service.

If you have any questions or concerns regarding these responses, please contact me.

Sincerely,

Carla M. Butler

Carla M. Butler
Paralegal

Enclosures
cc: Service List

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BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UM 1481

In the Matter of

CenturyTel of Oregon, Inc.
CenturyTel of Eastern Oregon, Inc.
United Telephone Company of the Northwest
Qwest Corporation

Staff investigation of the Oregon Universal Service Fund

REPLY TESTIMONY OF

JOHN M. FELZ

ON BEHALF OF

CENTURYTEL OF OREGON, INC.
CENTURYTEL OF EASTERN OREGON, INC.
UNITED TELEPHONE COMPANY OF THE NORTHWEST
QWEST CORPORATION

Q. Please state your name and business address.

A. My name is John M. Felz and my business address is 5454 W. 110th Street, Overland Park, KS.

Q. Who is your employer and what is your position?

A. I am employed by CenturyLink as Director – State Regulatory Operations.

Q. Are you the same John M. Felz who supplied opening testimony in this proceeding on December 10, 2012?

A. Yes.

I. Introduction

Q. What is the purpose of your reply testimony?

A. The purpose of my testimony is to respond to the opening testimony of other parties in this proceeding. I will specifically address certain recommendations for changes to the OUSF set forth in the opening testimonies of witnesses Roger White on behalf of Commission Staff, Don Price on behalf of Verizon and Dr. August H. Ankum, Ph.D. on behalf of the Oregon Cable Telecommunications Association (OCTA).

Q. Could you briefly review the issues your reply testimony will address?

A. Yes. The opening testimonies of Staff, Verizon and OCTA each set forth one-sided recommendations for changes to the OUSF that each result in reductions in support, with little regard for maintaining universal service in high cost areas. Staff's recommendations call for changes to the costs based on a proposed allocation to broadband services, interactive changes to the surcharge rate and the benchmark, and implementation of an annual demonstration of need for OUSF support based on projected investments and expenses. Verizon recommends the Commission eliminate OUSF support in areas where voice service is available from an unsubsidized competitor and implement changes to the benchmark. OCTA's principal recommendations call for the Commission to eliminate OUSF support in areas where an unsubsidized competitor provides voice service, apportion costs between voice and broadband services, modify the benchmark and adjust OUSF support based on changes to federal support mechanisms. These recommendations, while they certainly would result in reductions to the size of the OUSF, do not consider the impacts to Oregon consumers, particularly those in high cost areas.

Q. What would the impacts of these recommendations be on CenturyLink's OUSF support?

A. Many of the proposed changes of Verizon and OCTA, either as stand-alone adjustments or collectively would result in complete elimination of CenturyLink's OUSF support which totaled approximately $20.2 million in 2012. Staff's recommendations are not completely quantified, but would at least result in a reduction in support of $7M or 45% of the support for CenturyLink's Qwest operating company.

Q. What are the implications of a significant reduction or elimination of support for CenturyLink and its customers?

A. Currently CenturyLink operates in an environment where it has carrier of last resort (COLR) obligations and must serve all customers who request service throughout its service territory regardless of whether it is economic to do so, including in rural areas that are more costly to serve. In addition, CenturyLink alone is obligated to meet Commission established service quality standards for installation and repair of basic telephone service within its service territory. However, there are areas in CenturyLink's Oregon service territory where the provision of basic telephone service, consistent with its COLR and other regulatory obligations, at a reasonable and affordable rate is not economically viable without support. To date, the Legislature and the Commission have recognized the impact of the universal service obligation on carriers like

CenturyLink and their ability to provide service at affordable rates and have ensured the viability of the OUSF to support the delivery of Oregon's universal service policy. However, significant reduction or elimination of OUSF support as advocated by some parties in this proceeding would necessarily require adjustments to COLR obligations and Commission service quality requirements and pricing restrictions. CenturyLink would have to consider reducing investment in high-cost areas and/or increasing prices to charge compensatory rates, neither of which are good results for customers.

Q. How do you respond to Verizon and OCTA's testimony that current OUSF funding is discriminatory in favor of ILECs?

A. Mr. Price on behalf of Verizon argues that current OUSF support provided to ILECs ". . . disadvantages other firms that must compete against the companies that receive state subsidies.[1]" Dr. Ankum on behalf of OCTA makes a similar claim stating that current OUSF support ". . . 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[2]." CenturyLink recognizes that competition has increased

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[1] Opening Testimony of Don Price on Behalf of Verizon, Verizon/100, Price/23, lines 13-14

[2] Opening Testimony of August H. Ankum, Ph.D. on Behalf of the Oregon Cable Telecommunications Association, OCTA/100, Ankum/73, lines 7-9

dramatically in Oregon. But it is precisely because of the effects of competition that an explicit universal service fund is needed to help maintain reasonable and affordable rates in high cost areas. Any rationally behaving carrier will not serve or invest in high cost areas without support sufficient to make such service or investment profitable. Only ILECs are charged with COLR responsibilities to provide local telephone service throughout their designated service area, including sparsely populated areas that are uneconomic to serve without USF support. And competition has eroded or eliminated an ILEC's ability to shift profits from lower cost, generally more densely populated competitive areas, so that it can charge below cost rates in high cost areas. Unless competitive carriers are willing to accept COLR obligations and provide service in all areas of the ILECs service area, OUSF support should continue to be directed to ILECs to allow continued provision of universal service to high cost areas in Oregon. In addition, because the OUSF support is based on average costs either at the company or wire center level (depending on the classification of the company as either rural or non-rural), explicit support required for the high cost areas is understated and by definition depends on implicit support from lower cost areas. As I noted above, that source of implicit support has dwindled, at best, or completely disappeared. Either way, Verizon and OCTA's claim of discrimination is simply false because they do not face the same obligations as

CenturyLink and without the average support for all lines, ILECs cannot hope to recover the cost of delivering universal service.

Q. Dr. Ankum claims that the benefits of the OUSF have gone to the incumbent carriers rather than to customers.[3] How do you respond to this criticism?

A. Dr. Ankum's position ignores the revenue neutral requirement of the OUSF, which requires carriers to offset the support they receive with reductions in other rates that provide implicit support. For CenturyLink's Qwest entity, business rates were reduced by nearly $27M when Qwest began receiving OUSF support and those rate reductions have remained in place. For CenturyTel and United, intrastate access rates were reduced to offset OUSF support – most recently in 2012. These access reductions to interexchange carriers allowed those carriers to pass along the savings to their residential and business customers in the form of lower long distance rates. The customers in the high-cost areas benefit from the OUSF because it provides carriers the support necessary to provide basic telephone service at affordable and reasonable rates.

[3] OCTA/100, Ankum/4, lines 10-11

II. Issues with Staff's Recommendations

Q. What are Staff's proposed changes to the OUSF?

A. Staff proposes various changes to the OUSF that are clearly outcome based – they appear to be designed principally to reduce the fund size. Specifically, Staff recommends the following changes as outlined in the testimony of Staff witness Roger White which would result in reductions in OUSF support:

- The revenue requirements upon which OUSF support calculations are based would be reduced to reflect the sharing of costs among the services utilizing the network.

- A new benchmark would be introduced to establish which areas would be classified as high cost.

- The costs, adjusted for the proposed allocations to other services, and the revised benchmark, would be used to determine maximum revised OUSF support levels.

- Companies would be required to submit proposals and documentation for OUSF support they would plan to use in the following year.

Q. What is Staff's recommendation regarding the determination of costs upon which OUSF support calculations are based?

A. Staff recommends that there be no changes to the underlying models used to calculate both the rural and non-rural company support. However, Staff does recommend that the network costs currently used for OUSF support calculations be allocated among various services.

Q. What is Staff's recommendation related to allocation of network costs?

A. Staff proposes that the costs of a network that supports the provision of multiple services be allocated equally among the services being offered.

> "A simple method of allocating joint network costs among broadband services and basic local service is to divide up the cost of the network equally among the services. If there were three services being offered, then basic local service would get one third of the cost.[4]"

Mr. White further explained in response to discovery that the three services referred to TV, internet, and phone service[5].

Q. Do you have concerns with this proposal?

A. Yes. First, the current costs that Staff proposes to allocate do not reflect the total costs of a network capable of providing the advanced broadband and television services contemplated under Staff's allocation proposal. Second, the equal allocation methodology Staff proposes is arbitrary. Staff has not presented any evidence that its methodology would result in a cost allocation that reflects the true costs of each service being provided. The stakes are simply too high for

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[4] Opening Testimony of Staff Witness Roger White, Staff/100/White 16, lines 4-7
[5] See Exhibit CTL/201, Staff Response to CenturyLink's Data Request CTL-Staff 5

consumers and telecommunications providers in this case to employ such a methodology.

Q. Please explain your first concern with Staff's cost allocation proposal.

A. With respect to the costs for the non-rural companies, those costs were developed in Docket UM 731 based on forward looking cost studies conducted in 2000. Those forward looking cost studies were conducted to estimate the costs associated with only the provision of basic telephone service and did not reflect all the network investments or operating expenses needed for a network capable of providing advanced broadband services. For example, the network did not include costs of DSLAMs, network cards, routers, other network components or Internet connectivity needed to support the provision of broadband services. Further, the network backbone in those cost studies was not sized to support the significant transport and backhaul facilities that are needed to support a network capable of providing broadband services. Therefore, it is inappropriate to allocate network costs to services other than basic telephone service when those cost estimates never included the total costs of a network capable of providing broadband services. In response to discovery, Staff acknowledged that the cost model used to develop costs in UM 731 ". . . was not designed to produce a network capable of DS1 speeds or greater."[6]

Q. What concerns do you have with Staff's cost allocation proposal for the cost studies that are used to determine support for CenturyLink's rural companies, CenturyTel and United?

A. The costs per line that form the basis for OUSF support for CenturyTel and United reflect an embedded cost approach following FCC jurisdictional separations rules. These are the same separations rules that the Commission utilizes when determining the intrastate revenue requirements for CenturyTel and United who are rate-of-return regulated. However, Staff proposes to modify those separations rules, imposing an arbitrary allocation of costs to broadband, thereby reducing the OUSF support. The Commission should not support adoption of differing jurisdictional separations methodologies between what is used for regulating rate of return companies and what is used for determining OUSF support.

Q. Please explain your second concern with Staff's cost allocation proposal.

[6] See Exhibit CTL/202,Staff Response to CenturyLink's Data Request CTL-Staff 4

A. Even if Staff's recommendation for allocating network costs to broadband or other services were appropriate, which CenturyLink asserts is not the case, the proposed methodology of simply allocating the costs equally among the services being provisioned is overly simplistic and arbitrary. A key principle in cost determinations involves assigning costs based on cost causation factors. In other words, it is necessary to identify the key factors that drive the actual costs, and capture information to either specifically identify those costs, or to apportion costs based on a methodology that relates to those key cost drivers. Staff does not show that their proposed equal allocation methodology bears any relationship between the actual network costs of providing voice services and broadband services.

Q. What is Staff's proposal for modifying the benchmark?

A. Staff proposes to first establish a target range for the OUSF surcharge rate and then establish a benchmark that will allow the surcharge to be in that range. Staff's initial proposal would be to establish a surcharge rate between 6% and 6.5% which would generate a fund size of approximately $33 million.[7] Based on this targeted surcharge level, the Staff has proposed an initial benchmark of $30.[8]

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[7] Staff, Staff/100, White /3, lines 9 through 13
[8] See Exhibit CTL/203, Staff Response to CenturyLink Data Request, CTL-Staff 3

Q. Is Staff's proposal for setting the benchmark to achieve a targeted surcharge rate consistent with the framework for the OUSF?

A. No. The framework for the OUSF provides that funding is to be computed based on the difference between the cost of providing basic telephone service and the benchmark. Further, while the Commission has the authority to periodically review and adjust the benchmark, the Commission is also charged with limiting the difference between the price for basic telephone service and the benchmark. Staff's proposal to essentially reverse the calculation methodology for the OUSF would introduce uncertainty into the process of setting OUSF support amounts for carriers. Further, Staff's proposed approach would require continued monitoring and at least annual updates to the benchmark. For these reasons, the Commission should not adopt this approach to setting the benchmark to achieve a targeted surcharge rate.

Q. What concerns do you have with the Staff's proposed initial benchmark of $30?

A. Staff indicates that its proposed initial benchmark of $30 was developed by adjusting the existing $21 benchmark for inflation. While Staff proposes to index the benchmark to reflect the impacts of inflation, it does not propose similar treatment to index the costs for the companies to reflect those same inflation considerations. If inflation considerations are appropriate for adjusting the benchmark, they are equally as appropriate for adjusting the underlying costs upon which the benchmark was initially derived and must be included.

Q. Did Staff provide information in its testimony concerning the impacts of its proposals on CenturyLink's OUSF support amounts?

A. Not in its testimony. However, in response to discovery, Staff provided a schedule which demonstrates the impact of only its proposed change to the benchmark on the OUSF support for CenturyLink's Qwest entity. The impact would be a reduction in annual support of over $7 million or a 45% reduction. As I understand it, Staff's analysis did not propose a reduction in the support for CenturyLink's rural companies, United and CenturyTel. However, as CenturyLink understands Staff's proposals, the allocation of network costs to other services could further reduce CenturyLink's OUSF support for each of its companies, although Staff did not quantify the impact of their cost allocation proposal.

Q. Does Staff's proposal include another mechanism for adjusting a company's OUSF support?

A. Yes. Staff is proposing to establish a process that would require companies to provide the Commission with estimates of the support they would use in the coming year. A company's support could be further reduced from the calculated support levels if it did not demonstrate a "need" for the entire calculated amount in the annual documentation provided to the Commission.

Q. Does CenturyLink have concerns with this proposal from Staff?

A. Yes. The proposal would essentially change the framework for the OUSF from a fund that provides specific and predictable support to ensure the provision of basic telephone service at reasonable and affordable rates to a subjective project level grant of support. Companies have already demonstrated a need for the support based on a comparison of the costs to provide basic telephone service and the benchmark. Requiring a detailed project level plan of investments and expenses for the coming year would likely require significant resources of each company to develop the plan and for the Commission Staff to review the plan. And it is entirely possible that the wire centers receiving OUSF support may not require significant investments or service improvements in a particular year. However, OUSF support would still be justified if the support were used only to offset the high cost of maintaining the network and providing customer service and support in rural areas. Furthermore, the proposed methodology for distribution of OUSF support would run counter to one of the fundamental universal service principles established in the Telecom Act – namely that universal service should be "preserved and advanced" through "specific, predictable and sufficient Federal and State mechanisms."[9]

Q. Does Staff's proposal to change the funding to an annual demonstration of need represent a fundamental change from how OUSF support was required to be used?

A. Yes. Carriers receiving OUSF support have been required to "use" the funds to reduce implicit support that existed in the carriers' rate structures. Rates for business services (non-rural companies) and intrastate access charges (rural companies) were reduced to offset the OUSF support. The Staff's proposal would eliminate the requirement to "use" the OUSF support for revenue neutral rate reductions and instead require the OUSF support be directed to making improvements in the network and supporting maintenance expenses in high cost areas. But Staff's proposal ignores the fact that the previously required rate reductions to offset OUSF support are still in place and there is no additional funding contemplated in its proposal that can be directed to the specific network

[9] Telecommunications Act of 1996, Pub. LA. No. 104-104, 110 Stat. 56 (1996), Section 254(b)(5).

improvements or support for high maintenance expenses. In fact, Staff's other proposals are designed to reduce the size of the fund.

Q. But doesn't Staff recommend that the non-rural companies be allowed to increase the rates for business services that were previously reduced to offset the OUSF support received?[10]

A. Yes. But there are several concerns with this proposal from Staff. First, Staff still expects that any rate increases would have to follow the normal approval requirements before being implemented. This proposal from Staff essentially provides no new flexibility to the companies. Second, Staff's proposal to allow increases to business rates for the non-rural companies would essentially reestablish the implicit subsidies in those rates that were previously removed when OUSF support. Third, Staff's proposal for allowing rate increases only applies to the non-rural companies. There is no mention of how the rural companies would be allowed to reconcile possible reductions in funding with the proposed approach to demonstrate an annual need for support, while also maintaining a rate structure that reflects previously required access rate reductions and provides no opportunity for any rate flexibility.

[10] Staff/100, White 29, lines 10-11

Q. What changes does Staff propose with regards to accountability and transparency reporting?

A. As described above, Staff proposes that the companies be required to estimate investment and expense levels they would expect to spend in the high cost wire centers for the following year. The companies would then be subject to annual reporting requirements to demonstrate how the actual expenditures in the high cost wire centers compared to the estimates.[11] Staff did not provide any details about the format or expected level of detail that would be required for such reports, but it clearly expects the reporting to be extensive. This is evidenced by Staff's statement that ". . . the expenditures will be audited to verify the company's estimates and make true-ups as necessary."[12]

Q. What concerns do you have with Staff's proposal for accountability and transparency reporting?

A. The entire proposed process requiring first a demonstration of need at the wire center level for the coming year and then a detailed accounting of the differences between the estimated investments and expenses and the actuals would be extremely burdensome for both the company, and for Staff. And, Staff already

[11] Staff/100, White/32-33
[12] Staff/100, White/33, lines 16-17

receives significant levels of information in the annual transparency and accountability reports submitted to the Commission by Qwest. The existing reports provide sufficient information for the Commission to assess whether the companies are utilizing OUSF for the purpose for which it is intended, namely to provide basic telephone service in high cost areas.

Q. Staff's testimony expressed concern with the non-rural companies assignment of expenses in their annual reporting related to OUSF support received. Can you address Staff's concerns with Qwest's current reporting process?

A. Yes. For its annual transparency and accountability report submitted to the Commission, Qwest currently utilizes an allocation process, primarily based upon access lines, that correlates maintenance related operating expenses to the wire centers that receive OUSF support. Staff's testimony expressed concern with Qwest's current methodology and recommends association of expenses with high cost wire centers or clusters of high cost wire centers. Staff suggested that if the companies do not provide enough information on expenses, then Staff will develop a method for determining the expense amounts that will be supported. Staff does not provide any details on what methodology they would utilize to set these expense levels on a wire center basis. This proposal goes beyond what Staff's role should be. While CenturyLink is willing to address

Staff's questions with respect to expense allocations and reasonable need for follow-up information, requiring the company to adopt a specific methodology for accounting for its expenses goes beyond what the Staff's role should be.

III. Issues with Verizon's Proposals

Q. Please explain Mr. Price's recommendation that OUSF support be eliminated in areas where service is provided by an unsubsidized competitor.

A. Mr. Price recommends the Commission eliminate OUSF support in areas where there are one or more unsubsidized providers offering voice services. Mr. Price provides information on Verizon Wireless' service areas in the state and FCC data to support his claim that unsubsidized competitors are operating in nearly all areas of the state[13].

Q. Could you please provide CenturyLink's position on Mr. Price's recommendation?

A. While CenturyLink does not dispute that wireless service provides a significant competitive impact in the state, the competitive impacts and universal service impacts are vastly different. In evaluating the impact of wireless competition,

[13] Verizon/100, Price/24-42

there are two distinct and separate policy questions: (1) Does wireless service (and other competitive options) represent an effective price-constraining substitute for wireline service, such that the market, not regulation can be relied on to drive reasonable prices and comparable services? (2) Does wireless service provide the necessary coverage and reliability to eliminate the need for universal service funding to ensure basic telephone service availability at affordable rates? Verizon has blurred these very distinct questions with its proposal; in essence, Verizon uses the competitive data that supports a clear answer of "yes" to question (1) to illogically and erroneously come to a definite "yes" answer to question (2). While wireless competition clearly represents an effective price constraining substitute for wireline services, it has not been demonstrated that it provides the necessary coverage and reliability in all areas to ensure availability that would eliminate the need for universal service funding in Oregon.

In evaluating Verizon's proposal, the Commission must consider whether wireless service provides the necessary coverage, reliability, and advanced telecommunications service capability that would eliminate the need for universal service funding. While wireless service does not need to be available to all customers in all areas at the same level of reliability in order to constrain wireline prices, it does need to be available at a high level of reliability in all areas in order to provide an effective universal service alternative.

Further, Verizon's proposal does not take into account whether an unsubsidized competitor provides service throughout a wire center or study area. Mr. Price's simplistic analysis in his exhibit Verizon/101 is based primarily on his review of Verizon Wireless coverage maps available on their website which contains the following disclaimer:

> "These Coverage Locator maps depict predicted and approximate wireless coverage. The coverage areas shown do not guarantee service availability, and may include locations with limited or no coverage. Even within a coverage area, there are many factors, including customer's equipment, terrain, proximity to buildings, foliage, and weather that may impact service. Some of the Coverage Areas include networks run by other carriers, the coverage depicted is based on their information and public sources, and we cannot ensure its accuracy.[14]"

Thus, Verizon clearly admits that it does not provide guaranteed wireless coverage to the areas depicted in its coverage map, much less for the entire state of Oregon. There is no practical way for the Commission to examine all of the customer locations within a wire center or study area to determine the quality of wireless coverage to each location and whether it meets the consistency and reliability inherent in the Commission's definition of basic telephone service.

[14] See http://www.verizonwireless.com/wireless-coverage-area-map.shtml

Eliminating support in a wire center or study area that is not completely served by an unsubsidized competitor would leave areas without the support that is needed to ensure customers have access to basic telephone service at reasonable and affordable rates.

Q. Mr. Price references provisions from the FCC's *USF/ICC Transformation Order* as support for his proposal to discontinue funding in areas served by an unsubsidized competitor. How do you respond?

A. While Verizon suggests that its proposal is consistent with the FCC provisions from the *USF/ICC Transformation Order*, the FCC conditioned its reduction in support for areas within rate of return carriers' territory ". . . where an unsubsidized competitor – or a combination of unsubsidized competitors – offers voice and broadband service at speeds of at least 4 Mbps downstream/1 Mbps upstream, and with latency and usage limits that meet the broadband performance requirements described above, for 100% of the residential and business locations in the incumbent's study area."[15] It is questionable whether wireless service can support these performance standards. For areas where an

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[15] *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 a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform-Mobility Fund,* WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Rcd 17663 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order*), at ¶283

unsubsidized competitor serves less than 100% of a rate of return carrier's service area, the FCC sought comments in its Further Notice of Proposed Rule Making on a process for determining support in such study areas. Therefore, consistency with the FCC's approach would require the Commission, before considering Verizon's proposal, to first work through difficult implementation issues to identify which consumers can obtain service consistent with the standards established by the FCC from an unsubsidized competitor.

Q. What changes to the benchmark does Verizon's witness Mr. Price recommend?

A. Mr. Price recommends the Commission adopt a "rate benchmark" to replace the current $21 cost-based benchmark. Further, he proposes the Commission consider two alternative approaches based on FCC methodologies.[16]

Q. Please explain Mr. Price's first proposed alternative for setting a rate benchmark.

A. Mr. Price suggests the Commission consider use of the FCC developed "standard deviation analysis" which found that rural rates that are within two standard deviations from the rates in urban areas represented could be deemed "reasonable and affordable." Using this approach, Mr. Price proposes a rate

[16] Verizon/100, Price/49-50

benchmark of $37.36 based on information from the FCC's 2008 Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service.

Q. Do you have concerns with Mr. Price's proposal?

A. Yes. There are two significant issues with Mr. Price's proposal. First, the proposed benchmark includes subscriber line charge (SLC) revenues that are already considered as part of the reduction to the cost of basic telephone service for explicit federal loop compensation in calculating OUSF support amounts. Including SLC revenues in the benchmark would result in a double-counting of that cost recovery mechanism and therefore is invalid. Second, the proposed benchmark includes revenues for the recovery of taxes, 911 and other charges that are not part of the costs of basic telephone service reflected in either the cost determinations for the non-rural companies or the rural companies. Therefore, these revenues should not be included in any analysis of a rate benchmark proposal.

Q. Please explain Mr. Price's second proposed alternative for setting a rate benchmark.

A. Mr. Price suggests that the Commission consider use of the Residential Rate Ceiling of $30 per month that the FCC adopted in the USF/ICC Transformation Order as a rate benchmark for OUSF purposes[17].

Q. Do you have concerns this second proposed alternative of Mr. Price?

A. Yes. This proposal raises the same concerns that as I outlined above with Mr. Price's first proposal. First, the $30 Residential Rate Ceiling includes the SLC charges which are already considered as part of the reduction to the cost of basic telephone service for explicit federal loop compensation in the calculation of OUSF support and would result in a double-counting if included in a benchmark. Further, the FCC's Residential Rate Ceiling includes amounts for the FCC's Access Recovery Charge, state E911 charges, state telecommunications relay charges and state universal service fund charges. None of these elements of the FCC's defined Residential Rate Ceiling are reflected in the costs used to determine OUSF support and therefore, it is not valid to include them in a benchmark. As discussed in my opening testimony and illustrated in my Exhibit CTL/103, " . . . if the charges not related to the recovery of the intrastate costs for providing basic telephone service – the SLC, the ARC, the E911 charge, telecommunications relay and state USF charges – are subtracted from the FCC's

[17] Verizon/100, Price/50, lines 4-7

$30 rate ceiling, the resulting rates are very close to the current $21 benchmark being used for OUSF calculations for each of the CenturyLink ILECs."[18] Mr. Price's proposed alternative to use the FCC's Residential Rate Ceiling of $30 for the OUSF benchmark is flawed and should be rejected by the Commission.

Q. **Mr. Price suggests that CenturyLink's local exchange rates are unreasonably low in some areas and that the Commission should consider eliminating OUSF support.[19] Are Mr. Price's conclusions regarding CenturyLink's rates valid?**

A. No. Mr. Price begins his analysis on this issue with references to the FCC's *USF/ICC Transformation Order* discussion of the establishment of a local rate floor. Paragraph 238 of the FCC's Order referenced by Mr. Price in his testimony states:

> "Based on the foregoing, and as described below, we will limit high-cost support where local end-user rates plus state regulated fees (specifically, state SLCs, state universal service fees, and mandatory extended area service charges) do not meet an urban rate floor representing the national average of local rates plus such state regulated fees."

The FCC then established an initial rate floor of $10 for the annual period ending June 30, 2013 and $14 for the annual period ending June 30, 2014. The rate floor for subsequent calendar years will be established based on an annual survey of

[18] Opening Testimony of John Felz, CTL/100, Felz/17, lines 1-6
[19] Verizon/100, Price/51-54

rates. Federal high cost loop support and CAF Phase I support will be reduced if a carrier's local rates do not meet the urban rate floor.[20]

The problem with Mr. Price's analysis of local rates for CenturyLink's entities is that he fails to consider all of the components of the FCC's urban rate floor – namely state universal service fees and mandatory extended area service charges. When these elements are added to the basic residential local exchange rates for CenturyLink's Oregon ILECs, there are no rates that fall below the urban floor of $14 that will be in effect through June of 2014.[21] As such, application of the FCC's urban rate floor to support a recommendation for reduction in OUSF support is not valid.

Q. **Mr. Price also compares CenturyLink's local rates to other FCC sources to support his conclusion that local rates are unreasonably low in some areas and that the Commission should consider eliminating OUSF support. Are these comparisons valid?**

A. No. Mr. Price points to other national level rate analysis performed by the FCC such as the national average urban benchmark of $25.62 and the $30 Residential

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[20] *USF/ICC Transformation Order*, ¶239.
[21] See Exhibit CTL/203, for an analysis of the FCC's urban rate floor calculation for the CenturyLink ILECs.

Rate Ceiling as further support for his contention that some of CenturyLink's local rates are too low.[22] However, as I discussed previously, the FCC's national rate level analysis includes more than the basic local service rate. The $25.62 national average urban benchmark starts with a basic local service rate of $15.62, and then includes $5.74 in federal and state subscriber line charges and $4.26 in taxes, 911 and other charges to total to the $25.62 rate. CenturyLink's weighted average basic local service rate (including mandatory EAS charges) is $16.71 for Qwest, $18.98 for CenturyTel and $18.49 for United – each of these rates clearly exceeds the $15.62 local service rate component of the FCC's national average urban benchmark.

Similarly, Mr. Price's comparison of CenturyLink's basic local service rates to the FCC's $30 Residential Rate Ceiling is flawed. The FCC's residential rate ceiling includes the basic local service charges plus amounts for the FCC's Access Recovery Charge (ARC), state E911 charges, state telecommunications relay charges and state universal service fund charges. After consideration of all of the other components the FCC uses to evaluate whether a company can apply the Access Recovery Charge, CenturyLink's current local rates are not unreasonably low and OUSF support should not be adjusted for this issue.

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[22] Verizon/100, Price 51-53

Q. Mr. Price recommends that support not be provided to multiple residential lines or business lines at a single location.[23] Do you agree with this recommendation?

A. No. The purpose of the OUSF is to provide support for high cost areas where the costs to provide telephone service exceed the revenues that can be generated from the charging of a reasonable and affordable rate. The methodology for calculating OUSF is based on a cost per line calculation that utilizes total lines and does not make a distinction based upon whether the line serves a residential or business customer. Similarly, the distribution of OUSF should not be limited to single residential lines, but should be consistently based upon all lines served in those high cost areas identified as eligible for support. In addition, because business lines typically require shorter loop lengths, including business lines in the cost studies has the effect of bringing down the average costs, which results in lower support amounts for residence lines than would be the case if separate costs were calculated for business and residence.

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[23] Verizon/100, Price/55

IV. Issues with OCTA's Proposals

Q. Dr. Ankum recommends that the rate of return assumption used in the RLEC embedded cost studies be reduced[24]. Do you agree with this recommendation?

A. No. A reduction in the rural companies' rate of return would require much greater analysis than the simple generalizations offered by Dr. Ankum. Dr. Ankum first states that it is common knowledge that interest rates have gone down in recent years and he then equates this reduction to a lower overall cost of capital for the rural companies. As an example, he points to CenturyTel's two Rural Utilities Services ("RUS") loans and ignores the fact that these loans make up only 6% of the total capital of CenturyTel in Oregon. Interest rates are just one component of the debt cost of capital, but the cost of equity must also be considered to calculate the overall weighted cost of capital. With respect to cost of equity, it is also common knowledge that the rural ILECs have been losing customers and revenue for many years. To attract equity capital requires higher returns for this component in today's competitive telecommunications environment.

[24] OCTA/100, Ankum/29-31

He also indicates that other state commissions have approved lower cost of capital for RLECs and that the FCC is reviewing its interstate rate of return of 11.25%, claiming these facts are sufficient proof to lower the RLECs' cost of capital in this case. Dr. Ankum ignores that what other state Commissions do after reviewing a totally different set of facts and circumstances in other states has little relevance in this proceeding. In fact, he doesn't provide facts from the other state proceedings he is referring to and makes no effort to prove that the facts and circumstances in those cases are similar to what the Commission is reviewing in this case. Additionally, the fact that the FCC opened a docket several years ago and is still gathering information to review its 11.25% rate of return is not an indication that the RLECs cost of capital should be reduced in this case, but rather is an indication of the complexity of this issue and of the due diligence required before making a change to a company's cost of capital.

Q. Please explain Dr. Ankum's proposal to allocate network costs between basic voice and broadband services.

A. Dr. Ankum recommends the Commission allocate the existing per line cost estimates between basic voice and broadband services. Dr. Ankum proposes an allocation methodology based on a comparison of average revenues per line for voice and broadband services, adjusted for the take rates for broadband.[25]

Q. Do you agree with Dr. Ankum's proposal?

A. No. As I explained previously in discussing Staff's proposal to allocate costs between voice and broadband, the costs developed in Docket UM 731 were based on forward looking cost studies conducted in 2000 and did not reflect the network investments or operating expenses needed for a network capable of providing advanced broadband services. Therefore, it would not be appropriate to allocate costs to broadband when the costs to support that service were not reflected in the underlying cost study. Further, as previously discussed in relation to Staff's cost allocation recommendation, Dr. Ankum's proposal to allocate costs to broadband for the rural companies would violate jurisdictional separations rules and should likewise be rejected.

Q. Are there other concerns with Dr. Ankum's allocation methodology?

A. Yes. It is my understanding that Dr. Ankum's proposal to utilize broadband revenues to apportion costs between voice and broadband services has been

[25] OCTA/100, Ankum/39-41

rejected by the Administrative Law Judge's in his ruling in this proceeding which states:

> Given the express restrictions of ORS 759.218(2), neither expenses nor revenues from unregulated services can be involved in any attribution formula with respect to the support of basic local services[26].

Therefore, Dr. Ankum's proposal to utilize broadband revenues to allocate network costs between broadband and voice services must be rejected by the Commission.

Q. What is Dr. Ankum's first proposal to adjust the benchmark?

A. Dr. Ankum proposes that the cost benchmark be adjusted to a level that is equal to two standard deviations above the current $21 benchmark.[27]

Q. Do you agree with Dr. Ankum's proposal?

A. No. The purpose of the OUSF is to ensure basic telephone service is available at a reasonable and affordable rate. The Commission is charged with establishing a benchmark for the administration and distribution of the OUSF and in order to fulfill that duty, the benchmark must be set at a level that is consistent with the concept of a reasonable and affordable rate. The Commission established the

[26] Ruling of Administrative Law Judge Arlow, January 17, 2013, Docket UM 1481.
[27] OCTA/100, Ankum/48-49

current OUSF benchmark in Order 00-312 in Docket UM 731 when it found that the "... composite average cost of service for Oregon's two major local exchange carriers ... makes a good surrogate for an affordable rate for basic local exchange service."[28] Dr. Ankum's proposal to establish a benchmark reflecting the average cost plus two standard deviations would increase the benchmark to $43.25 – a level clearly far beyond what can be considered a reasonable and affordable rate. The Commission should not simply adopt a benchmark based on a statistical analysis of costs, but rather must consider the costs of providing service in an area and whether those costs can be recovered by charging a rate that is in fact reasonable and affordable. Universal service support needs to be provided in areas where the costs to serve are higher than what can be recovered through charging a reasonable and affordable rate. If adequate universal service support is not provided in such high cost areas, the ILEC cannot recover its costs in the area, and it will not be able to maintain service there in the long run.

Q. Should the Commission adopt Dr. Ankum's proposal to create a higher benchmark for business lines?

A. No. The cost studies utilized to develop the per-line cost amounts that form the basis for OUSF support calculations do not distinguish between business and

[28] Order No. 00-312 in Docket UM 731, page 21.

residence service. Because business lines typically require shorter loop lengths, including business lines in the cost studies has the effect of bringing down the average costs, which results in lower support amounts for residence lines than would be the case if separate costs were calculated for business and residence. Also, because the benchmark is cost based and reflects the averaged costs of business and residence service, there is consistency between the costs and the benchmark. Dr. Ankum's proposal to add a rate differential for business lines to the existing cost benchmark that reflects costs for both business and residential lines would undermine that consistency. Therefore, the Commission should not assign a higher benchmark for business lines.

Q. Please explain Dr. Ankum's proposal for adjusting the benchmark to factor in broadband revenue.

A. As an alternative to his proposal to apportion per line costs between basic voice and broadband, Dr. Ankum suggests that an adjustment be made to the cost benchmark to reflect the average broadband revenue per line.[29]

[29] OCTA/100, Ankum/53-54

Q. Do you agree with Dr. Ankum's proposal on this issue?

A. No. It is my understanding that the proposal to include broadband revenues in the benchmark for the determination of universal service support is contrary to Oregon law. As stated in ORS 759.218(2):

> The Public Utility Commission may not require revenues or expenses from an activity that is not regulated under this chapter to be attributed to the regulated activities of a telecommunications utility.

This was affirmed in the Administrate Law Judge's Ruling denying the OCTA and Commission Staff's motion to certify which states:

> OCTA and Staff asks the Commission to clarify and thereby confirm that broadband revenues are indeed relevant in determining what funds a telecommunications carrier may receive for providing basic local service. That, however, is clearly not permissible. Given the express restrictions of ORS 759.218(2), neither expenses nor revenues from unregulated services can be involved in any attribution formula with respect to the support of basic local services.[30]

Therefore, Dr. Ankum's proposal to include broadband revenues in the benchmark must be rejected by the Commission.

[30] Ruling of Administrative Law Judge Arlow, January 17, 2013, Docket UM 1481.

Q. Dr. Ankum proposes updating the support calculations for the non-rural LECs to reflect current levels of the subscriber line charges.[31] Do you agree with this recommendation?

A. No. CenturyLink believes it would not be appropriate to update the explicit federal loop cost compensation component in the calculation of OUSF support while leaving the costs unchanged. Dr. Ankum supports the continued use of the cost estimates developed in docket UM-731.[32] Therefore, to maintain consistency between the costs and the offsets to the federal loop cost compensation and avoid a one-sided adjustment, there should be no changes to the subscriber line charges used in the OUSF support calculation for the non-rural ILECs.

Q. Dr. Ankum proposes that for CenturyTel and United that "frozen high cost support" continue to be used in the calculation of federal explicit loop cost compensation for OUSF purposes?[33] Do you have any concerns with Dr. Ankum's proposal?

A. Yes. As an initial point of clarification on this issue, while the FCC did merge all types of federal support into a "frozen support" category, information on the

[31] OCTA/100, Ankum/55-56
[32] OCTA/100, Ankum/25, lines 9-12
[33] OCTA/100, Ankum/59-60

original sources of the amounts that make up the "frozen high cost support" was retained and is still available on the Universal Service Administration Company (USAC) website. Therefore, information is still available to allow specific identification of the federal high cost support amounts for Interstate Access Support, Interstate Common Line Support and High Cost Loop Support that are considerations in the calculation of federal explicit loop cost compensations for OUSF purposes for CenturyTel and United.

Turning to Dr. Ankum's proposal to use "frozen high cost support" as an offset to OUSF support, the proposal fails to take into account that the "frozen high cost support" amounts are not permanent and in fact, will transition away to zero as the FCC fully implements the Connect America Fund Phase II. Furthermore, beginning in 2013, ILECs receiving "frozen high cost support" must direct increasing portions (one-third in 2013, two-thirds in 2014 and all in 2015)[34] of these amounts to build and operate broadband-capable networks. Therefore, it would not be appropriate to require the "frozen high cost support" amounts that must be spent on broadband to be used as an offset to OUSF support, whose purpose is to support, in the long run, the costs of basic telephone service.

[34] *USF/ICC Transformation Order*, ¶150

Q. Dr. Ankum proposes that Interstate Access Support be used as an offset to OUSF support for Qwest.[35] Do you agree with Dr. Ankum's proposal?

A. No. The Interstate Access Support (IAS) mechanism was created by the FCC to replace implicit support in interstate access rates with explicit support. In the CALLS Order establishing IAS, the FCC stated:

> In this section, based on the CALLS Proposal, we identify a specific amount of access charges as implicit support for universal service, and we establish an explicit interstate access universal service support mechanism to replace such implicit support. In contrast to the Commission's existing high-cost support mechanisms for rural and non-rural carriers, which provide support to enable states to ensure reasonably affordable and comparable *intrastate* rates, the purpose of this federal mechanism is to provide explicit support to replace the implicit universal service support in *interstate* access charges.[36]

Therefore, because IAS amounts are interstate support as a replacement for previous interstate revenues, it should not be used to offset intrastate support. Moreover, IAS along with the other components of frozen federal support is being eliminated as an explicit federal support mechanism.

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[35] OCTA/100, Ankum/62-63

[36] 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"), paragraph 185.

Q. Dr. Ankum proposes that the Phase I Incremental Support mechanism of the Connect America Fund established by the FCC in their *USF/ICC Transformation Order* be used as an offset in OUSF support calculations.[37] Do you agree with Dr. Ankum's proposal?

A. No. The Phase I Incremental Support mechanism of the Connect America Fund (CAF) is only to be used to build broadband networks in areas that are designated as unserved on the national broadband map. This new support mechanism is unlike any previous federal support in that it is directed to the expansion of broadband service where it does not currently exist. Furthermore, the support is a one-time payment from the CAF to support the deployment of broadband – there is no ongoing funding for operating and maintaining the service being provided for the eligible locations for deployment under the FCC's criteria for CAF Incremental Support. The CAF Incremental Support was initially designed to be in effect for 2012. The FCC is currently evaluating whether to make another round of CAF Incremental Support available in 2013 for additional broadband buildout or to add any potential and unused funding to CAF Phase II. However, CAF Incremental Support will no longer be made available when the FCC introduces the CAF Phase II. Therefore, because CAF

[37] OCTA/100, Ankum/64-65

Incremental Support must be specifically utilized to extend broadband to unserved locations in compliance with specific location-limiting parameters established by the FCC, and the funding is not ongoing or for any of the statutory purposes of the OUSF, it would be inappropriate to use this support as an offset to OUSF support. It must be directed to extend broadband to specific locations and therefore it is not possible to use the same funds to support basic telephone service.

Q. Dr. Ankum proposes that the Connect America Fund Intercarrier Compensation Support (CAF ICC) established by the FCC in its *USF/ICC Transformation Order* be used as an offset in OUSF support calculations.[38] Do you agree with Dr. Ankum's proposal?

A. No. CAF ICC is an interim support mechanism that will transition away and is also limited by annual calculations of a carrier's eligible recovery amount. CAF ICC support is a transitional replacement for a portion of ICC revenues existing prior to the mandated FCC ICC reductions and as such is not a new support source and should not be viewed as a support mechanism for basic telephone service that should offset existing OUSF support. Furthermore, the FCC requires that CAF ICC Support be used for building and operating broadband-capable

[38] OCTA/100, Ankum/64-65

networks in areas substantially unserved by an unsubsidized competitor. Therefore, because CAF ICC Support must be specifically utilized to build and operate broadband-capable networks (a very different purpose than the provision and maintenance of basic telephone service at rates that are reasonable and affordable), and the funding is interim, it would be inappropriate to use this support as an offset to OUSF support.

Q. Please explain Dr. Ankum's proposal for eliminating OUSF support in those areas served by an unsubsidized competitor.

A. Dr. Ankum proposes that no OUSF support be provided in areas where at least one unsubsidized carrier is offering voice service, including wireless.[39]

Q. Do you agree with this recommendation?

A. No. As explained earlier in my testimony in response to a similar recommendation advocated by Verizon's witness, CenturyLink disagrees with Dr. Ankum's proposal as it is contrary to the Commission's mandate for preserving universal service. ORS 759.425 mandates support for the provision of "basic telephone service," which is a Commission defined term, at reasonable and affordable rates. Dr. Ankum defines an unsubsidized competitor as a

[39] OCTA/100, Ankum/70-73

facilities-based provider of residential and/or business voice service that does not receive federal high-cost support. Dr. Ankum's proposal would eliminate support based on the presence of a provider of "voice service" which is a term that Dr. Ankum does not define, but is presumably not the equivalent of "basic telephone service" that is established by the Commission. The OUSF supports the provision of "basic telephone service" at reasonable and affordable rates, which is a purpose that is not accomplished by providing consumers with access to something other than "basic telephone service". Moreover, the Commission has absolutely no authority over the level of the rates of competitive carriers, such as wireless carriers, VoIP providers and other competitive carriers. A presumption that access to something other than "basic telephone service", when that something has not been shown to be "equivalent" to "basic telephone service" and when there has been no showing that the rates for that something are "reasonable and affordable," is inconsistent with the purpose of the OUSF.

Q. Dr. Ankum recommends a methodology for identifying the areas where OUSF should not be available due to the presence of an unsubsidized competitor.[40] What concerns do you have with this proposed process?

[40] OCTA/100, Ankum/75-82

A. Dr. Ankum's proposed methodology would place responsibility on the Commission for reviewing and interpreting broadband maps depicting coverage of both wireline and wireless carriers. The Commission would be forced to make interpretations about where an "unsubsidized competitor" makes service available and, in those cases where an unsubsidized competitor does not serve an ILEC entire wire center or study area, be forced to make subjective determinations of the percentage of overlap.

Q. Dr. Ankum references provisions from the FCC's *USF/ICC Transformation Order* as support for his proposal to discontinue funding in areas served by an unsubsidized competitor. How do you respond?

A. While Dr. Ankum suggests that his proposal is consistent with the FCC provisions from the *USF/ICC Transformation Order*, the FCC conditioned its reduction in support for areas within rate of return carriers' territory ". . . where an unsubsidized competitor – or a combination of unsubsidized competitors – offers voice and broadband service at speeds of at least 4 Mbps downstream/1 Mbps upstream, and with latency and usage limits that meet the broadband performance requirements described above, for 100% of the residential and business locations in the incumbent's study area."[41] For areas where an unsubsidized competitor serves less than 100% of a rate of return carrier's service area, the FCC sought comments in its Further Notice of Proposed Rule Making on a process for determining support in such study areas. Therefore, consistency with the FCC's approach would require the Commission, before it even considered OCTA's proposal, to work through difficult implementation issues to identify which consumers can obtain service from an unsubsidized competitor. It has not done so in this docket and the proposal should be rejected.

Q. Are there other ramifications to Dr. Ankum's proposal that the Commission should consider?

A. Yes. Because the costs upon which OUSF support calculations are based are averaged at a wire center or study area level, the per line costs for an ILEC to serve the areas where an unsubsidized competitor does not provide service are certain to be much higher than the costs used to calculate current support levels. If the Commission were to undertake the difficult task of identifying the specific areas where an unsubsidized competitor provides service that is equivalent to basic telephone service, both in terms of quality and affordability, and removing OUSF support from those areas, it would also need to reevaluate the OUSF

[41] *USF/ICC Transformation Order*, at ¶283

support needed to allow continued provision of service to the remaining customers. This would require recalculation of the costs for the ILEC to continue serving the remainder of the wire center or study area and provide sufficient funding to allow continued provision of basic telephone service at reasonable and affordable rates.

Q. How does Dr. Ankum propose to adjust OUSF support for areas served by unsubsidized competitors?

A. Dr. Ankum proposes a formula to adjust the benchmark so that it produces an OUSF support amount of zero.[42] While he presents his proposed "formula" for adjusting the benchmark as if it were a derived from some mathematical calculations, his proposal is nothing more than assigning an arbitrary value to the benchmark that results in a support per line amount of zero. Dr. Ankum's proposals and rationale are results driven, arbitrary, and incompatible with the provision of universal service and should be rejected.

[42] OCTA/100, Ankum /52

Q. Dr. Ankum recommends that CenturyLink not receive OUSF for its non-rural property because of operating efficiencies resulting from the 2011 merger between CenturyLink and Qwest[43]. Please comment.

A. Dr. Ankum suggests that because Qwest serves exchanges in urban and suburban areas of the state, and because it has realized synergies as a result of merger with CenturyLink, Qwest should not receive OUSF support. However, neither of these issues are factors in determining whether Qwest should receive OUSF support. Qwest's eligibility for OUSF support should continue to be based on the costs to serve customers and whether support is needed to ensure service can be provided at reasonable rates. While Qwest certainly does serve some urban and suburban areas of the state, the fact is that it does not receive OUSF support in such areas – rather, it receives support only in areas that have been determined to be high cost to serve. And while the CenturyLink/Qwest merger has resulted in synergies for the combined company, this should not be a reason to eliminate support. The merger did not change the reasons why Qwest is eligible for support – namely that it serves high cost areas of the state where these costs are not covered by charging a reasonable and affordable rate. Also, any merger related synergies is only one isolated factor and ignores other significant impacts on costs such as the impact on unit costs of lost market share.

[43] OCTA/100, Ankum/83-84

In order to ensure continued affordable, reliable, basic telephone service for customers in these areas, Qwest's eligibility for OUSF support must continue to be based on the costs to serve customers.

Q. Dr. Ankum recommends that support not be provided to multiple residential lines or business lines.[44] Do you agree with this recommendation?

A. No. The purpose of the OUSF is to provide support for high cost areas where the costs to provide telephone service exceed the revenues that can be generated from the charging of a reasonable and affordable rate. The methodology for calculating OUSF is based on a cost per line calculation that utilizes total lines and does not make a distinction based upon whether the line serves a residential or business customer. Similarly, the distribution of OUSF should not be limited to single residential lines, but should be distributed based upon all lines served in an area that has been identified as eligible for support.

Q. What other proposals does Dr. Ankum suggest with respect to uses of OUSF support?

A. Related to his proposal to limit support to single line residential and perhaps single line business services, Dr. Ankum recommends that the Commission limit

[44] OCTA/100, Ankum/95

use of OUSF support to ". . . loop related investments and expenses that are reasonably apportioned to single line residential and business voice services."[45] Dr. Ankum's recommendation does not provide details of how his suggested apportionment would work, but the proposal raises several concerns. First, costs used for OUSF support calculations reflect an average cost per line across all lines, including all residential and business lines. To require that ILECs demonstrate that they "used" OUSF support only for single line residential and business lines would be inconsistent with the methodology for determining the support amounts. Further, significant effort would be required by the ILECs to apportion investment and expense amounts between single line residential and business services, and all other lines and to produce reports to submit to the Commission. In turn, the Commission would have to expend efforts to analyze and review the ILECs reports. For these reasons, Dr. Ankum's proposal on this issue should not be adopted.

Q. What proposals does Dr. Ankum suggest with respect to transparency and accountability of OUSF support?

A. Dr. Ankum proposes the Commission adopt several recommendations related to transparency and accountability of OUSF support including:

[45] OCTA/100, Ankum/102-103

- Requiring a review of OUSF support for the non-rural carriers at least once every three years.
- Enhancing and making permanent the reporting requirements established for the non-rural carriers in Order No. 12-065.

Q. Please comment on Dr. Ankum's first proposal to require triennial reviews of OUSF support for the non-rural companies?

A. Dr. Ankum's proposal to require triennial review of OUSF support for the non-rural companies similar to that completed for the rural companies ignores the fact that different approaches are in place for determination of support between the two classes of ILECs. Specifically, rural company support is recalculated every three years based on updated cost studies. No similar updates of costs have occurred for the non-rural companies and because support is based on declining access line counts, the OUSF support to the non-rural companies has actually declined precipitously over time. Unless there is a change to the methodology for determining OUSF support for the non-rural companies that includes a reassessment of costs, a triennial review for the non-rural companies OUSF support should not be required.

Q. Please comment on Dr. Ankum's second proposal to enhance and make permanent the reporting requirements established by Order 12-065 for the non-rural companies?

A. Dr. Ankum recommends that the Commission require reporting of additional information in these reports that goes beyond what the Commission needs to be assured that accountability and transparency for OUSF support is provided. For example, broadband and access revenues are clearly not related to an evaluation of OUSF support transparency and accountability. In addition, I previously explained the issues associated with apportioning investment amounts that are attributable to single line customers. The additional information requirements proposed by Dr. Ankum for the non-rural ILECs annual transparency and accountability reports should not be required. Further, it is unnecessary for the Commission to make permanent the reporting requirements adopted in Order No. 12-065. CenturyLink worked with Staff to develop its reporting format and has followed through on its commitment to timely file the agreed to reports for 2010 and 2011 and to address Staff questions on the reports. Therefore, Dr. Ankum's concern that the Commission will not have all of the information he believes the Commission needs to examine OUSF distributions unless the reporting requirements are made permanent is unfounded.

V. Conclusion

Q. Please summarize your testimony.

A. My testimony responds to the numerous, one-sided, and largely results oriented recommendations of Staff, Verizon and OCTA that are all designed to substantially reduce, or in some cases eliminate, support for the companies that have the sole responsibility to provide ubiquitous, affordable basic telephone service to all customers in Oregon. These parties recommendations are varied and overlapping, selectively "turning the dials" on each of the important determinants that go into the calculation and disbursement of OUSF support to achieve their single desired objective of reducing the fund. The OUSF currently serves to enable the Commission to meet its obligation of ensuring basic telephone service is available at a reasonable and affordable rate. Many of the proposals set forth in the opening testimonies of Staff, OCTA and Verizon would jeopardize the continued achievement of this important policy objective and should therefore not be adopted by the Commission.

Q. How should the Commission proceed?

A. The purpose of the OUSF is codified under the Oregon Revised Statutes (ORS) 759.425 which states:

> "The Public Utility Commission small establish and implement a competitively neutral and nondiscriminatory universal service fund. Subject to subsection (6) of this section, the commission shall use the universal service fund to ensure basic telephone service is available at a reasonable and affordable rate."

The Commission has carried out its statutory mandate and put in place a fund that provides support for those areas where the costs of providing basic telephone service exceed what can be recovered through application of a reasonable and affordable rate. The methodology for calculating OUSF support is consistent with the statute which specifies that explicit support shall be provided to an eligible telecommunications carrier equal to the difference between the cost of providing basic telephone service and the benchmark, less any applicable federal support. Finally, the Commission has the necessary standards and reporting in place to continue to hold the companies accountable for prudent use of OUSF support through their review and evaluation of financial reports, service quality performance, and other measures. The Commission has ample information to evaluate whether the companies are meeting their COLR obligations throughout their service territories without imposing any additional requirements.

The OUSF currently serves to enable the meeting of the important policy objective of the provision of universally available high quality basic telephone service in Oregon and changes, if any, to the fund must be carefully considered.

Q. Does this conclude your testimony?

A. Yes.

Data Request CTL-Staff 5:
At Staff/100, White/16, lines 4-7, Mr. White states:

"A simple method of allocating joint network cost among broadband services and basic local service is to divide up the cost of the network equally among the services. If there were three services being offered, then basic local service would get one third of the cost."

a. To which three services is Mr. White referring in his one-third allocation example?

b. Identify and explain the basis for Mr. White's proposed method of equally allocating costs of the network among the services.

PUC Staff Response to CTL-Staff 5:

a. The hypothetical three services refer to the triple play which is commonly advertised: TV, internet, and phone service.

b. The equal assignment of cost to each service is a default methodology, which treats all services the same.

Data Request CTL-Staff 4:
At Staff/100, White/15, lines 14-16, Mr. White claims that broadband networks are more expensive than voice grade networks.

a. Does Mr. White believe these higher costs for broadband networks are reflected in the forward looking cost study results for the non-rural companies calculated in Docket UM 731?

b. If the response to request CTL-Staff 4a is yes, please identify and explain every basis for this opinion. If the response to request CTL-Staff 4a is no, please explain why Mr. White's proposal to allocate network costs to the services using the network (at Staff/100, White/20, lines 3-6) without changing the cost models used to calculate the non-rural support (Staff/100 lines 11-12) is appropriate.

PUC Staff Response to CTL-Staff 4:

a. I have not reviewed the Oregon specific assumptions of the FCC model filed for Docket UM 731 and it has been twelve years since I have reviewed the general FCC model. At the time I reviewed the model, it was not designed to produce a network capable of DS1 speeds or greater.

b. Not applicable.

Data Request CTL-Staff 3:

At Staff/100, White/3, lines 9-12, Mr. White states that: "Under Staff's proposal, using the same benchmark Staff used in Docket UM 1017 to set the support amounts, the annual disbursements would fall to approximately $33 million."

a. Please provide the estimated Oregon Universal Service Fund (OUSF) support amounts for each of the CenturyLink ILECs (i.e. Qwest Corporation, CenturyTel of Oregon and Eastern Oregon and United Telephone Company of the Northwest) if Staff's proposal described in the referenced testimony were adopted.

b. Please provide all studies, analysis and work papers supporting the amounts provided in response to request CTL-Staff 3a.

PUC Staff Response to CTL-Staff 3:

a. See CTL 2-Exhibit. This exhibit only shows total company support for CenturyTel and United because support for those two companies is calculated at the total company level.

b. The work papers are provided in CTL 2 Exhibit. The support per line is reduced by $9 when the benchmark is moved from $21 to $30. Support per line values are constrained to be greater than or equal to zero.

Exchange	1FR Rate	EAS Res	OUSF @ 8.5%	Total Res Rate
United				
Arlington	$13.43	$0.00	$1.14	$14.57
Bay City	$13.43	$4.04	$1.48	$18.95
Beaver	$13.43	$4.04	$1.48	$18.95
Butte Falls	$13.43	$9.00	$1.91	$24.34
Carlton	$13.43	$9.00	$1.91	$24.34
Cascade Locks	$13.43	$2.00	$1.31	$16.74
Cloverdale	$13.43	$2.00	$1.31	$16.74
Crater Lake	$13.43	$4.04	$1.48	$18.95
Diamond Lake	$13.43	$0.00	$1.14	$14.57
Fish Lake	$13.43	$0.00	$1.14	$14.57
Garibaldi	$13.43	$4.04	$1.48	$18.95
Grand Ronde	$13.43	$4.04	$1.48	$18.95
Grass Valley	$13.43	$4.04	$1.48	$18.95
Hood River	$13.43	$4.04	$1.48	$18.95
Lincoln City	$13.43	$4.04	$1.48	$18.95
Moro	$13.43	$4.04	$1.48	$18.95
Mosier	$13.43	$4.04	$1.48	$18.95
Odell	$13.43	$4.04	$1.48	$18.95
Pacific City	$13.43	$2.00	$1.31	$16.74
Parkdale	$13.43	$4.04	$1.48	$18.95
Prospect	$13.43	$9.00	$1.91	$24.34
Rockaway	$13.43	$4.04	$1.48	$18.95
Rufus	$13.43	$4.04	$1.48	$18.95
Shady Cove	$13.43	$9.00	$1.91	$24.34
Sheridan	$13.43	$4.04	$1.48	$18.95
The Dalles	$13.43	$4.04	$1.48	$18.95
Tillamook	$13.43	$4.04	$1.48	$18.95
Wasco	$13.43	$4.04	$1.48	$18.95
White City	$13.43	$9.00	$1.91	$24.34
Willaminia	$13.43	$4.04	$1.48	$18.95

Exchange	1FR Rate	EAS Res	OUSF @ 8.5%	Total Res Rate
CenturyTel				
Aurora	$12.48	$10.00	$1.91	$24.39
Bly	$12.48	$6.50	$1.61	$20.59
Boardman	$12.48	$5.00	$1.49	$18.97
Bonanza	$12.48	$6.50	$1.61	$20.59
Brownsville	$12.48	$6.50	$1.61	$20.59
Burns	$12.48	$4.83	$1.47	$18.78
Camas Valley	$12.48	$6.50	$1.61	$20.59
Charbonneau	$12.48	$10.00	$1.91	$24.39
Chemult	$12.48	$6.50	$1.61	$20.59
Chiloquin	$12.48	$6.50	$1.61	$20.59
Creswell	$12.48	$8.50	$1.78	$22.76
Depoe Bay	$12.48	$5.00	$1.49	$18.97
Drain	$12.48	$8.50	$1.78	$22.76
Durkee	$12.48	$5.00	$1.49	$18.97
Echo	$12.48	$5.00	$1.49	$18.97
Fort Klamath	$12.48	$6.50	$1.61	$20.59
Fossill	$12.48	$4.83	$1.47	$18.78
Gilchrist	$12.48	$8.50	$1.78	$22.76
Gleneden Beach	$12.48	$5.00	$1.49	$18.97
Glide	$12.48	$6.50	$1.61	$20.59
Government Camp	$12.48	$10.00	$1.91	$24.39
Harney	$12.48	$4.83	$1.47	$18.78
Heppner	$12.48	$4.83	$1.47	$18.78
Huntington	$12.48	$5.00	$1.49	$18.97
Ione	$12.48	$5.00	$1.49	$18.97
Jewell	$12.48	$5.00	$1.49	$18.97
John Day	$12.48	$4.83	$1.47	$18.78
Knappa	$12.48	$5.00	$1.49	$18.97
Lakeview	$12.48	$4.83	$1.47	$18.78
Lebanon	$12.48	$6.50	$1.61	$20.59
Lexington	$12.48	$4.83	$1.47	$18.78
Long Creek	$12.48	$4.83	$1.47	$18.78
Malin	$12.48	$6.50	$1.61	$20.59
Maupin	$12.48	$4.83	$1.47	$18.78
Merrill	$12.48	$6.50	$1.61	$20.59
Mitchell	$12.48	$5.00	$1.49	$18.97
Monument	$12.48	$4.83	$1.47	$18.78
North Powder	$12.48	$5.00	$1.49	$18.97
North Umpqua	$12.48	$6.50	$1.61	$20.59
Paisley	$12.48	$4.83	$1.47	$18.78
Paulina	$12.48	$5.00	$1.49	$18.97

Exchange	1FR Rate	EAS Res	OUSF @ 8.5%	Total Res Rate
CenturyTel				
Pilot Rock	$12.48	$5.00	$1.49	$18.97
Pine Grove	$12.48	$4.83	$1.47	$18.78
Rocky Point	$12.48	$6.50	$1.61	$20.59
Scappoose	$12.48	$10.00	$1.91	$24.39
Seneca	$12.48	$4.83	$1.47	$18.78
Shedd	$12.48	$8.50	$1.78	$22.76
Silver Lake	$16.55	$6.50	$1.96	$25.01
Sprague River	$12.48	$6.50	$1.61	$20.59
Spray	$12.48	$4.83	$1.47	$18.78
Sweet Home	$12.48	$5.00	$1.49	$18.97
Tygh Valley	$12.48	$4.83	$1.47	$18.78
Ukiah	$12.48	$5.00	$1.49	$18.97
Wamic	$12.48	$4.83	$1.47	$18.78
Yoncalla	$12.48	$6.50	$1.61	$20.59

Exchange	1FR Rate	EAS Res	OUSF @ 8.5%	Total Res Rate
Qwest				
Adair	$13.80	$1.28	$1.28	$16.36
Albany	$12.80	$2.20	$1.28	$16.28
Ashland	$12.80	$2.20	$1.28	$16.28
Astoria	$12.80	$1.28	$1.20	$15.28
Athena	$14.80	$1.28	$1.37	$17.45
Baker City	$12.80	$1.28	$1.20	$15.28
Bend	$12.80	$1.28	$1.20	$15.28
Blue River	$14.80	$2.20	$1.45	$18.45
Burlington	$13.80	$4.97	$1.60	$20.37
Camp Sherman	$14.80	$2.20	$1.45	$18.45
Cannon Beach	$13.80	$1.28	$1.28	$16.36
Central Point	$12.80	$2.20	$1.28	$16.28
Corvallis	$12.80	$1.28	$1.20	$15.28
Cottage Grove	$13.80	$2.20	$1.36	$17.36
Culp Creek	$14.80	$2.20	$1.45	$18.45
Culver	$13.80	$2.20	$1.36	$17.36
Dallas	$12.80	$2.20	$1.28	$16.28
Eugene	$12.80	$1.28	$1.20	$15.28
Falls City	$13.80	$2.20	$1.36	$17.36
Florence	$12.80	$1.28	$1.20	$15.28
Gold Hill	$13.80	$2.20	$1.36	$17.36
Grants Pass	$12.80	$2.20	$1.28	$16.28
Hermiston	$12.80	$1.28	$1.20	$15.28
Independence	$12.80	$2.20	$1.28	$16.28
Jacksonville	$13.80	$2.20	$1.36	$17.36
Jefferson	$13.80	$1.28	$1.28	$16.36
Junction City	$13.80	$2.20	$1.36	$17.36
Klamath Falls	$12.80	$1.28	$1.20	$15.28
Lake Oswego	$12.80	$4.97	$1.51	$19.28
Lapine	$13.80	$2.20	$1.36	$17.36
Leaburg	$14.80	$2.20	$1.45	$18.45
Lowell	$13.80	$2.20	$1.36	$17.36
Madras	$13.80	$2.20	$1.36	$17.36
Mapleton	$14.80	$1.28	$1.37	$17.45
Marcola	$14.80	$2.20	$1.45	$18.45
Medford	$12.80	$2.20	$1.28	$16.28
Milton-Freewater	$13.80	$1.28	$1.28	$16.36
Newport	$12.80	$1.28	$1.20	$15.28
North Plains	$12.80	$4.97	$1.51	$19.28
Nyssa	$13.80	$0.60	$1.22	$15.62
Oak Grove-Milwaukie	$12.80	$4.97	$1.51	$19.28

Exchange	1FR Rate	EAS Res	OUSF @ 8.5%	Total Res Rate
Qwest				
Oakland-Sutherlin	$13.80	$1.28	$1.28	$16.36
Oakridge	$14.80	$2.20	$1.45	$18.45
Ontario	$12.80	$0.60	$1.14	$14.54
Oregon City	$12.80	$4.97	$1.51	$19.28
Oregon Slope	$14.80	$0.60	$1.31	$16.71
Pendleton	$12.80	$1.28	$1.20	$15.28
Phoenix	$12.80	$2.20	$1.28	$16.28
Portland	$12.80	$2.20	$1.28	$16.28
Prineville	$13.80	$2.20	$1.36	$17.36
Rainier	$13.80	$1.28	$1.28	$16.36
Redmond	$12.80	$2.20	$1.28	$16.28
Rogue River	$13.80	$2.20	$1.36	$17.36
Roseburg	$12.80	$1.28	$1.20	$15.28
Salem	$12.80	$1.28	$1.20	$15.28
Seaside	$12.80	$1.28	$1.20	$15.28
Siletz	$14.80	$1.28	$1.37	$17.45
Sisters	$13.80	$2.20	$1.36	$17.36
Spring River	$13.80	$0.00	$1.17	$14.97
St. Helens	$12.80	$1.28	$1.20	$15.28
Stanfield	$13.80	$1.28	$1.28	$16.36
Toledo	$13.80	$1.28	$1.28	$16.36
Umatilla	$13.80	$1.28	$1.28	$16.36
Vale	$13.80	$1.10	$1.27	$16.17
Veneta	$13.80	$2.20	$1.36	$17.36
Warm Springs	$14.80	$2.20	$1.45	$18.45
Warrenton	$12.80	$1.28	$1.20	$15.28
Westport	$13.80	$1.28	$1.28	$16.36
Woodburn-Hubbard	$12.80	$4.97	$1.51	$19.28

CERTIFICATE OF SERVICE

UM 1481

I hereby certify that on the 30th day of January 2013, I served the foregoing **REPLY TESTIMONY OF JOHN M. FELZ** on behalf of CenturyTel of Oregon, Inc., CenturyTel of Eastern Oregon, Inc., United Telephone Company of the Northwest and Qwest Corporation for the above entitled docket on the following persons via e-mail transmission only.

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