

McDowell Rackner & Gibson PC



WENDY MCINDOO
Direct (503) 595-3922
wendy@mcd-law.com

December 10, 2012

VIA ELECTRONIC FILING AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: UM 1481 – Staff Investigation of the Oregon Universal Service Fund

Enclosed for filing in the above-referenced docket are the original and five (5) copies of Verizon's Opening Testimony of Don Price.

A copy of this filing has been served on all parties to this proceeding as indicated on the enclosed certificate of service.

Very truly yours,

A handwritten signature in blue ink that reads "Wendy McIndoo". The signature is written in a cursive, flowing style.

Wendy McIndoo
Office Manager

cc: Service List
Enclosure

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

DOCKET NO. UM 1481

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

**OPENING TESTIMONY OF
DON PRICE
ON BEHALF OF VERIZON**

December 10, 2012

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND ADDRESS.

3 A. My name is Don Price. My business address is 701 Brazos, Suite 600, Austin,
4 Texas 78701.

5 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

6 A. I am a Director – State Public Policy for Verizon.

7 Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE
8 IN THE COMMUNICATIONS INDUSTRY.

9 A. I have more than 30 years' experience in the communications industry, the vast
10 majority of which is in the public policy area. I worked for the former GTE
11 Southwest in the early 1980s, and then moved to the Texas Public Utility
12 Commission in 1983. There, I served as a Commission analyst and witness on
13 rate-setting and policy issues. In 1986, I became Manager of Rates and Tariffs, and
14 was responsible for Staff analyses of rate design and tariff policy issues in all
15 telecommunications proceedings before the Commission. I was hired by MCI in
16 1986, where I spent 19 years focused on public policy issues relating to competition
17 in telecommunications, including issues of intercarrier compensation and
18 coordination of positions in interconnection agreement negotiations.

19 With the close of the Verizon/MCI merger in January 2006, I assumed the
20 position of Director – State Regulatory Policy for Verizon Business. As a result of
21 internal reorganization, I assumed my current position in January 2010. Among
22 other things, I work with various corporate departments, including those involved
23 with product development and network engineering, to develop and coordinate
24 policies permitting Verizon to offer services to meet the demands of its customers
25 across all business segments, including consumers, corporate and government
26 entities, as well as customer demand in wholesale markets. In 2011, I also

1 assumed responsibility for the group that handles the tariffs for wholesale and retail
2 business services of several Verizon entities, including MCI Communications
3 Services, Inc., and MCImetro Access Transmission Services LLC.

4 During my career, I have testified before state regulators in at least 27 states
5 on a wide range of issues in many types of proceedings and on a variety of topics,
6 including intercarrier compensation issues, universal service policy, technical and
7 policy issues arising in interconnection agreement arbitrations with local exchange
8 carriers, and the role of regulation in competitive markets.

9 I earned Master's and Bachelor's degrees in sociology from the University of
10 Texas at Arlington in 1978 and 1977, respectively.

11 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

12 A. I am testifying on behalf of the Verizon affiliates that are authorized to provide a
13 variety of telecommunications services, including local and interexchange services,
14 in Oregon. These include MCImetro Access Transmission Services LLC, d/b/a
15 Verizon Access Transmission Services; MCI Communication Services, Inc., d/b/a
16 Verizon Business Services LLC; Teleconnect Long Distance Services and Systems
17 Company d/b/a Telecom*USA; TTI National, Inc.; Verizon Long Distance LLC;
18 Verizon Enterprise Solutions LLC; and Verizon Select Services, Inc.

19 Verizon does not receive any funding from the Oregon Universal Service
20 Fund ("OUSF"). However, each of these companies is required to collect OUSF
21 surcharges from their customers of retail intrastate telecommunications services
22 and remit those surcharges to the OUSF. As a result, Verizon's *customers* must
23 pay these surcharges – which constitute an 8.5% tax on their monthly phone bills –
24 to subsidize the business of other local exchange service providers.

1 **Q. PLEASE DESCRIBE THE BACKGROUND OF THIS PROCEEDING.**

2 A. In April 2010, the Commission opened its first full investigation of the OUSF since
3 its inception more than a decade earlier. The intent of the investigation was to
4 determine how effective the OUSF has been in meeting its original objectives, and
5 what modifications should be made to address the significant changes that have
6 taken place in the communications industry since the initial goals were set and the
7 program implemented. After parties filed comments, the Commission decided to
8 postpone resolving the issues (see Order No. 10-496), but re-opened the
9 proceeding in June of this year. It did so in response to concerns expressed by
10 some parties when the amount of funding given to rural carriers more than doubled
11 (going from \$6.8 million to \$15.65 million) and the end user surcharge was raised to
12 8.5%, making it the highest such surcharge in the United States. On August 29,
13 2012, the Administrative Law Judge issued a Ruling identifying the issues to be
14 addressed in this proceeding. My testimony will present Verizon's position on those
15 issues.

16

17 **II. SUMMARY OF POSITION**

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 A. Basic telephone service is available to consumers throughout Oregon at reasonable
20 and affordable rates. Extensive intermodal competition has developed over the
21 past decade without OUSF support and will continue to ensure that basic telephone
22 service is available to Oregon consumers at affordable rates. Because the original
23 purpose of the OUSF has been met, the program is obsolete, unnecessary and
24 should be eliminated, or at least substantially reduced.

25 There are several reasons why the OUSF should be eliminated, or
26 completely overhauled. First, the communications market has changed radically

1 since the OUSF was created and designed to support legacy analog voice wireline
2 telephone networks. The state's universal service policies must be re-examined in
3 light of numerous developments over the past decade – including shifts in consumer
4 preferences, the rapid rise of competition, technical innovation and the proliferation
5 of intermodal service providers – that have dramatically changed the
6 communications landscape in Oregon. The widespread and growing availability of
7 wireless, Voice over Internet Protocol (“VoIP”) and broadband services has resulted
8 in greater choice and lower rates for consumers. This robust intermodal
9 competition has helped ensure that affordable basic telephone service is available
10 throughout the state -- thereby fulfilling the essential goal of the OUSF. Given the
11 manner in which consumers choose to obtain and use communications services
12 today, use of the OUSF to underwrite the operation of traditional analog wireline
13 networks is unwarranted and counterproductive. And because the competitive
14 market has developed with virtually no funding support from the OUSF, continuing
15 to impose a massive tax on Oregon consumers is not necessary to ensure that
16 Oregonians have access to affordable voice service and, in fact, undermines
17 universal service goals.

18 The existing OUSF policies also conflict and are out-of-step with the
19 comprehensive universal service reforms adopted last year by the Federal
20 Communications Commission (“FCC”). It is not reasonable to continue following
21 decade-old policies in the face of intervening developments and events, including
22 the establishment of a new national framework for universal service. The FCC's
23 reforms are properly aimed at assuring and expanding service availability for
24 *consumers*, and not at assuring continuing levels of support for particular carriers or
25 one business model. The federal reforms are also designed to reduce wasteful or
26 excessive levels of support, and to eliminate funding in geographical areas where

1 one or more unsubsidized competitors is already providing adequate service. If a
2 provider can make affordable service available to customers without the need for
3 government support, it is unnecessary and wasteful to subsidize another carrier's
4 operations in the same geographic area. The Commission can most efficiently
5 ensure universal service in Oregon by harmonizing its efforts with those of the FCC.
6 Among other things, this means that the OUSF should not be used to provide
7 support in areas that the FCC determines do not warrant support, or to carriers that
8 maintain artificially low end-user voice rates. Conforming the existing state program
9 with the new federal universal service policies will require substantial changes to the
10 OUSF.

11 Finally, the current size of the OUSF, by itself, should cause the Commission
12 to question its validity. The fund is expected to disburse \$43 million over the next
13 year,¹ making it the *sixth largest* state high-cost fund in the country, and the third
14 biggest state fund on a per capita basis.² The program imposes an 8.5 percent tax
15 on Oregon telephone customers, which is the *highest* "high cost" surcharge
16 anywhere in the United States.³ Clearly, a program this excessive is not
17 sustainable, and cries out for re-examination. Other states are actively moving to
18 reduce the size of state universal service funds, and Oregon should do likewise. I
19 will expand on some of these points briefly.

20
21 ¹ Order No. 12-205, Docket UM 1594 (June 5, 2012), Appendix A (Staff Recommendation),
at 2.

22 ² According to a recent report issued by the National Regulatory Research Institute, only 21
23 states have high-cost funds. Conversely, 29 states and the District of Columbia have not
24 established such funds. Only Kansas and Nebraska distribute more in high-cost support on a per-
person basis than the \$11.11 per person that is collected and distributed in Oregon each year (\$43
million divided by 3.87 million persons). *Survey of State Universal Service Funds 2012* (July 2012),
at 3, 6, 52.

25 ³ Alaska reportedly has a 9.5% contribution rate, although its fund was designed for another
26 purpose. *Id.* at 6, 11, 65.

1 The communications market has changed substantially since the
2 Commission began formulating its universal service policies in the mid-to late
3 1990's.⁴ Those policies were established in an era when basic telephone service
4 was provided almost exclusively by a group of incumbent wireline telephone
5 companies operating traditional copper networks. That environment no longer
6 exists. It has been replaced by a vibrant competitive market in which consumers
7 have numerous choices of communications services and technologies they use and
8 the entities that provide them. Today's consumers obtain and use communications
9 services in vastly different ways, and increasingly rely less on legacy telephone
10 services offered by traditional service providers to meet their communications
11 needs. Oregon's OUSF policies have not kept pace with or adapted to the
12 significant technological revolutions that have occurred and the explosion of
13 competitive forces that have radically transformed the communications market and
14 the manner in which Oregonians purchase and use modern communications
15 services.

16 When the legislature established the state's universal service policies in
17 1999, incumbent local exchange carriers ("ILECs") controlled 2.1 million switched
18 access lines -- 98 percent of all local loops -- in Oregon, while five competitive local
19 exchange carriers ("CLECs") served the remaining 47,000 lines.⁵ Cable telephony

20
21 ⁴ Docket UM 731 was opened in January 1995. Over the next five years, the Commission
22 addressed a number of universal service policy issues, including the design of a fund, the services
23 that would be supported, and the means by which the program would be funded. In 1999, while the
24 Commission's proceeding was underway, the legislature adopted universal service policies by
enacting Senate Bill 622 (later codified in ORS 759.425). Following enactment of that statute, the
Commission formally implemented the OUSF and adopted the procedures by which the amount of
support would be determined and made available to non-rural local exchange carriers. Order No.
00-312, Docket UM 731 (June 16, 2000).

25 ⁵ FCC, Industry Analysis Division, Common Carrier Bureau, *Local Telephone Competition*
26 *at the New Millennium* (August 2000), Table 4. The FCC collects and compiles data on various
trends and developments in the telecommunications industry, and publishes reports that include

1 and VoIP services did not yet exist. Wireless service was also in its infancy, as
2 wireless carriers served only 28% of the state's population.⁶ Given these market
3 realities, there was an understandable expectation that the OUSF would
4 predominantly be used to provide funding support to the state's incumbent LECs.
5 Indeed, the size of the fund was initially set based on the costs of Oregon's two
6 largest ILECs and the number of lines they served.⁷

7 Today, market conditions are vastly different. The ILEC analog wireline-
8 centric world has changed remarkably over the past dozen years. As of June 30,
9 2011, ILECs in Oregon were serving 55% fewer local lines than they had in 1999
10 (949,000, down from 2.1 million).⁸ During the past decade, at least 95 non-ILEC
11 providers, including those that offer VoIP services, entered the market. By mid-
12 2011, these new competitors were providing 41 percent of the end user access
13 lines in Oregon (646,000).⁹ Cable telephony and other VoIP services, which did not
14 even exist in 2000, have flourished in the past decade. For example, cable
15 telephony services are now available to 98 percent of households in Oregon that
16 have access to cable TV service.¹⁰ Even more dramatic, as of June 2011, there

17
18 statistics on both a national and state-specific basis. I have reviewed and relied on a number of
19 those reports in preparing my testimony. All of the FCC reports I cite may be found on the FCC's
20 website: <http://www.fcc.gov/web/>.

21 ⁶ *Id.*, Table 5.

22 ⁷ See Order No. 00-312, at 16-17, 21-26. The Commission also established criteria by
23 which carriers other than ILECs might also apply to become eligible to obtain support from the
24 OUSF. However, it is my understanding that only one CLEC currently obtains any money from the
25 OUSF, and the amount of funding it receives is only a tiny fraction of the total fund.

26 ⁸ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, *Local Telephone Competition: Status as of June 30, 2011* (June 2012) (2011 Local Competition Report), Tables 9 and 14.

⁹ *Id.*, Tables 12, 13 and 17.

¹⁰ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, *Internet Access Services: Status as of June 30, 2011* (June 2012), Table 24.

1 were more than *twice* as many wireless subscribers in Oregon as there were
2 wireline switched access lines in service (3,355,000 vs. 1,595,000).¹¹ In fact, there
3 were *3.5 times more* wireless phones than the number of local loops provided by
4 ILECs.¹² Clearly, access to “basic telephone service” no longer depends on the
5 availability of analog voice service over traditional copper networks.

6 These competitive developments have helped ensure that the state’s
7 universal service goals have been met. According to the FCC, as of July 2010,
8 nearly 98 percent of Oregon households had telephone service (either fixed or
9 mobile), up from 94.8 percent in 2000.¹³ Oregon’s level of subscribership is higher
10 than the national average of 95.6 percent. Additionally, telephone services are far
11 more affordable than they were 12 years ago. Not only have the prices of wireless
12 service declined substantially, but VoIP and other intermodal competitors are also
13 providing voice services at attractive rates; indeed, these companies could not
14 succeed if they did not offer consumers competitive prices.

15 A “universal service” program that is predicated on supporting legacy wireline
16 services no longer makes sense given the strikingly different market conditions that
17 exist today. A program that continues to fund legacy technologies and services
18 ignores market realities and is out of synch with the ways in which today’s
19 consumers choose to communicate. Because Oregonians have access to
20 affordable voice service through a variety of technologies and service providers,
21 there is no longer a need to require consumers to continue subsidizing one class of

22 _____
¹¹ *2011 Local Competition Report*, Tables 9 and 18.

23 ¹² *Id.*

24 ¹³ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau,
25 *Telephone Subscribership in the United States* (December 2011), Table 2; FCC, Industry Analysis
26 Division, Common Carrier Bureau, *Telephone Subscribership in the United States* (March 2001),
Table 2.

1 service providers, nor is it reasonable to base support on the costs of one specific
2 network technology. A fund that predominantly subsidizes one class of service
3 providers is also inconsistent with the statutory requirement that the program be
4 “competitively neutral and nondiscriminatory.” ORS 759.425(1). ORS
5 759.425(2)(a) and (3)(b) authorize the Commission to review and adjust its
6 universal service program as necessary to reflect changes in competition in the
7 communications industry and other relevant factors. The Commission should revise
8 its approach now by reshaping universal service policies in a manner that reflects
9 today’s realities and market conditions.

10
11 **III. ORIGINS OF THE OUSF**

12 **Q. PLEASE DESCRIBE THE INITIAL DEVELOPMENT OF OREGON’S UNIVERSAL**
13 **SERVICE POLICIES.**

14 A. The Commission first addressed universal service policies and the parameters of a
15 state funding program in Docket UM 731. In a series of orders issued between
16 1995 and 2000, the Commission concluded that a universal service fund should
17 “provide the minimum amount of support necessary to maintain affordable basic
18 network access service,”¹⁴ defined the basic telephone services that would be
19 supported through a state fund, and implemented a program that was designed to
20 provide funding support to regulated local exchange carriers.

21 **Q. WHAT ROLE DID THE STATE LEGISLATURE HAVE IN THE ESTABLISHMENT**
22 **OF OREGON’S UNIVERSAL SERVICE POLICIES?**

23
24
25 _____
26 ¹⁴ Order No. 95-1103, at 2.

1 A. While the Commission's Docket UM 731 investigation was underway, Congress
2 passed the 1996 Telecommunications Act, which included new provisions
3 governing universal service. In 1999, the Oregon legislature also enacted
4 comprehensive telecommunications legislation, Senate Bill 622. Among other
5 things, SB 622 directed the Commission to "establish and implement a competitively
6 neutral and nondiscriminatory universal service fund to ensure basic telephone
7 service is available at a reasonable and affordable rate." (The universal service
8 provisions were subsequently codified in ORS 759.425.) The bill also required the
9 Commission to ensure that the state fund conforms to the universal service
10 provisions (*i.e.*, Section 254) of the federal Telecommunications Act "and to related
11 rules adopted by the [FCC]," to the extent appropriate. ORS 759.425(1). The bill
12 established general guidelines for the state fund but recommended that the
13 Commission periodically review and modify the program as necessary to reflect
14 changes in competition, changes in federal universal service support and other
15 factors the Commission considers relevant.

16 **Q. WHAT ACTIONS DID THE COMMISSION TAKE TO IMPLEMENT THE 1999**
17 **LEGISLATIVE POLICIES?**

18 A. Following enactment of SB 622, the Commission proceeded to implement the
19 OUSF. It decided that support should be provided for residential and business local
20 exchange lines (including multi-lines). Funding was initially provided to the two non-
21 rural local exchange carriers, US West (now CenturyLink) and GTE (now Frontier).
22 In Order No. 99-312, issued June 16, 2000, the Commission adopted a cost proxy
23 model to determine the cost of serving high cost areas within those two ILECs'
24 operating territories, established a cost benchmark (\$21) for basic telephone
25 service, and adopted other elements of the program. The Commission determined
26 the amount of funding by calculating the difference between the economic cost of

1 providing basic telephone service in high cost areas (as determined by the cost
2 proxy model) and the cost benchmark, less any support the carriers received from
3 federal universal service programs. The size of the fund was estimated to be about
4 \$42 million a year.

5 A year later, the Commission opened a new docket, UM 1017, to
6 consider expanding the OUSF to include the service areas of rural ILECs. In Order
7 No. 03-082, the Commission approved a stipulation among Staff and 11 other
8 parties that resulted in making more than 30 rural ILECs eligible for OUSF funding.
9 The major departure from the earlier decision was that, rather than use a cost proxy
10 model to calculate the forward-looking economic cost of providing basic telephone
11 service, the basic service costs of rural carriers were to be determined based on the
12 ILECs' historic embedded costs. The Commission expected that, by including rural
13 carriers in the OUSF, the surcharge imposed on all end users would rise to 6.7
14 percent.

15 **Q. WAS THE COMMISSION'S UNIVERSAL SERVICE PROGRAM DESIGNED**
16 **PRIMARILY TO BENEFIT INCUMBENT LECS?**

17 **A.** Yes. In the late 1990's, the local exchange market in Oregon was dominated by
18 two service providers, US West (now CenturyLink) and GTE (now Frontier), and a
19 number of smaller carriers that had been granted local wireline service franchises.
20 Consequently, when policy makers in Oregon were devising a universal service
21 program, they focused primarily on the provision of "basic telephone service" by the
22 traditional wireline carriers. For example, the Commission determined the size of
23 the original fund based on the cost of providing basic service in US West's and
24 GTE's service areas, and the number of lines that those two companies served.
25 See Order No. 00-312, at 16, 21-26. The Commission subsequently brought rural
26

1 LECs into the program, basing support on their embedded costs. The Commission
2 did adopt additional requirements that a non-ILEC would have to meet in order to
3 become eligible for OUSF funding. Despite this, my understanding is that CLECs
4 obtain only a miniscule amount from the OUSF. Thus, the state fund is used almost
5 entirely to provide financial support to incumbent LECs, just as it has for the past 12
6 years.

7 **Q. PLEASE DESCRIBE THE MARKET CONDITIONS THAT EXISTED WHEN THE**
8 **LEGISLATURE AND COMMISSION FIRST ESTABLISHED UNIVERSAL**
9 **SERVICE POLICIES IN OREGON.**

10 A. In 1999, when the Commission was completing its initial development and
11 implementation of the OUSF (in Phase IV of UM 731), ILECs controlled 2.1 million
12 switched access lines, or 98 percent of the local loops in Oregon.¹⁵ At the time, only
13 five CLECs were providing service in the state,¹⁶ and together they served merely 2
14 percent (only 47,000) of the local lines.¹⁷ Cable companies had not yet begun to
15 provide telephony services, and wireless carriers were still in their early growth
16 stages. At the time, wireless companies served only 28 percent of the state's
17 population.¹⁸

18 **Q. WERE CIRCUMSTANCES MATERIALLY DIFFERENT IN 2003 WHEN THE OUSF**
19 **WAS EXPANDED TO INCLUDE RURAL CARRIERS?**

20 A. Not appreciably. As I indicated previously, the Commission began considering
21 including rural LECs in the OUSF in 2001, and approved a stipulation accomplishing
22

23 ¹⁵ *Local Telephone Competition at the New Millennium, supra*, Table 4.

24 ¹⁶ FCC, Industry Analysis Division, Common Carrier Bureau, *Local Telephone Competition: Status as of December 31, 2000* (May 2001), Table 7.

25 ¹⁷ *Id.*

26 ¹⁸ *Id.*, Table 5.

1 that goal in February 2003. At the end of 2002, ILECs still had 1,955,544 access
2 lines, or 91 percent of the local loops in the state.¹⁹ Half a dozen CLECs served
3 only 9 percent of the lines in Oregon, or a total of 183,319.²⁰ Mobile usage was
4 beginning to show steady growth, with an 84 percent increase in subscribership
5 over three years (to a total of 1,682,343 subscribers),²¹ but the relevance of wireless
6 usage, let alone other competitors' presence, was not addressed by the
7 Commission when it approved the parties' stipulation and decided to make rural
8 LECs eligible for OUSF funding.

9
10 **IV. CHANGES IN THE INDUSTRY, TECHNOLOGY AND MARKETS**

11 **Q. HAS THE MARKET STRUCTURE CHANGED SINCE 2003, WHEN THE**
12 **COMMISSION LAST REVIEWED ITS UNIVERSAL SERVICE POLICIES?**

13 **A.** Yes, and dramatically so. During the past decade, numerous service providers
14 have entered the market and radically changed the competitive landscape. Today,
15 many other CLECs, wireless carriers, cable companies and VoIP providers offer
16 competing voice services. According to the FCC, as of June 30, 2011, there were
17 more than 100 non-ILECs providing competitive services in Oregon.²² These
18 companies include Integra Telecom, Level 3, tw telecom, XO Communications,
19 Windstream Communications, East Oregon Telecom, Hunter Communications,
20 Douglas FastNet, and many others. Cable companies, such as Comcast, Charter
21 Communications, Wave Broadband and BendBroadband, are also providing voice

22
23 ¹⁹ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, *Local Telephone Competition: Status as of December 31, 2002* (June 2003), Table 6.

24 ²⁰ *Id.*, Tables 6 and 12.

25 ²¹ *Id.*, Table 13.

26 ²² *2011 Local Competition Report, supra*, Table 17.

1 and high-speed Internet services to residential and business customers. The
2 Oregon Broadband Advisory Council recently reported that CLECs and cable
3 providers have invested hundreds of millions of dollars in telecommunications
4 infrastructure in Oregon.²³ The FCC has identified 74 providers of VoIP services
5 and 12 facilities-based mobile telephone carriers operating in Oregon.²⁴ As of June
6 30, 2011, more than 41 percent of the total end-user landline switched access lines
7 in Oregon were provided by companies other than an incumbent LEC,²⁵ and more
8 than 60 percent of those lines were provided using VoIP.²⁶

9 Oregon's communications service providers face fierce and increasing
10 competition from numerous market participants and technologies. Indeed, there
11 has been a fundamental revolution that has reshaped the way in which individuals
12 communicate. Consumers no longer depend on plain old voice telephone services.
13 Today, they use a mix of services, applications, and providers to meet their overall
14 communications needs, often substituting text messages, email, social network
15 updates and Twitter feeds for voice messages. And they communicate over a
16 variety of networks, such as traditional wireline systems, cable company IP
17 networks, analog and digital wireless networks, and broadband connections.
18 Indeed, the growing usage of wireless services, devices and applications shows
19 that consumers' communications needs are not as well facilitated by traditional
20 wireline networks. The methods of communication continue to evolve as
21

22 ²³ *Broadband in Oregon, A Report of the Oregon Broadband Advisory Council*, presented to
23 the Business Transportation and Economic Development Committee for the Seventy-Seventh
Legislative Assembly (November 1, 2012) ("*Broadband in Oregon*"), at 8-10.

24 ²⁴ *2011 Local Competition Report*, Tables 17 and 18.

25 ²⁵ *Id.*, Table 9.

26 ²⁶ *Id.*, Tables 9 and 15.

1 competition drives communications companies to meet the evolving desires of
2 consumers through deployment of innovative technologies and services.

3 **Q. CAN YOU ELABORATE ON THE POINT YOU MADE ABOUT TEXT**
4 **MESSAGING?**

5 A. Yes. In recent years, there has been explosive growth in text messaging as an
6 alternative to voice conversations. According to CTIA-the Wireless Association, the
7 number of text messages nationwide reached 2.27 trillion during the 12-month
8 period ending June 30, 2012.²⁷ In fact, the number of text messages was virtually
9 equal to the number of wireless conversation minutes during the same time period,
10 in contrast to four years earlier, when the number of text messages was only one-
11 fourth the number of wireless conversation minutes of use.²⁸

12 **Q. WHAT IMPACT HAVE WIRELESS SERVICES HAD ON THE AVAILABILITY OF**
13 **BASIC VOICE SERVICES?**

14 A. The tremendous growth of wireless services has had the most notable impact on
15 traditional telephone services. Wireless usage -- for both local and long distance
16 communications -- has exploded, and this trend will only continue. The number of
17 wireless subscribers in Oregon *doubled* between mid-2003 and June 30, 2012.²⁹

19 ²⁷ CTIA's *Semi-Annual Wireless Industry Survey* (2012), at 7 of 10; available at
20 http://files.ctia.org/pdf/CTIA_Survey_MY_2012_Graphics-final.pdf.

21 ²⁸ Social media and other new forms of communications are also rapidly displacing traditional
22 telephonic voice conversations. For example, there were more than 31 million "tweets" sent on the
23 recent Election Day, including as many as 327,452 tweets per minute when election results were
24 broadcast. This is up markedly since 2007, when individuals tweeted only 5,000 times a day. It is
also noteworthy that more than half of all the people in North America use Facebook, and that there
are 425 million mobile users of the service. The average user spends 20 minutes a day on the
Facebook site. See, e.g., [http://ansonalex.com/infographics/facebook-user-statistics-2012-
infographic/](http://ansonalex.com/infographics/facebook-user-statistics-2012-infographic/).

25 ²⁹ *2011 Local Competition Report*, Table 18; FCC, Industry Analysis and Technology
26 Division, Wireline Competition Bureau, *Local Telephone Competition Status as of December 31,
2003* (June 2004), Table 13.

1 By mid-2011, there were more than *twice* as many mobile wireless subscribers
2 (3,355,000) as there were wireline access lines (1,595,000) in the state.³⁰ Stated
3 another way, two-thirds of the 4.95 million voice “lines” in Oregon are wireless.

4 Wireless coverage is also pervasive. According to the National
5 Telecommunications and Information Administration’s (“NTIA”) National Broadband
6 Map, as of December 31, 2011, 99 percent of Oregon’s population was served by at
7 least one wireless provider of broadband service, and 93 percent of the population
8 had access to at least three wireless broadband service providers.³¹ CenturyLink
9 has acknowledged that “there are four or more wireless carriers in most of the areas
10 served by CenturyLink QC, and in the majority of other areas there are at least
11 three carriers.”³² The company admitted further that “there are very few areas
12 within CenturyLink QC wire center boundaries where there is no wireless coverage,
13 and this occurs only in the most sparsely populated areas.”³³ CenturyLink
14 concluded, therefore, that “nearly all customers can choose from multiple wireless
15 providers” and “very few Oregonians actually live in the areas without wireless
16 service.”³⁴

17
18 ³⁰ *2011 Local Competition Report*, Tables 9 and 18.

19 ³¹ See <http://www.broadbandmap.gov/summarize/state/Oregon>. Nationwide, more than 99
20 percent of the population, even in rural areas, is served by one or more mobile voice providers; 97.2
21 percent of the population is served by three or more mobile providers; and 96.6 percent of the
22 population in rural areas is served by at least two mobile voice providers. FCC, *Annual Report and
23 Analysis of Competitive Market Conditions With Respect to Mobile Wireless, Including Commercial
24 Mobile Services*, WT Docket No. 10-133, Fifteenth Report, FCC 11-103 (2011), 6, 217-218. Thus,
25 wireless carriers are providing a competitive alternative in historically difficult to serve “high-cost”
26 rural areas.

³² CenturyLink QC’s Price Plan Performance Report, filed in UM-1354 (Nov. 13, 2012), at
10.

³³ *Id.*, at 9.

³⁴ *Id.*, at 9, 10.

1 The United States Centers for Disease Control and Prevention (“CDC”) found
2 that, as of December 2011, wireless phones were either the exclusive or
3 predominant form of voice communication in more than half (52.7 percent) of
4 Oregon households. More than 38 percent of the households were wireless-only,
5 and an additional 14.5 percent used wireless, rather than landline, telephones for
6 most of their calls.³⁵ In comparison, only 11 percent of Oregon households used
7 landline phones exclusively.³⁶ And low-income individuals are even more likely
8 than higher-income individuals to use wireless service exclusively, proving that
9 wireless services are an effective, affordable alternative to traditional landline
10 services at all income levels.³⁷ Not only is wireless displacing traditional voice
11 services at an increasing rate, but the trend of lower prices (including flat-rate “any
12 distance” pricing)³⁸ and greater value (e.g., more features and higher speeds)
13 makes wireless services an especially affordable option for obtaining basic voice
14 (and other) services.³⁹

16 ³⁵ Blumberg SJ, Luke JV, Ganesh N., *et al*, *Wireless Substitution: State-level Estimates*
17 *from the National Health Interview Survey, 2010 - 2011*, National Health Statistics Report No. 61,
18 National Center for Health Statistics, Centers for Disease Control (October 12, 2012), at 8.

18 ³⁶ *Id.*

19 ³⁷ More than half of adults living in poverty (51.4 percent) and nearly 40 percent of those
20 that live near the poverty level resided in wireless-only homes at the end of last year. Blumberg SJ,
21 Luke JV, *Wireless Substitution: Early Release of Estimates from the National Health Interview*
Survey, July-December 2011, National Center for Health Statistics, Centers for Disease Control
(June 20, 2012), at 3.

22 ³⁸ Voice revenue per wireless customer (a proxy for the prices customers pay) declined 30
23 percent between 2005 and 2010. Roger Entner, *What is the price of a megabyte of wireless data?*,
24 FIERCE WIRELESS, April 13, 2011, [http://www.fiercewireless.com/story/entner-what-price-
25 megabyte-wireless-data/2011-04-13](http://www.fiercewireless.com/story/entner-what-price-megabyte-wireless-data/2011-04-13).

24 ³⁹ Wireless carriers in Oregon offer a plethora of voice and data plans, and often include
25 handsets at little or no cost. For example, according to AT&T’s website, the company offers several
26 wireless phones for less than one dollar, together with voice plans starting at less than \$40 per
month, that can be combined with various data and unlimited messaging plans.

1 **Q. PLEASE DESCRIBE THE EXPANDING ROLE OF CABLE TELEPHONY AND**
2 **VOIP SERVICES.**

3 A. VoIP services continue to expand rapidly in Oregon. As of June 30, 2011,
4 companies other than traditional ILECs were providing wireline telephone service to
5 nearly 400,000 VoIP subscribers in Oregon,⁴⁰ 33 percent more than two years
6 earlier.⁴¹ Moreover, cable telephony service is “available in at least 74 of
7 CenturyLink QC’s 82 wire centers in Oregon, and these wire centers comprised
8 98% of CenturyLink QC’s access lines in Oregon as of December 31, 2011.”⁴² This
9 trend exists statewide, as cable broadband service is currently available to 98
10 percent of households in Oregon that have access to cable TV service.⁴³
11 Nationwide, the number of cable telephone subscribers more than quadrupled, from
12 5.9 to 25.3 million, between 2005 and 2011.⁴⁴ In Oregon, cable operators are
13 aggressively implementing VoIP services and offering them at attractive prices. For
14 example, as explained on Comcast’s website, its customers in Portland can obtain
15 unlimited local and long-distance calling, plus 12 calling features and voice mail, for
16 only \$29.99 per month. Charter Communications also offers customers a service
17 bundle that includes unlimited voice, Internet access and video services for less
18 than \$90 a month.

19
20 _____
21 ⁴⁰ 2011 Local Competition Report, Table 15.

22 ⁴¹ Compare *id.* with FCC, Industry Analysis and Technology Division, Wireline Competition
Bureau, *Local Telephone Competition: Status as of June 30, 2009* (September 2010), Table 14.

23 ⁴² CenturyLink QC’s Price Plan Performance Report, *supra*, at 7.

24 ⁴³ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, *Internet
Access Services: Status as of June 30, 2011* (June 2012) (“*Internet Access Services, 2011*”), Table
24.

25 ⁴⁴ National Cable & Telecommunications Assn. website at
26 <http://www.ncta.com/Stats/CablePhoneSubscribers.aspx>.

1 In addition to cable VoIP, other VoIP services are being offered at attractive
2 prices by other innovative companies, including Vonage, Skype, 8x8, MagicJack
3 and Google. For example, Skype users can take advantage of unlimited calling in
4 the United States and Canada for only \$2.99 per month, while Vonage offers
5 unlimited local and long distance calling in the U.S., Canada and Puerto Rico for
6 only \$24.99 a month (following an even lower-priced three-month trial period).
7 These cable and other VoIP competitors could not succeed if consumers did not
8 find their services attractive.

9 **Q. HAS THE DEPLOYMENT OF BROADBAND FACILITIES IN OREGON HELPED**
10 **EXPAND THE AVAILABILITY OF NEW SERVICES?**

11 A. Yes. The increased deployment of broadband connections has facilitated, in
12 particular, the growth of VoIP services. Some 85 facility-based broadband
13 providers have been identified in Oregon, the vast majority of which are not
14 traditional LECs.⁴⁵ As of June 30, 2011, these broadband providers were providing
15 more than 2.5 million high-speed connections (including wireline and wireless) in
16 Oregon.⁴⁶ The number of cable modem high-speed connections in Oregon rose
17 90% between 2005 and 2011, to 640,000.⁴⁷ In addition to the wireless broadband
18 facilities I referred to earlier, the National Broadband Map shows that as of the end
19 of 2011, more than 91 percent of Oregon's population was served by two or more
20 wireline broadband providers, and only 1.2 percent of the population lacked any
21 wireline broadband service.⁴⁸ These new network operators are successfully

22 ⁴⁵ *Internet Access Services, 2011, supra*, Table 23; *Broadband in Oregon, supra*, at 22-24.

23 ⁴⁶ *Internet Access Services, 2011*, Table 18.

24 ⁴⁷ *Compare id. with* FCC, Industry Analysis and Technology Division, Wireline Competition
25 Bureau, *High-Speed Services for Internet Access: Status as of December 31, 2008* (updated Sept.
26 2011), Table 17.

⁴⁸ See <http://www.broadbandmap.gov/summarize/state/Oregon>.

1 penetrating the market: two studies show that between 75% and 82% of the
2 households in Oregon have broadband in the home.⁴⁹ This is higher than the
3 national figure of 68% and ranks Oregon sixth in the nation in terms of broadband
4 adoption.⁵⁰ These developments provide additional evidence of the range of
5 services and providers available to meet the communications needs of Oregon
6 consumers.

7 **Q. WHAT EFFECTS HAVE THESE TECHNOLOGICAL AND COMPETITIVE**
8 **DEVELOPMENTS HAD ON THE ILECS' TRADITIONAL DOMINANCE OF BASIC**
9 **VOICE SERVICES IN OREGON?**

10 A. There is a strong correlation between the increase in wireless subscribership and
11 the steady decline in wired access lines. In 2004, the number of wireless
12 subscribers surpassed the number of wireline switched access lines in Oregon for
13 the first time.⁵¹ Since then, wireless subscriptions have greatly exceeded the
14 number of conventional analog voice lines. By June of 2011, wireless carriers were
15 serving *3.5 times more* customers than ILECs were over traditional local loops.⁵²
16 The rise of cable modem service and cable telephony has also led to a reduction in
17 the number of primary and secondary ILEC lines used by Oregonians. These and
18 other technological and market developments have contributed to a steady erosion
19 in the number of switched access lines in service. In fact, by June 30, 2011, the
20
21
22

23 ⁴⁹ *Broadband in Oregon*, at 4.

24 ⁵⁰ *Id.*

25 ⁵¹ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, *Local Telephone Competition: Status as of December 31, 2006* (December 2007), Tables 9, 10 and 14.

26 ⁵² *2011 Local Competition Report*, Tables 9 and 18.

1 number of ILEC-owned loops had declined to 949,000, which is 55 percent fewer
2 lines than those companies operated in 1999.⁵³

3 **Q. HOW HAVE THESE MARKETPLACE DEVELOPMENTS AFFECTED THE**
4 **AVAILABILITY AND AFFORDABILITY OF BASIC TELEPHONE SERVICE?**

5 A. The technological and competitive developments I described above have helped
6 ensure that basic telephone service is available and affordable throughout Oregon.
7 In fact, by July 2010, the percentage of Oregon households that had telephone
8 service (either fixed or mobile) had increased from 94.8 percent to almost 98
9 percent since the OUSF was established in 2000.⁵⁴ Dynamic market forces,
10 including competitive growth stemming from continued investments in advanced
11 technologies, price reductions, and the availability of bundled services, undoubtedly
12 have had a bigger impact on achieving this high penetration rate and ensuring the
13 availability of basic service than the hundreds of millions of dollars that the OUSF
14 has extracted from Oregon consumers and distributed to the operators of legacy
15 copper networks.

16 The widespread and growing availability of wireless, VoIP and broadband
17 services has resulted in greater choice and lower rates for consumers at all income
18 levels. As I stated earlier, cable telephone and other VoIP services are priced
19 attractively in Oregon (below \$30 a month), and prices for wireless services have
20 declined substantially since 2005.

21

22

23 ⁵³ Compare 2011 Local Competition Report, Table 9, with Local Telephone Competition at
the New Millennium, supra, Table 4.

24 ⁵⁴ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau,
Telephone Subscribership in the United States (December 2011), Table 2; FCC, Industry Analysis
25 Division, Common Carrier Bureau, Telephone Subscribership in the United States (March 2001),
Table 2.
26

1 According to the FCC, from 2000 to 2006, expenditures on telephone service
2 as a percentage of total household expenditures remained relatively stable, ranging
3 from 2.25 percent to 2.35 percent.⁵⁵ However, the overall bills paid by customers
4 for telephone services, already widely affordable, have become even more so as a
5 result of competition generally and the increase in bundled service offerings. For
6 example, the prices for total telephone service *decreased* 23.4 percent from 2000 to
7 2007 (the latest date for which data is available), after adjusting for inflation. During
8 the same time period, the cost of all other consumer items *increased* 22.5 percent.⁵⁶

9 **Q. DO THE STATE'S UNIVERSAL SERVICE POLICIES REFLECT THESE**
10 **TECHNOLOGICAL AND MARKET DEVELOPMENTS?**

11 A. No. The marketplace forces discussed above have achieved the state's universal
12 service goals -- making affordable basic service available to all Oregonians.
13 Because consumers can readily obtain quality voice services at affordable rates
14 from a variety of service providers using an array of alternative technologies, the
15 notion of "universal service" as providing access to a traditional landline phone is
16 anachronistic. Thus, universal service policies conceived in the context of a single
17 ubiquitous wireline network must be re-examined and revised to reflect the new
18 market realities.

19 Most if not all of the intermodal service providers can and already do provide
20 affordable voice services to consumers in Oregon without the help of any OUSF
21 support. Because robust intermodal competition has generally evolved in Oregon
22 without any explicit state-sponsored and end-user funded "universal service"

23
24 ⁵⁵ FCC, Industry Analysis and Technology Division, Wireline Competition Bureau,
25 *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*
(August 2008), Table 2.1.

26 ⁵⁶ *Id.*, Table, 3.1.

1 support, the Commission should refuse to perpetuate subsidies that are no longer
2 needed to achieve the original goals of the universal service program. Because the
3 state's universal service goals have been achieved through the market forces and
4 technological and competitive developments I have described, supplemental state
5 "universal service" support is unnecessary.

6 **Q. DOES THE OUSF CURRENTLY OPERATE IN A COMPETITIVELY NEUTRAL**
7 **AND NONDISCRIMINATORY MANNER?**

8 A. No. Universal service is a *service*, not a network, and requires only that all
9 customers are able to obtain basic voice service from *some* provider using *some*
10 network, not necessarily from an incumbent LEC using its network. The OUSF,
11 however, is used almost exclusively to subsidize one set of competitors and one
12 technological model (legacy analog copper networks). By supporting only one
13 group of service providers, the program disadvantages other firms that must
14 compete against the companies that receive state subsidies. The manner in which
15 the amount of support is determined can also reward inefficient operators, even if
16 their competitors or potential new market entrants are more efficient.

17
18 **V. THE FCC'S UNIVERSAL SERVICE REFORMS**

19 **Q. DO THE FCC'S UNIVERSAL SERVICE POLICY REFORMS ALSO JUSTIFY RE-**
20 **EXAMINATION OF THE OUSF?**

21 A. Yes. ORS 759.425(1) directs the Commission to make sure that the OUSF
22 conforms to rules and decisions of the FCC that establish universal service policies
23 on a national basis. The Oregon statute also directs the Commission to modify the
24 method for determining the level of OUSF support based on changes in the federal
25 universal service program. ORS 759.425(3)(b). Accordingly, the Commission
26 should reassess the details of the OUSF program and make appropriate changes in

1 light of the FCC's comprehensive overhaul of the nation's universal service and
2 intercarrier compensation systems in its *USF/ICC Transformation Order* this past
3 year.⁵⁷

4 In that order, the FCC concluded that significant reforms were necessary
5 because the existing programs were "based on decades-old assumptions that fail to
6 reflect today's networks, the evolving nature of communications services, or the
7 current competitive landscape."⁵⁸ The FCC found that existing policies were
8 "outdated" and "ill-equipped" to address the modern telecommunications world in
9 which consumers have access to and increasingly prefer to obtain voice services
10 from a variety of providers, not just traditional narrowband, wireline system
11 operators.⁵⁹ The FCC acknowledged that its rules were directing funds to recipients
12 "in ways that may no longer make sense in today's marketplace."⁶⁰ It also found that
13 the current fund mechanisms did not ensure that carriers' uses of the funds were
14 prudent and efficient, and lacked accountability.

15 The FCC's criticisms of the federal universal service program are equally
16 applicable to the OUSF. Just as the FCC has sought to modernize the approach to
17 universal service and implemented meaningful reforms on a nationwide basis, the
18 Commission can best achieve Oregon's universal service policy goals by
19 harmonizing its efforts and policies with those of the FCC. Indeed, as the FCC's
20
21

22 ⁵⁷ See *Connect America Fund*, WC Docket No. 10-90, *et al*, Report and Order and Further
23 Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Rcd 17663 (2011) ("*USF/ICC Transformation
24 Order*"), *petitions for review pending sub nom. Direct Communications Cedar Valley, LLC v. FCC*,
25 No. 11-9581 (10th Cir. filed Dec. 18, 2011) (and consolidated cases).

26 ⁵⁸ *USF/ICC Transformation Order*, at ¶¶6.

⁵⁹ *Id.*, ¶¶6, 9.

⁶⁰ *Id.*, ¶¶6, 287.

1 comprehensive solution for universal service reform is implemented, it is clear that
2 the OUSF will no longer be needed.

3 **Q. WHAT WERE SOME OF THE FCC'S PRIMARY GOALS IN REVAMPING**
4 **FEDERAL UNIVERSAL SERVICE PROGRAMS?**

5 A. The FCC was motivated by a desire to promote the growth of broadband networks
6 and services. For that reason, it re-purposed traditional universal service programs
7 to promote the universal availability of voice service over modern fixed and mobile
8 networks that are capable of providing voice and broadband services.⁶¹ The FCC's
9 reforms were also designed to eliminate waste and inefficiency, improve incentives
10 for rational investment and operation by recipients, and ensure better
11 accountability.⁶² By controlling the size of federal support programs, the FCC also
12 aimed to provide support "that is sufficient but not excessive so as to not impose an
13 excess burden on consumers and businesses who ultimately pay to support the
14 Fund."⁶³

15 **Q. BRIEFLY DESCRIBE SOME OF THE MAJOR REFORMS ADOPTED BY THE**
16 **FCC.**

17 A. The FCC's *USF/ICC Transformation Order* is lengthy, so I will only address a few
18 significant provisions that are pertinent to the Commission's investigation here. It is
19 important to understand that while the FCC's decision established a broad
20 framework for reforming universal service programs, some of the specific reforms
21 will be implemented over a transition period and others will require further decisions
22 regarding implementation details.

23
24 ⁶¹ *Id.*, ¶¶1, 5, 17.

25 ⁶² *Id.*, ¶¶7, 11, 195, 286-289.

26 ⁶³ *Id.*, ¶57.

1 A cornerstone of the FCC order was the creation of the Connect America
2 Fund (“CAF”), which will ultimately replace all existing high-cost support
3 mechanisms. The FCC also established a Mobility Fund to promote mobile voice
4 and broadband services in unserved areas. The FCC capped the amount of CAF
5 funding at \$4.5 billion annually, froze the amount of legacy high-cost support
6 provided to price cap carriers (such as CenturyLink and Frontier) pending the
7 development of a new cost model, limited reimbursement for certain expenses, and
8 established processes for phasing out or reducing certain high-cost programs over
9 time. These changes are intended to rationalize and target federal support on a
10 more granular level, by directing funds only to areas where subsidies are truly
11 needed. In the long run, the FCC intends to rely on a competitive bidding system to
12 choose the most efficient universal service providers and technologies.

13 Three principles embraced by the FCC warrant particular attention. First, the
14 FCC reforms are properly aimed at assuring and expanding service availability for
15 *consumers*, and not at ensuring the continuing existence of support for particular
16 carriers or business models.⁶⁴ Second, the FCC ruled that the CAF will not be used
17 to provide funding support in areas where there is an unsubsidized competitor
18 providing affordable voice and broadband service. Funding is to be directed instead
19 to areas where providers would not deploy and maintain network facilities absent
20 receipt of a subsidy. According to the FCC, providing universal service support in
21 areas where another service provider that does not receive government subsidies is

22
23
24 ⁶⁴ The FCC flatly rejected the concept that current recipients are entitled to continued
25 support. “Indeed, there is no statutory provision or Commission rule that provides companies with a
26 vested right to continued receipt of support at current levels, and we are not aware of any other,
independent source of law that gives particular companies an entitlement to ongoing USF support.”
Id., ¶293.

1 offering quality service “is an inefficient use of limited universal service funds.”⁶⁵ If
2 affordable service is already available through an unsubsidized provider, it is not
3 necessary or desirable to subsidize another carrier’s operation.

4 And third, the FCC sought to “ensure fairness by reducing high-cost loop
5 support for carriers that maintain artificially low end-user voice rates.”⁶⁶ The FCC
6 expects such carriers to recover more of their costs from their end user customers.
7 The FCC explained that it is inappropriate to provide subsidies to carriers that are
8 charging their customers local service rates that are lower than a prescribed
9 benchmark level, which will be set at “the national average of local rates plus such
10 state regulated fees.”⁶⁷ “Doing so places an undue burden on the Fund and
11 consumers that pay into it.”⁶⁸

12 **Q. ARE THE FCC’S NEW UNIVERSAL SERVICE POLICIES RELEVANT TO THE**
13 **COMMISSION’S REVIEW OF THE OUSF?**

14 A. Yes. As I stated earlier, in enacting ORS 759.425, the Oregon legislature directed
15 the Commission to ensure that the OUSF program conforms to the universal service
16 rules and policies adopted by the FCC. The FCC’s reforms are intended to assure
17 and expand service availability for consumers, which is consistent with the goal of
18 the OUSF that affordable basic service be available to all. However, the FCC has
19 chosen new means of meeting that objective, and is implementing reforms that are
20 intended to reduce wasteful or excessive levels of support.

21
22
23 ⁶⁵ *Id.*, ¶¶24, 27, 170, 280-281.

24 ⁶⁶ *Id.*, ¶¶27, 197, 235-241.

25 ⁶⁷ *Id.*, ¶238. The state fees will include state subscriber line charges, universal service fees
and mandatory extended area service charges.

26 ⁶⁸ *Id.*, ¶237.

1 For example, the FCC determined that funding should be made available only
2 in areas where providers would not deploy and maintain network facilities unless
3 they received a subsidy. Applying that principle, the FCC said that it will eliminate
4 funding in geographic areas where one or more unsubsidized competitors is already
5 providing adequate service. To be consistent, the OUSF should not be used to
6 provide support in any area that the FCC determines does not warrant subsidies.
7 The FCC also made clear that a carrier should not receive support from the
8 universal service fund if the provider is charging unreasonably low (below-
9 benchmark rates) for local service and thus is not recovering a sufficient amount of
10 its costs from its own end user customers. The FCC explained that providing
11 subsidies to such carriers is unwarranted, and unfair to the customers of other
12 carriers that are compelled to contribute the money used to subsidize the artificially
13 low rates paid by other consumers. To ensure that the universal service program in
14 Oregon conforms to the new national guidelines, the Commission should
15 incorporate these same principles in its administration of the OUSF.

16 It should also be emphasized that the FCC did not contemplate that state
17 funding mechanisms, like the OUSF, would serve as a vehicle for replacing any
18 monies subject to the federal reforms. Instead, the FCC's order provides several
19 means through which carriers can recover reductions in traditional federal USF
20 funding and intercarrier compensation revenues (from both interstate *and* intrastate
21 services). Carriers are expected to first look to limited recovery from their own end
22 users by increasing retail rates (subject to the residential rate ceiling). Additional
23 support is available through CAF funding and a federal replacement access
24 recovery charge ("ARC").⁶⁹ The FCC also established a waiver process that is

25 ⁶⁹ *Id.*, ¶1849.
26

1 available to individual RLECs that are negatively affected by the USF reforms,
2 through which a carrier can obtain an exemption from some or all of the reforms
3 based on a showing of good cause.⁷⁰ By creating an integrated package of
4 universal service and intercarrier compensation reforms, and establishing
5 mechanisms that will provide carriers sufficient recovery for revenue reductions, the
6 FCC concluded that “states will not be required to bear the burden of establishing
7 and funding state recovery mechanisms” to compensate carriers for changes
8 resulting from those reforms.⁷¹ Accordingly, the Commission should focus instead
9 on eliminating excesses in the existing OUSF, and reducing the substantial tax
10 burden on Oregon consumers.

11
12 **VI. STATE COMMISSION RESPONSES TO FCC REFORMS**

13 **Q. ARE OTHER STATE COMMISSIONS REVIEWING THEIR OWN STATE**
14 **UNIVERSAL SERVICE PROGRAMS IN LIGHT OF THE FCC’S DECISION?**

15 **A.** Yes, several states have taken action to stabilize and actually *decrease* state funds.
16 For example, the Colorado Public Utilities Commission has opened a rulemaking
17 and proposed to eliminate funding support from the state “high cost” fund in
18 geographic areas where there is “effective competition.”⁷² This is consistent with
19 the FCC’s intention to eliminate universal service subsidies in areas where an
20 unsubsidized competitor is providing service. In another instance, the staff of the
21 Arizona Corporation Commission cited the “FCC’s expansive and preemptive
22

23 ⁷⁰ *Id.*, ¶¶539-544.

24 ⁷¹ *Id.*, ¶795.

25 ⁷² *In the Matter of the Proposed Rules Regulating Telecommunications Providers, Services,*
26 *and Products, 4 Code of Colorado Regulations 723-2, Docket No. 12R-862T, Decision No. C12-*
0898-1, Notice of Proposed Rulemaking (August 6, 2012).

1 actions” in the *USF/ICC Transformation Order* as a basis for recommending that the
2 Commission terminate an on-going proceeding that had been considering proposals
3 to expand the scope and size of a state USF. In New Mexico, the Public Regulation
4 Commission has proposed to cap the end user surcharge at no higher than 3%
5 (which is far less than the 8.5% tax in Oregon) in order to keep the fund and the tax
6 as small as possible, while ensuring that support is provided only where it is truly
7 needed.⁷³

8 The New York Public Service Commission recently approved an industry
9 settlement limiting the state USF to four years and capping it at \$4 million per year
10 (after an initial year disbursement of \$5 million).⁷⁴ The fact that New York, which
11 has a population five times larger than Oregon but also contains large rural areas,
12 established such a relatively small program provides additional confirmation that the
13 existing fund in Oregon is unnecessarily large and expensive. (As I pointed out
14 earlier, the OUSF is the sixth largest of 21 state high cost funds, and its 8.5% end
15 user surcharge is the highest such surcharge in the country.) Another state I will
16 mention is Texas, which recently approved a major restructuring of its state
17 universal service program.

18 **Q. PLEASE DESCRIBE THE APPROACH BEING TAKEN IN TEXAS.**

19 A. Following adoption of the FCC’s *USF/ICC Transformation Order*, the Public Utility
20 Commission of Texas (“PUCT”) commenced a series of proceedings to reduce the
21 amount of support distributed to all eligible service providers through the Texas
22 High Cost Universal Service Plan (“THCUSP”). The PUCT is addressing large and

23 ⁷³ *In the Matter of Possible Changes to the State Rural Universal Service Fund Rules as*
24 *17.11.10 NMAC*, Notice of Proposed Rulemaking, Case No. 12-00380-UT (Nov. 27, 2012).

25 ⁷⁴ *Proceeding to Examine Issues Related to a State Universal Service Fund*, New York
26 Public Service Commission, Case 09-M-0527, Order Adopting Phase II Join Proposal (August 17,
2012).

1 small ILECs separately but, in general, it intends to reduce the amount of support all
2 carriers receive from the state fund each year over the next four or five years, while
3 providing companies the opportunity to recover some or all of the reductions
4 through increases in residential basic local service rates.

5 Initially, the PUCT amended its rules to substantially reduce the amount of
6 support the state's four largest ILECs will obtain from the state fund in each of the
7 next four years, beginning January 1, 2013.⁷⁵ To determine how much support will
8 be reduced, each ILEC is to calculate the amount of additional revenue that would
9 be generated if the carrier were to charge a "reasonable rate," as determined by the
10 Commission (as opposed to the carrier's current rate), to all residential customers in
11 regulated exchanges for its basic local service. The ILEC's support from the fund
12 will be reduced each year by 25% of that amount of additional revenues (whether or
13 not the carrier actually raises its rates up to the allowable amount). The
14 Commission subsequently approved \$24 per month as the "reasonable rate" for the
15 largest ILECs.⁷⁶ Any other eligible telecommunications service provider operating in
16 the ILEC's service area would also have the amount of its funding support reduced
17 by a proportionate amount (based on the number of lines it serves). To offset the
18 reductions, ILECs will be permitted to raise their monthly residential local service
19 rates by up to \$2.00 per year during the four-year period, up to the specified
20 "reasonable rate." ILECs were permitted to elect to reduce their support under the

21 ⁷⁵ See, e.g., *Rulemaking to Consider Amending Subst. R. §26.403, Relating to the Texas*
22 *High Cost Universal Service Plan and Subst. R. §26.412, Relating to the Lifeline Service Program,*
23 *Project No. 39937, Order Adopting the Repeal of §26.403, New §26.403 and Amendment to §26.412*
as Approved at the June 13, 2012 Open Meeting.

24 ⁷⁶ *Commission Staff's Petition to Establish a Reasonable Rate for Basic Local*
25 *Telecommunications Service Pursuant to P.U.C. Subst. R. 6.403, Docket No. 40521, Order*
26 *(September 28, 2012). The "reasonable rate" for Windstream was set at \$23.50 per month. The*
rate includes extended area service and expanded local calling service charges for all carriers
except AT&T Texas. Id. at 5.

1 THCUSP to zero by January 1, 2017, which AT&T Texas and Verizon chose to do.
2 The PUCT estimated that these changes will reduce the amount of support
3 payments by \$16 million in 2013, and \$96 million per year by January 2017. It is
4 also anticipated that the surcharge, now set at 4.3 percent, will decline as well, as
5 the size of the fund shrinks.

6 The PUCT is also pursuing similar reforms for smaller LECs. It recently
7 adopted a similar rule to reduce the amount of support obtained by small and rural
8 ILECs. As with the large ILECs, the approach is based on calculating the amount of
9 additional revenue the carriers would obtain if they were to charge a “reasonable
10 rate” for basic local telecommunications service to all residential customers.⁷⁷ The
11 PUCT intends to open a docket in early 2013 to determine “reasonable local rates”
12 in the small company areas. Once such rates are established, the amount of
13 support received by the small and rural ILECs will be reduced over the following
14 four years in substantially the same manner as for the larger LECs. The LECs
15 would also be provided the opportunity to offset the reductions in funding through
16 increases in their local service rates.

17 Finally, the PUCT has expressed its intention to pursue additional reforms of
18 the state universal service programs. Its Staff has recommended that funding
19 support be eliminated over a transition period in exchanges where an unsubsidized
20 competitor serves all or part of the exchange.⁷⁸ The PUCT also intends to open
21 further proceedings in 2013 to adopt a requirement that all ILECs demonstrate a
22

23 ⁷⁷ *Rulemaking Proceeding to Amend Substantive Rules Relating to the Small and Rural*
24 *Incumbent Local Exchange Company Universal Service Plan*, Project No. 39938, Order Adopting
25 Amendments to §26.412, Repeal of §26.404, and New §26.404 (November 16, 2012).

26 ⁷⁸ *See Rulemaking to Consider Amending Substantive Rule §26.403, Relating to the Texas*
High Cost Universal Service Plan, Project No. 40342.

1 need for continuing funding support and to establish a methodology for
2 demonstrating what amount of support is actually needed.⁷⁹

3
4 **VII. THE OUSF IS EXCESSIVE AND REQUIRES SERIOUS REFORM**

5 **Q. GIVEN THIS BACKGROUND AND THE CHANGES YOU HAVE DESCRIBED,**
6 **SHOULD THE COMMISSION IMPLEMENT CHANGES RELATING TO THE**
7 **CALCULATION, COLLECTION AND DISTRIBUTION OF FUNDS?**

8 A. Yes. As discussed above, there is no continuing need for the OUSF, given changes
9 in consumer preferences, technology and markets. However, if there is to be a
10 fund, there are several measures the Commission should adopt to ensure that the
11 OUSF is sufficient to “provide the minimum amount of support necessary” to
12 maintain affordable basic voice telephone service, “but not excessive” to avoid
13 imposing an undue burden on customers that are forced to contribute to it.⁸⁰ The
14 Commission can take reasonable steps to limit the size of the OUSF while
15 maintaining fidelity to the statutory goal that basic voice telephone service is made
16 available to all consumers at a reasonable and affordable rate. Where that goal has
17 been achieved, it is no longer appropriate or necessary to continue doling out
18 subsidies. And, while it is important that consumers have access to basic service, it
19 is unnecessary and poor public policy to continue subsidizing more than one line to
20 the same residence or local service provided to business customers.

21 **Q. SHOULD THE COMMISSION BE CONCERNED THAT THE OUSF LEVIES A**
22 **HIGH SURCHARGE ON OREGON CONSUMERS?**

23
24 ⁷⁹ September 13, 2012 Open Meeting Agenda Item 3; Projects Relating to the Texas
25 Universal Service Fund, Memorandum (Sept. 6, 2012).

26 ⁸⁰ See Order No. 95-1103, at 2; *USF/ICC Transformation Order*, at ¶57.

1 A. Yes. Oregonians are compelled to pay an 8.5 percent surcharge on their phone
2 bills each month to support the OUSF. This is the highest surcharge imposed by
3 any state high cost fund in the country. Moreover, this tax, combined with the
4 current federal universal service "contribution factor" of 17.4 percent, means that
5 telephone customers in Oregon pay taxes of almost 26 percent on their telephone
6 bills each month. This is a significant financial burden on all customers. The OUSF
7 fees also unfairly require many Oregonians to subsidize the services and operations
8 of local exchange providers that they have chosen to abandon for more attractive
9 service offerings. It is likewise unfair and improper to compel all consumers in the
10 state to pay substantial fees so that various ILECs can continue to charge their own
11 customers artificially low rates. Those carriers should first look to their own end
12 users for support rather than burden the customers of other service providers.

13 **Q. IS THE OUSF TOO LARGE BECAUSE IT PROVIDES SUBSIDIES IN AREAS**
14 **WHERE NO STATE FUNDING IS NEEDED?**

15 A. That is certainly one big reason. As I discussed earlier, the FCC has determined
16 that it is inappropriate and wasteful to provide subsidies in geographic areas where
17 one or more unsubsidized firms is providing customers basic voice service at
18 reasonable, affordable prices. In Oregon, the extent to which the OUSF is much
19 larger than it should be can be demonstrated using publicly-available information.

20 For example, one can examine wireless providers' coverage maps and
21 compare them with the ILEC wire centers in Oregon that currently receive OUSF
22 support. I performed such an analysis by reviewing the Verizon Wireless coverage
23 map in Oregon and comparing it with those ILEC wire centers. My review indicated
24 that more than four-fifths of the ILEC wire centers are being served by at least one
25 unsubsidized voice provider (Verizon Wireless). Specifically, in the 40 legacy
26 Qwest OUSF "eligible" wire centers, all but four have Verizon Wireless voice

1 coverage. Similarly, there is Verizon Wireless voice coverage in all but two of the
2 39 Frontier OUSF “eligible” wire centers. That analysis is summarized in the two
3 charts below.

4
5 **Oregon “OUSF Eligible” Wire Centers⁸¹ and Coverage by Verizon Wireless**

6

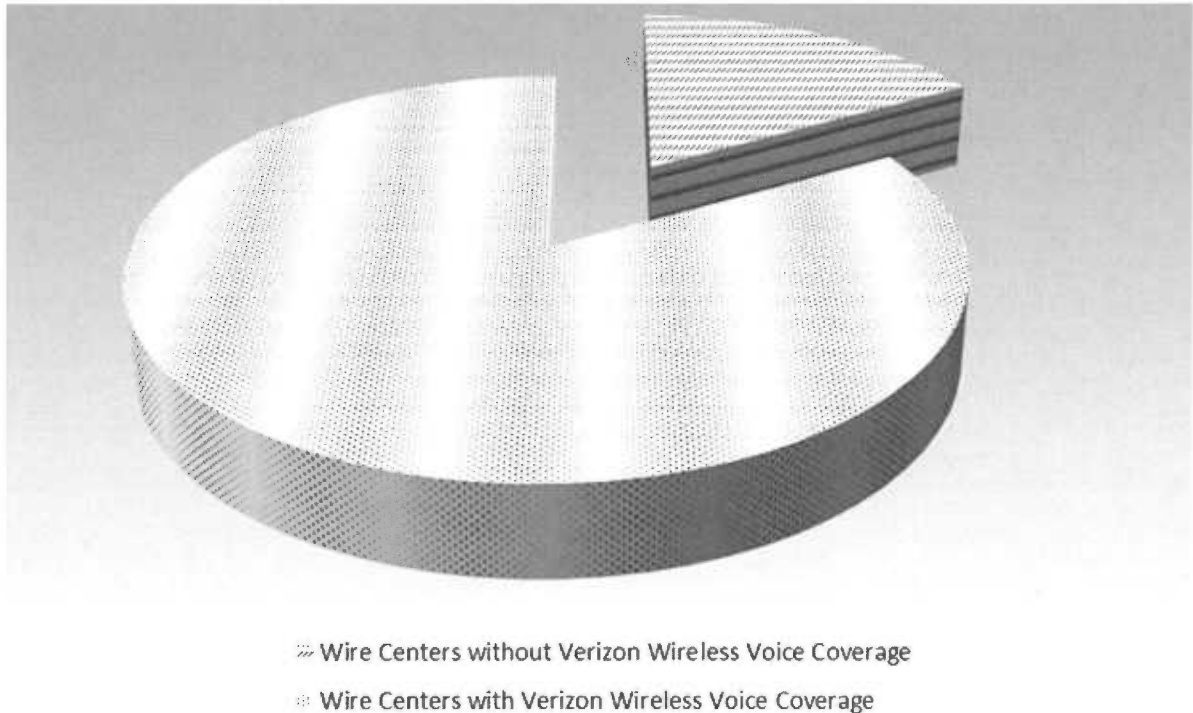
<u>Provider</u>	<u>Number of “Eligible” Wire Centers</u>	<u>Number with Verizon Wireless Voice coverage⁸²</u>	<u>Percent Served by Verizon Wireless</u>
CenturyLink (legacy Qwest)	40	36	90.0
Frontier (legacy GTE)	39	37	94.9
CenturyLink (legacy Century)	55	41	74.5
CenturyLink (legacy Sprint/United)	30	20	66.7
Other RLECs	53	46.5	87.7
Total	217	180.5	83.2

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23 ⁸¹ Source: “OUS Support for ILEC Wire Centers in Oregon.xls,”
(<http://www.oregon.gov/puc/ousf/docs/Support%20by%20Wire%20Center%20-%20Oregon.pdf>).

24 ⁸² Revised November 13, 2012. Quantities exclude all areas shown by Verizon Wireless as
25 “extended digital coverage.” Pioneer’s Blodgett wire center appears to serve areas in three
26 separate, non-contiguous counties: Coos, Benton, and Lincoln. The fractional quantity accounts for
the fact that Verizon Wireless serves some but not all of those areas.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Total OUSF Eligible Wire Centers and those Served by Verizon Wireless



Because Verizon Wireless does not receive any federal or state universal service subsidies, this means that there is *at least one* unsubsidized service provider providing voice service in the vast majority of wire centers that currently receive on-going subsidies from the OUSF. CenturyLink has admitted that this is the situation within its service territory.⁸³ Obviously, if Sprint, T-Mobile or MetroPCS are competing with Verizon Wireless (as well as the ILEC), or if there are other unsubsidized wireline/cable operators in the same wire geographic areas, the case is even more compelling.⁸⁴

⁸³ See pages 20-21, *supra*.

⁸⁴ While there may be wireless carriers that currently obtain some support from the federal USF, such as AT&T Wireless, those firms may become "unsubsidized" as duplicate Eligible

1 **Q. DOES THIS INFORMATION HELP SHOW THAT THE OUSF IS DISTRIBUTING**
2 **EXCESSIVE AMOUNTS OF FUNDING IN CERTAIN AREAS?**

3 A. Yes. Using data available on the Commission's website, I have prepared a table
4 that lists all of the OUSF-eligible wire centers and the per-line, per-month support
5 amount for each wire center. See Exhibit Verizon/101. That report shows that in
6 the Westport wire center -- which is an area that Verizon Wireless serves --
7 CenturyLink receives \$96.99 per line per month in OUSF support, pursuant to the
8 12-year-old Commission decision. There are additional locations in which support
9 amounts are in the \$45 to \$75 per month range, but where at least one other
10 provider is offering service without subsidies. One of the Frontier exchanges,
11 Lostine, receives \$118.77 per line per month, while another (Detroit) receives close
12 to \$90.

13 Verizon Wireless has invested more than one-half billion dollars since 2000,
14 building out its wireless networks in Oregon, and is not obtaining any subsidies to
15 provide service in these areas.⁸⁵ Because affordable voice service is being
16 provided by at least one (and likely other) service providers, the amount of funding
17 that continues to be provided to legacy firms in these same geographic areas is
18 clearly excessive, as well as unnecessary. The OUSF is distributing funds using a
19 historical methodology and antiquated inputs in an environment where other
20 technical approaches are fulfilling customer needs more efficiently and at lower cost
21 to society. The current support mechanism is neither rational nor sustainable.

22

23

24 Telecommunications Carrier support is transitioned away, and CAF support is given to only one
service provider in an area.

25 ⁸⁵ Other service providers have also invested hundreds of millions of dollars in advanced
26 infrastructure in Oregon. See *Broadband in Oregon*, at 8, 9, 12.

1 **Q. IS THERE OTHER EVIDENCE ABOUT THE PRESENCE OF COMPETITIVE**
2 **SERVICE PROVIDERS IN AREAS WHERE OUSF FUNDING IS CURRENTLY**
3 **BEING PROVIDED?**

4 A. Yes. The presence of wireless providers can also be confirmed by data the FCC
5 has collected to determine the areas that qualify for funding from its new Mobility
6 Fund. As part of that effort, the FCC identified U.S. Census Blocks that lack 3G or
7 better mobile coverage at the geographic center of the block, as well as the number
8 of road miles in six road categories, *e.g.*, interstate highways, within each block.
9 This information was ascertained by analyzing US Census data, January 2012
10 American Roamer (now called Mosaik Solutions) Data, and information submitted
11 by third parties.⁸⁶ The FCC's analysis shows the "unserved population" by county.
12 The Oregon portion of the data reveals some "unserved population" in 34 Oregon
13 counties, but, the total "unserved population" for the state is under 30,000, and is
14 less than 1,000 in all but nine Oregon counties. The specific results for Oregon are
15 detailed in the following table and chart.

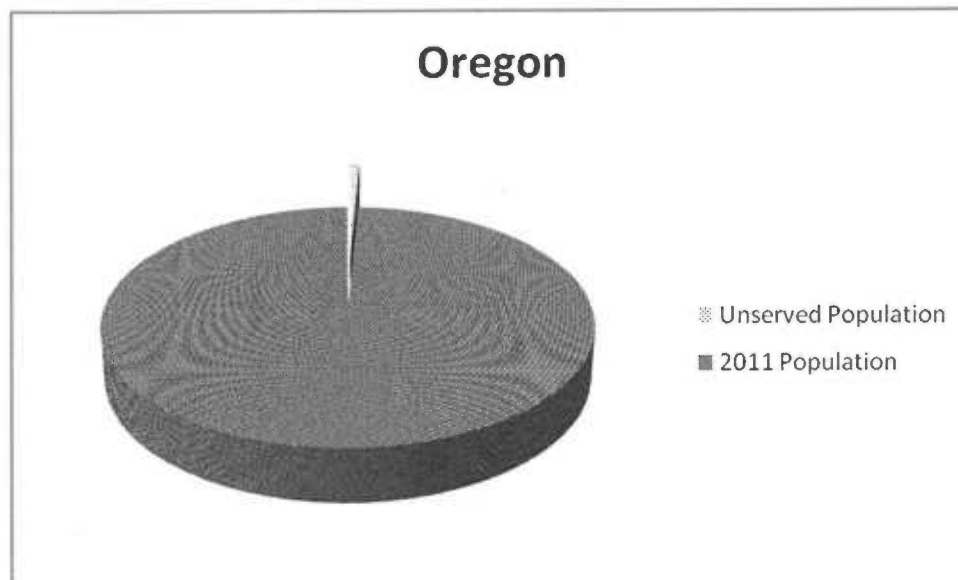
16
17
18
19
20
21
22
23
24
25 ⁸⁶ See <http://www.fcc.gov/maps/mobility-fund-phase-1-eligible-areas>. Importantly, the FCC
26 explained that "[w]e know of no data source that is more reliable than American Roamer." *USF/ICC Transformation Order*, at ¶336.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Oregon County Level Data – FCC Mobility Fund Phase 1 Eligible Areas

County	Unserved Population	2011 Population	% of Population "Unserved"
Baker	384	15,984	2.40%
Benton	1,036	85,928	1.21%
Clackamas	1,367	380,207	0.36%
Clatsop	372	37,153	1.00%
Columbia	1,074	49,402	2.17%
Coos	714	62,791	1.14%
Crook	107	20,839	0.51%
Curry	558	22,426	2.49%
Deschutes	0	160,338	0.00%
Douglas	2,250	107,490	2.09%
Gilliam	134	1,937	6.92%
Grant	1,101	7,410	14.86%
Harney	53	7,373	0.72%
Hood River	0	22,493	0.00%
Jackson	1,185	204,822	0.58%
Jefferson	140	21,771	0.64%
Josephine	682	82,987	0.82%
Klamath	33	66,299	0.05%
Lake	69	7,908	0.87%
Lane	5,799	353,416	1.64%
Lincoln	4,507	45,933	9.81%
Linn	428	118,122	0.36%
Malheur	943	31,068	3.04%
Marion	916	318,872	0.29%
Morrow	210	11,169	1.88%
Multnomah	47	748,031	0.01%
Polk	249	75,993	0.33%
Sherman	31	1,718	1.80%
Tillamook	1,805	25,403	7.11%
Umatilla	291	76,725	0.38%
Union	155	25,791	0.60%
Wallowa	486	6,990	6.95%
Wasco	299	25,234	1.18%
Washington	992	540,410	0.18%
Wheeler	544	1,426	38.15%
Yamhill	950	100,000	0.95%
Total	29,911	3,871,859	0.77%

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26



The FCC data is revealing because service providers that have 3G data capability also offer voice capability, and likely over a larger geographic area. In fact, the FCC data by definition undercounts the availability of wireless *voice* service because it measures only “3G or better” coverage, and thus excludes carriers’ coverage areas for their first and second generation services. While this information may not be exact, it provides a good indication of the size and locations of areas that currently lack wireless service in Oregon. Because the FCC’s analysis for purposes of the Mobility Fund only considered mobile wireless providers, the data does not take into account the existence of any fixed wireless, wireline or cable service providers in these areas; as such, it may overstate the number of individuals that are unserved.

Q. HOW IS THIS INFORMATION PERTINENT TO THE COMMISSION’S RE-EXAMINATION OF THE OUSF?

A. Together these multiple sets of data, combined with the other Oregon-specific information I provided earlier, demonstrate that the vast majority of Oregonians

1 have access to basic voice service provided by unsubsidized service providers, and
2 that financial support is not needed to ensure that consumers have access to basic
3 voice service except in limited, identifiable situations. In a multi-provider market,
4 any area served by an unsubsidized provider should be assumed to be an area that
5 can be served economically, *i.e.*, where rates cover the cost of providing service.
6 Where one or more service providers has entered the market without reliance on
7 government subsidies, the purpose of the OUSF has been accomplished --
8 consumers have access to voice service at reasonable and affordable rates and
9 there is no need to subsidize any provider. The FCC made these points clearly in
10 its *USF/ICC Transformation Order*.

11 We now adopt a rule to eliminate universal service support where an
12 unsubsidized competitor – or a combination of unsubsidized
13 competitors – offers voice and broadband service throughout an
14 incumbent carrier’s study area, and seek comment on a process to
15 reduce support where such an unsubsidized competitor offers voice
16 and broadband service to a substantial majority, but not 100 percent
17 of the study area. Providing universal service support in areas of the
18 country where another voice and broadband provider is offering high-
19 quality service without government assistance is an inefficient use of
20 limited universal service funds. We agree with commenters that “USF
21 support should be directed to areas where providers would not deploy
22 and maintain network facilities absent a USF subsidy, and not in
23 areas where unsubsidized facilities-based providers already are
24 competing for customers.” For this reason, we exclude from the CAF
25 areas that are overlapped by an unsubsidized competitor (*see infra*
26 Section VII.C). Likewise, we do not intend to continue to provide
current levels of high-cost support to rate-of-return companies where
there is overlap with one or more unsubsidized competitors.⁸⁷

21 ORS 759.425(1) also requires that the OUSF operate in a competitively
22 neutral and nondiscriminatory manner. Neither that objective, nor the goal of
23 minimizing the impact of the fund on Oregon consumers, will be met if the state
24

25 ⁸⁷ *USF/ICC Transformation Order*, at ¶281 (footnotes omitted).
26

1 funds one provider's operations in an area that is already served by an
2 unsubsidized provider. Because OUSF funding is not needed to meet the needs of
3 Oregon consumers in locations where there are one or more unsubsidized service
4 providers offering voice service, the Commission should eliminate OUSF funding in
5 all such areas.

6 **Q. HOW SHOULD THE COMMISSION IMPLEMENT THIS POLICY?**

7 A. Given the vast amount of intermodal competition in Oregon and data indicating that
8 unsubsidized competitors are operating in nearly all areas of the state, the
9 Commission should establish a rebuttable presumption that, except in areas that the
10 FCC has found to be "unserved," an unsubsidized competitor is providing service in
11 all areas that currently receive OUSF funding. To continue obtaining a subsidy from
12 the OUSF, a current recipient would have to rebut the presumption by showing that,
13 in fact, there is not an unsubsidized competitor in the area in which it seeks money
14 from the OUSF.

15 **Q. SHOULD THE COMMISSION CHANGE THE MANNER IN WHICH IT**
16 **DETERMINES HOW MUCH SUPPORT SHOULD BE PROVIDED IN A GIVEN**
17 **AREA?**

18 A. Yes. There are several problems with the manner in which the amount of OUSF
19 funding is currently determined. First, the level of support is calculated using
20 historical costing approaches, the validity and reliability of which are questionable in
21 today's environment. Second, the formula for calculating the amount of funding
22 takes into account the costs of providing service on a statewide basis and on a
23 company-wide basis.⁸⁸ Third, the model outputs (the amount of support provided

24 _____
25 ⁸⁸ For example, the current benchmark is based on the "average statewide economic cost
26 per line" for two "urban LECs," Qwest and GTE, that was calculated in early 2000. See Order No.
00-312, at 16-17.

1 per line) have not been changed since they were first calculated in 2000, despite all
2 the technological and competitive changes that have occurred. Perpetuating high
3 levels of support on the basis of decade-old assumptions about network costs and
4 optimal technologies does not encourage efficiency or innovation. Finally, the
5 amount of support is set without considering the revenues that recipients collect
6 from their retail customers. Today, it would be more appropriate to focus more
7 directly on the amount of support that is actually needed to ensure that consumers
8 have access to basic voice service at affordable rates in those discrete areas where
9 that goal has not yet been achieved.

10 **Q. ARE THE COST STANDARDS USED TO DETERMINE THE AMOUNT OF OUSF**
11 **SUPPORT STILL APPROPRIATE?**

12 A. No, they are not. As the communications industry has evolved, most carriers are
13 proceeding to deploy broadband and IP-based networks. Thus, it is questionable
14 whether reliance on traditional approaches to calculating the “costs” of traditional
15 wireline networks remains a viable approach for purposes of determining levels of
16 support. Indeed, the FCC abandoned use of its longstanding USF cost model for
17 purposes of determining future CAF support in the *USF/ICC Transformation Order*.
18 Instead, the FCC will use a combination of competitive bidding and a new forward-
19 looking model of the cost of constructing modern networks to distribute future
20 funding.⁸⁹

21 In particular, embedded cost studies, including the methodology used to
22 determine the amount of OUSF support provided to rural LECs, have long been
23
24

25 ⁸⁹ *USF/ICC Transformation Order*, at ¶¶156, 164-192, 195.
26

1 discredited.⁹⁰ Embedded cost methods have been criticized for the arbitrary nature
2 of assigning costs based on Delphic notions of value and benefits and fairness
3 derived from certain facilities by different classes of customers. Allocating costs
4 among jurisdictions, services, and customer classes has always been an arbitrary
5 process, but the introduction of competition, the expansion of the Internet and
6 packet-based services, and the breakdown of market and LATA boundaries has
7 increased the harm that can be inflicted by arbitrary allocation methods. One such
8 harm is improper subsidization.

9 The amount of OUSF support provided on a per line basis to non-rural ILECs
10 has not changed since the fund was established. Because the level of support
11 provided to all recipients continues to be based on severely outdated technological
12 assumptions (including the historical embedded costs of rural carriers), the current
13 administration of the OUSF precludes the Commission from considering or taking
14 advantage of different technologies, and their respective cost structures, in
15 determining the amount of support that might be appropriate. One consequence of
16 this is that the fund is not “technology neutral.”

17 **Q. WHAT NEW APPROACH SHOULD THE COMMISSION TAKE TO DETERMINE**
18 **THE AMOUNT OF SUPPORT THAT IS MADE AVAILABLE?**

19 A. As stated above, the FCC plans to use a combination of competitive bidding and a
20 new forward-looking model of the cost of constructing modern networks to distribute
21 future funding. According to the FCC, a competitive bidding process would “ensure
22 the most efficient and effective use of public resources.”⁹¹ It would also further the

23 _____
24 ⁹⁰ See, e.g., *Verizon Communications Inc. v. Federal Communications Commission*, 535
U.S. 467, 457-459; 122 S.Ct. 1646, 1665-1666 (2002); *Kalona Cooperative Telephone Company vs.*
Iowa Utilities Board (Iowa Ct. of App., No. 2-720 / 12-0119) (Oct. 31, 2012).

25 ⁹¹ *USF/ICC Transformation Order*, at ¶165. The Maine Public Utilities Commission has also
26 stated that “time-tested ratemaking techniques in combination with competitive bidding may yield the

1 Oregon legislature's objective that the funding mechanism be "competitively
2 neutral." ORS 759.425(1). If, however, the Commission decides not to implement a
3 competitive bidding process to determine the level of Fund support, it could
4 establish a methodology patterned after the new costing approach that the FCC is
5 currently developing for use in the permanent Connect America Fund.⁹²

6 Regardless of which approach the Commission takes, it should change the
7 existing process for determining the amount of funding that is made available given
8 the dramatically changed circumstances I described earlier. ORS 759.425 requires
9 the Commission to use the OUSF to ensure basic telephone service is available at
10 a reasonable and affordable rate. According to the Commission, this means that
11 the fund should "provide the *minimum amount of support necessary* to maintain
12 affordable basic network access service."⁹³ Because the statutory goal of service
13 availability has been achieved virtually throughout the state, the state's universal
14 service policy can be accomplished by targeting support only to those areas where
15 it is "necessary" to ensure that basic service is made available. This means that
16 subsidies should not be provided in areas where one or more unsubsidized
17 providers are already providing voice service and consumers have competitive

18
19
20 optimal results in ensuring that POLR [provider of last resort] service remains available to all
21 customers who desire it, at reasonable rates, and that the public financial support necessary to
22 ensure that availability is both minimized and efficiently disbursed to the least cost carrier willing to
23 undertake the POLR service obligation." *Inquiry Into Telecommunications Regulatory Reform Plan*,
24 Draft Report (November 28, 2012), at 8.

22 ⁹² The state statute does not mandate the continued use of the FCC's "Synthesis Cost
23 Model" or an embedded costing methodology. Both techniques were adopted via Commission
24 orders, and the Commission has the discretion to determine the cost of basic service using other
25 approaches.

25 ⁹³ Order 95-1103 (emphasis added). The OUSF is currently administered in a manner that
26 calculates the *maximum* amount of funding that could theoretically be provided throughout all of the
incumbent LECs' wire centers that have received support for the past 10-12 years.

1 options. I have described many of the areas in which it is appropriate to eliminate
2 OUSF funding, and explained how the Commission can determine what additional
3 areas can also be removed from the current subsidy program.

4 Only after the Commission has identified those limited areas where continued
5 funding is necessary to ensure the availability of reasonably priced voice service is
6 it necessary to determine the amount of support that is actually required to achieve
7 that statutory objective. This is clear from ORS 759.425(3)(a), which states that the
8 OUSF "shall provide explicit support to an eligible telecommunications carrier that is
9 equal to the difference between the cost of providing basic telephone service and
10 the benchmark," less any compensation received from federal programs.

11 A calculation of costs is only needed (if at all) when determining the amount
12 of explicit support that should be provided to an entity that is eligible for funding.
13 This requires an evaluation only of the amount it costs to provide basic voice
14 service in those areas where OUSF support will be targeted. This should greatly
15 simplify the process and will enable the Commission to move away from
16 calculations based on statewide or company-wide costs that may not accurately
17 reflect the costs involved in providing basic voice service in truly "high cost" areas
18 where service would not be provided but for the subsidies.

19 **Q. WHAT PROCESS SHOULD THE COMMISSION IMPLEMENT TO DETERMINE**
20 **THE COST OF PROVIDING BASIC VOICE SERVICE IN AREAS WHERE**
21 **FUNDING IS DEEMED APPROPRIATE?**

22 **A.** I have recommended that the Commission establish a rebuttable presumption that,
23 except in areas that the FCC finds is "unserved," an unsubsidized competitor is
24 providing service in all areas that currently receive OUSF funding. To obtain OUSF
25 funding, a carrier would have to rebut the presumption by showing that, in fact,
26 there is not an unsubsidized competitor in the area in which it seeks money from the

1 OUSF. The carrier would also have to demonstrate that it needs a subsidy to
2 provide basic telephone service in that area. Unless a competitive bidding process
3 is established, a carrier would be required to support its request for funding by
4 providing a reliable cost study that demonstrates the cost of providing basic
5 telephone service in that area, as contemplated by ORS 759.425(3)(a).

6 This approach is similar to ones that other states are undertaking. As I
7 explained earlier, as part of its effort to reduce the size of the state USF, the Texas
8 PUC will be considering a requirement that all ILECs demonstrate a need for
9 continuing support from the state fund. It also intends to establish a methodology
10 for demonstrating what amount of support is actually needed. The Maine PUC is
11 also recommending that carriers seeking state universal service fund support be
12 required to demonstrate a need for such support (on an individual wire center basis)
13 through a rate case and by submitting a cost study that would be "subject to
14 rigorous testing" in an adjudicatory proceeding.⁹⁴ This type of approach also makes
15 sense in Oregon, particularly because there has not been a thorough examination
16 of ILEC costs and rates in many years.

17 **Q. SHOULD OUSF SUPPORT BE MADE AVAILABLE TO MORE THAN ONE**
18 **SERVICE PROVIDER IN A GEOGRAPHIC AREA?**

19 A. No. The goal of the OUSF is to ensure that consumers have access to basic
20 service at reasonable and affordable rates. To the extent financial support is
21 required to achieve that objective, funding should be made available to only one
22 service provider in an area. Subsidizing multiple providers is not necessary to meet
23 the statutory goal, and is an inefficient and wasteful use of public funds. If more
24

25 ⁹⁴ *Inquiry Into Telecommunications Regulatory Reform Plan, supra*, at 12-13.
26

1 than one provider is interested in serving an area, the Commission should distribute
2 funding to only one firm through a competitively and technologically-neutral process.

3 **Q. WHAT ROLE DOES THE BENCHMARK HAVE IN DETERMINING THE AMOUNT**
4 **OF OUSF SUPPORT THAT IS PROVIDED?**

5 A. ORS 759.425(3)(a) states that the amount of OUSF support provided to a carrier
6 should be based on the difference between the cost of providing basic service and a
7 “benchmark,” less any amounts the carrier receives from federal support programs.
8 The statute does not define the benchmark but provides the Commission with
9 discretion to establish one and adjust it over time to reflect changes in competition
10 and federal USF support, or for other reasons.

11 In 2000, the Commission established a local service benchmark, which it
12 described as the composite average forward-looking economic cost of service for
13 the state’s two largest LECs.⁹⁵ At the time, the Commission did not agree with
14 proposals that the benchmark should be set at the then prevailing rates for local
15 service, and asserted instead that its cost-based benchmark was “a good surrogate
16 for an affordable rate.” While the Commission’s reasoning in 2000 is not detailed or
17 entirely clear, the passage of time indicates that this was not the optimal choice.
18 Moreover, use of a “cost” benchmark for these purposes is unique. Other states
19 with which I am familiar have established benchmarks that represent an “affordable
20 rate” or are otherwise linked to the *rates* charged for local service, and not some
21 calculation of the average cost of providing that service.

22 The rationale for a rate-based benchmark is that, where subsidies are
23 appropriate, the funding should compensate the carrier for the difference between
24 the cost of providing service and the amount of revenues it collects from its end

25 ⁹⁵ Order No. 00-312, at 21.
26

1 user customers. Rather than subsidize artificially low local rates, the FCC intends
2 to establish a “reasonable rate” below which subsidies are not appropriate. This
3 policy ensures that consumers pay rates that are fair and affordable, and that
4 contributors to the fund are not unfairly burdened with excessive fees. To strike this
5 balance in the *USF/ICC Transformation Order*, the FCC adopted a benchmark
6 minimum rate to qualify for support that will be set at “the national average of local
7 rates plus [certain] state regulated fees.”⁹⁶ The FCC also stated that this would
8 serve as “an intrastate rate minimum benchmark designed to avoid over-subsidizing
9 carriers whose intrastate rates are not minimally reasonable.”⁹⁷

10 **Q. SHOULD THE COMMISSION UPDATE THE OUSF “BENCHMARK” AND**
11 **CONVERT IT TO A RATE BENCHMARK LIKE THE FCC ESTABLISHED IN THE**
12 ***USF/ICC Transformation Order*?**

13 A. Yes. The Commission should revise the benchmark, as recommended by ORS
14 759.425(3)(b), given the changes that have occurred over the past decade and to
15 more closely conform to the FCC’s new universal service policies.

16 **Q. WHAT WOULD BE AN APPROPRIATE BENCHMARK RATE FOR PURPOSES**
17 **OF THE OUSF?**

18 A. The FCC has identified two separate standards that the Commission might want to
19 consider. First, the FCC has devised a tool to be used by it and the states to
20 assess the reasonable comparability of rates in rural and high cost areas served by
21 non-rural carriers to nationwide rates in urban areas. As the FCC explained, it
22 “adopted a ‘standard deviation analysis’ which measures the dispersion of urban
23 rates from the average. As such, an urban rate benchmark level of two (weighted)

24
25 ⁹⁶ *USF/ICC Transformation Order*, ¶238.

26 ⁹⁷ *Id.*, ¶915.

1 standard deviations above the (weighted) average urban rate is used.” Using this
2 approach, the FCC found that the average rate for flat rate local service in urban
3 areas was \$25.62. This average, plus two standard deviations for rural areas,
4 produces a rate benchmark of \$37.36 in rural areas.⁹⁸ A second possible standard
5 is the Residential Rate Ceiling of \$30 per month that the FCC adopted in the
6 *USF/ICC Transformation Order*, which the FCC found represents a maximum
7 reasonable and affordable rate.⁹⁹

8 Other states have also set benchmarks that represent a reasonable or
9 affordable rate for basic residential service. For example, in Pennsylvania, the
10 Office of Consumer Advocate provided an analysis showing that the affordability
11 rate for a residential customer is \$32.00 per month (including the federal subscriber
12 line charge and other surcharges). The Commission initially set a benchmark rate
13 of \$23, or \$32 on a “total bill basis” (that included certain surcharges), but later
14 revised its benchmark to conform to the \$30 Residential Rate Ceiling established by
15 the FCC.¹⁰⁰ In Texas, the PUC determined that \$24 per month is a “reasonable
16 rate” (including EAS charges for carriers other than AT&T) and allowed large ILECs
17 to increase their local residential rates up to that level over time. The Maine
18 Commission is currently considering a local service benchmark range (including
19 mandated charges, fees and taxes) of between \$25 and \$35 for use in determining
20 levels of state USF support.¹⁰¹

21 ⁹⁸ *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone*
22 *Service*, Industry Analysis and Technology Division, Wireline Competition Bureau (2008), at 1-3 – 1-
4.

23 ⁹⁹ *USF/ICC Transformation Order*, at ¶913.

24 ¹⁰⁰ *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural*
25 *Carriers and the Pennsylvania Universal Service Fund*, Docket I-00040105, Opinion and Order (July
18, 2011), at 48, Opinion and Order (August 9, 2012), at 61.

26 ¹⁰¹ *Inquiry Into Telecommunications Regulatory Reform Plan*, *supra*, at 13.

1 **Q. DO ANY ILECS IN OREGON CHARGE LOCAL EXCHANGE RATES THAT ARE**
2 **UNREASONABLY LOW AND WELL BELOW THE FCC'S BENCHMARKS?**

3 A. Yes. The FCC pointed out in the *USF/ICC Transformation Order* that a number of
4 local exchange companies, including some in Oregon, charge basic local exchange
5 rates that are "significantly lower" than the national average – indeed, as low as
6 \$10.00 a month.¹⁰² This was confirmed through information produced by the
7 Universal Service Administrative Company that the FCC, in turn, provided to a
8 Congressional Committee earlier this year. According to that analysis, eight ILECs
9 in Oregon have residential local service charges below \$10.00 for at least some of
10 their local lines. Those companies are CenturyTel-Oregon, Clear Creek Mutual,
11 Monitor Coop Tel., Monroe Telephone Co., Oregon Tel. Corp., Pioneer Tel. Coop,
12 Canby Tel. Assn., and Mt. Angel Tel. Co.¹⁰³

13 In discovery, CenturyLink reported the following "weighted average"
14 residential local exchange rates of its three affiliates: \$12.48/month (CenturyTel),
15 \$13.43/month (United), and between \$12.80 and \$14.80 (Qwest). If EAS charges
16 are added, United's "total residential rate" ranges between \$13.43 and \$17.47 a
17 month, except in five exchanges where the total rate is \$22.43. Qwest's "total
18 residential rate" (including EAS additives) ranges between \$14.08 and \$17.77 per
19 month. CenturyTel's "total residential rate" (including EAS additives) is below \$19 in
20 all exchanges except nine, where the combined rate ranges up to a high of
21 \$22.48/month. See Exhibit/Verizon 102. Frontier reported that its "statewide
22 average rate for residential exchange access service is \$12.59," but did not list any

23 ¹⁰² *USF/ICC Transformation Order*, at ¶236 and fn. 381.

24 ¹⁰³ Federal Communications Commission Response to United States House of
25 Representatives Committee on Energy and Commerce, Universal Service Fund Data Request of
26 July 9, 2012, Request 16: Number of Lines for Carriers with Residential Local Rates and State
Regulated Fees Lower than \$10 (as of July 1, 2012), unnumbered page 8.

1 of its EAS rates, which vary by exchange. OTA also provided information on the
2 residential rates of most of its member companies. See Exhibit/Verizon 103.
3 Fourteen of those ILECs have monthly residential rates that are \$13 or less, and
4 another seven companies charge rates between \$13 and \$15 in one or all of their
5 exchanges. Only one carrier, Beaver Creek Cooperative Telephone Company,
6 charges more than \$20/month for residential service. Presumably, its customers
7 find its \$27.00 monthly rate to be affordable.

8 Thus, virtually without exception, OUSF recipients in Oregon are charging
9 basic service rates that are significantly below the “safe harbor threshold” of \$36.52
10 set by the FCC. Many current rates are also below the national average urban
11 benchmark of \$25.62, as well as the \$30 Residential Rate Ceiling, a level which the
12 FCC found will “ensure that consumer telephone rates remain affordable.”¹⁰⁴

13 **Q. SHOULD THE COMMISSION LIMIT OR ELIMINATE SUBSIDIES TO**
14 **COMPANIES THAT CHARGE ARTIFICIALLY LOW RETAIL RATES?**

15 A. Yes. As the FCC concluded in the *USF/ICC Transformation Order*, it is inequitable
16 to require consumers in Oregon to subsidize another service provider’s decision to
17 charge its customers rates that “are not minimally reasonable.” In addition to being
18 unfair, subsidizing artificially low retail rates causes an unwarranted drain on the
19 resources of the OUSF and forces the fund to be much larger than it otherwise
20 should be.

21 Accordingly, no funds from the OUSF should be made available to subsidize
22 local exchange rates that are below the new rate benchmark established by the
23 Commission. If a carrier chooses not to increase its retail rates to the benchmark,
24 the Commission should impute the additional revenues that the carrier would obtain

25 ¹⁰⁴ *USF/ICC Transformation Order*, at ¶913.
26

1 were it to price its services at the benchmark and subtract that amount from the
2 level of support for which a carrier might otherwise be eligible. Failing to take this
3 step would unfairly compel the customers of other service providers to continue
4 subsidizing the below-market rates that the recipient tries to perpetuate. Depending
5 on a carrier's particular circumstances and the potential impact on its end users, it
6 may be appropriate to phase-in local rate increases over a transition period, just as
7 the Texas PUC allowed ILECs in that state to transition their rates upward over a
8 four-year period.

9 **Q. IS IT REASONABLE TO REQUIRE OUSF RECIPIENTS TO INCREASE THEIR**
10 **RETAIL SERVICE RATES TO MORE APPROPRIATE LEVELS BEFORE**
11 **ALLOWING THEM TO OBTAIN OUSF FUNDING?**

12 **A.** It certainly is. If OUSF recipients increase their local exchange rates to reasonable
13 levels, it is clear that the amount of monthly OUSF support that is currently being
14 provided in many wire centers is unwarranted and can be eliminated immediately.
15 This can be seen by reviewing information in Exhibit Verizon/101 about the amount
16 of OUSF support that each ILEC receives, and the carrier's local residential service
17 rates in each wire center, as shown in Exhibits Verizon/102 and Verizon/103.

18 For example, CenturyTel charges \$12.48 for residential service and receives
19 \$4.26 in monthly OUSF support in 55 separate wire centers. If CenturyTel were to
20 increase its local exchange rates by \$4.26 per month, its end users would still be
21 paying a rate that is reasonable and affordable, but there would be no need for
22 CenturyTel to draw any money from the OUSF -- or for other Oregon consumers to
23 continue subsidizing its operations -- in those areas. Similarly, United's residential
24 service rate is \$13.43, and the company receives \$2.94 in monthly OUSF support in
25 30 wire centers. If United increases its local rates to recover the \$2.94 from its own
26 customers, it will not be necessary to expend OUSF resources in those areas.

1 Likewise, Citizens could readily increase its residential rate of \$13.67 to absorb the
2 \$3.53 in monthly OUSF support it now obtains, and its end users would still be
3 paying reasonable rates for basic service.

4 The same analysis can be performed for many RLECs. In fact, ten
5 companies¹⁰⁵ have local residential rates, which combined with their current monthly
6 OUSF support payments, are less than \$20/month. There is no legitimate reason
7 why these companies cannot increase their local rates to offset the OUSF support
8 payments they are receiving, and they can do so without affecting the affordability of
9 basic telephone service in their areas. For example, Pioneer could recover the
10 \$2.75 it receives in monthly OUSF support by increasing its \$15.00 residential rate
11 a reasonable amount without affecting the affordability of its service, while
12 conserving fund resources.

13 This analysis confirms that current OUSF payments are excessive and
14 unjustified. These systematic over-payments also violate the Commission's
15 intention that the fund should only provide "the *minimum amount* of support
16 necessary" to ensure that service is available at affordable rates. In fact, these
17 subsidies can be eliminated without undermining the overarching goal that
18 consumers have access to reasonably priced voice service. Subsidizing ILECs that
19 maintain artificially low rates unfairly burdens all other consumers in Oregon.
20 Carriers should not be awarded subsidies until they have exhausted other means of
21 self-help, including having their own end users contribute to their cost recovery
22 (subject to an appropriate rate ceiling to ensure affordability).

23
24 ¹⁰⁵ Those companies include Pioneer Telephone Cooperative ("Pioneer"), Canby Telephone
25 Association, Stayton Cooperative Telephone Company, Nehalem Telecommunications, Inc., Mt.
26 Angel Telephone Company, Gervais Telephone Company, Home Telephone Company, St. Paul
Cooperative Telephone Association, North-State Telephone Co., and Eagle Telephone System, Inc.

1 **Q. SHOULD THE OUSF CONTINUE TO PROVIDE SUBSIDIES FOR MULTI-LINE**
2 **RESIDENTIAL CUSTOMERS?**

3 A. No. OUSF support should be limited to a single primary line (or wireless access
4 account) in a household, rather than for all lines in a household in a geographic
5 support area. The purpose of the OUSF is to ensure that consumers have access
6 to affordable voice service. Once a household obtains basic voice service through
7 a residential line (wireline, wireless, VoIP or otherwise), the objective of the program
8 has been met, and there is no justification or need to subsidize additional lines to
9 the same home. Limiting the number of lines or wireless access accounts that are
10 supported will help maintain affordable basic telephone service while limiting the
11 size of the OUSF surcharges imposed on Oregon citizens.

12 **Q. SHOULD THE OUSF CONTINUE TO PROVIDE SUBSIDIES FOR BUSINESS**
13 **LINES?**

14 A. No. OUSF support should only be available for residential lines, and not for service
15 provided to business customers. There is no statutory mandate that Oregon
16 consumers subsidize service to business customers. The Commission has the
17 discretion to designate the services that may be supported through the OUSF, and
18 it should exercise that authority now to help reduce the bloated size of the program.
19 From a public policy perspective, the focus of the OUSF should be on ensuring that
20 residential consumers have access to affordable basic telephone service. Unlike
21 residential customers, commercial enterprises consider phone charges as one of
22 the costs of doing business, and can deduct telephone expenses as a business
23 expense on their tax returns. Thus, there is no need for other Oregonians, including
24 residential consumers, to contribute to the costs of providing service to those
25 customers.

26

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

2 A. The Commission must take bold action to substantially reform the OUSF, in
3 recognition of the significant changes that have occurred in the industry and to
4 harmonize its program with the universal service policies adopted by the FCC. The
5 Commission should eliminate subsidies where they are no longer justified,
6 specifically in all geographic areas where an unsubsidized service provider is
7 offering voice service at reasonable rates, and for multi-lines and business
8 customers. The Commission should also reduce support provided to eligible
9 carriers to the extent they are charging unreasonably low retail rates.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes.

12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1481

VERIZON

**Exhibit Accompanying
Opening Testimony of Don Price**

Exhibit Verizon/101

December 10, 2012

OUSF Eligible Wire Centers in Oregon and Verizon Wireless Voice Coverage

<u>ILEC</u>	<u>Wire Center</u>	<u>Exchange</u>	<u>Monthly OUSF Support</u>	<u>Residential Service Rate</u>	<u>Verizon Wireless Voice Coverage</u>
Qwest	Adair	Corvallis	\$13.78	\$12.80	Y
	Athena-Weston	Athena-Weston	\$36.92	\$14.80	Y
	Baker City	Baker, Sumpter	\$0.18	\$12.80	N
	Black Butte	Camp Sherman	\$98.43	\$14.80	N
	Blue River	Blue River	\$49.28	\$14.80	Y
	Burlington	Burlington	\$18.23	\$13.80	Y
	Culp Creek	Cottage Grove	\$139.82	\$14.80	N
	Culver	Culver	\$28.82	\$13.80	Y
	Cannon Beach	Cannon Beach	\$24.90	\$13.80	Y
	Cottage Grove	Cottage Grove	\$5.76	\$13.80	N
	Falls City	Falls City	\$22.69	\$13.80	Y
	Gold Hill	Gold Hill	\$19.98	\$13.80	Y
	Independence	Independence- Monmouth	\$1.86	\$12.80	Y
	Jacksonville	Jacksonville	\$27.39	\$13.80	Y
	Jefferson	Jefferson	\$8.12	\$13.80	Y
	Junction City	Junction City- Harrisburg	\$6.82	\$13.80	Y
	La Pine	La Pine	\$11.37	\$13.80	Y
	Leaburg	Leaburg	\$36.71	\$14.80	Y
	Lowell	Lowell	\$29.50	\$13.80	Y
	Madras	Madras	\$6.72	\$13.80	Y
	Milton Freewater	Milton Freewater	\$8.06	\$13.80	Y
	Mapleton	Mapleton	\$66.70	\$14.80	Y
	Marcola	Marcola	\$50.77	\$14.80	Y
	North Plains	North Plains	\$17.76	\$12.80	Y
	Oakridge	Oakridge	\$40.63	\$14.80	Y
	Prineville	Prineville	\$9.86	\$13.80	Y
Qwest (Cont.)	Rainier	Rainier	\$16.03	\$13.80	Y
	Rogue River	Rogue River	\$11.33	\$13.80	Y
	Siletz	Siletz	\$45.12	\$14.80	Y
	Spring River	Bend	\$16.40	\$12.80	Y
	Sisters	Sisters	\$20.20	\$13.80	Y
	Stanfield	Stanfield	\$22.89	\$13.80	Y
	Sutherlin	Oakland- Sutherlin	\$17.93	\$13.80	Y
	Toledo	Toledo	\$9.61	\$13.80	Y
	Umatilla	Umatilla	\$8.36	\$13.80	Y

<u>ILEC</u>	<u>Wire Center</u>	<u>Exchange</u>	<u>Monthly OUSF Support</u>	<u>Residential Service Rate</u>	<u>Verizon Wireless Voice Coverage</u>
	Veneta	Veneta	\$11.73	\$13.80	Y
	Winston	Roseburg	\$9.49	\$12.80	Y
	Warm Spring	Madras	\$149.81	\$14.80	Y
	Warrenton	Warrenton	\$1.04	\$12.80	Y
	Westport	Westport	\$96.99	\$13.80	Y
---	---	---	---	---	---
Frontier	Amity	Amity	\$13.03	\$12.59	Y
	Aumsville	Aumsville- Turner	\$7.42	\$12.59	Y
	Brookings	Brookings	\$1.12	\$12.59	Y
	Bandon	Bandon	\$13.16	\$12.59	Y
	Banks	Forest Grove	\$23.91	\$12.59	Y
	Clatskanie	Clatskanie	\$22.69	\$12.59	Y
	Cove	Cove	\$37.22	\$12.59	Y
	Coquille	Coquille	\$7.97	\$12.59	Y
	Coos Bay	Coos Bay-North Bend	\$0.62	\$12.59	Y
	Detroit	Detroit	\$88.20	\$12.59	Y
	Dayton	Dayton	\$9.35	\$12.59	Y
	Elgin	Elgin	\$38.76	\$12.59	Y
	Enterprise	Enterprise	\$7.17	\$12.59	Y
	Grand Island	Grand Island	\$24.15	\$12.59	Y
Frontier (Cont.)	Gold Beach	Gold Beach	\$27.48	\$12.59	Y
	Gaston	Forest Grove	\$27.63	\$12.59	Y
	Hoodland	Hoodland	\$13.46	\$12.59	Y
	Imbler	Imbler	\$60.63	\$12.59	Y
	Imnaha	Joseph	\$685.20	\$12.59	N
	Joseph	Joseph	\$39.21	\$12.59	Y
	Lakeside	Lakeside	\$14.14	\$12.59	Y
	Langlois	Langlois	\$75.67	\$12.59	Y
	Lostine	Lostine	\$118.77	\$12.59	Y
	Mill City	Mill City	\$29.67	\$12.59	Y
	Murphy	Murphy-Provolt	\$23.91	\$12.59	Y
	Myrtle Point	Myrtle Point	\$29.10	\$12.59	Y
	Orient	Gresham	\$0.32	\$12.59	Y
	Provolt	Murphy-Provolt	\$43.63	\$12.59	Y
	Port Orford	Port Orford	\$25.59	\$12.59	Y
	Powers	Powers	\$79.32	\$12.59	N
	Reedsport	Reedsport	\$4.34	\$12.59	Y
	Scholls	Scholls	\$13.62	\$12.59	Y

<u>ILEC</u>	<u>Wire Center</u>	<u>Exchange</u>	<u>Monthly OUSF Support</u>	<u>Residential Service Rate</u>	<u>Verizon Wireless Voice Coverage</u>
	Silverton	Silverton	\$6.63	\$12.59	Y
	Sandy	Sandy	\$1.67	\$12.59	Y
	Turner	Aumsville- Turner	\$2.62	\$12.59	Y
	Union	Union	\$31.57	\$12.59	Y
	Vernonia	Vernonia	\$20.64	\$12.59	Y
	Wallowa	Wallowa	\$45.08	\$12.59	Y
	Yamhill	Yamhill	\$34.96	\$12.59	Y
--- --- ---	--- --- ---	--- --- ---	--- --- ---		--- --- ---
CenturyTel	Aurora	Aurora	\$4.26	\$12.48	Y
	Boardman	Boardman	\$4.26	\$12.48	Y
	Bly	Bly	\$4.26	\$12.48	Y
	Bonanza	Bonanza	\$4.26	\$12.48	Y
CenturyTel (Cont.)	Burns	Burns	\$4.26	\$12.48	Y
	Brownsville	Brownsville	\$4.26	\$12.48	Y
	Charbonneau	Charbonneau	\$4.26	\$12.48	N
	Chiloquin	Chiloquin	\$4.26	\$12.48	Y
	Chemult	Chemult	\$4.26	\$12.48	Y
	Camas Valley	Camas Valley	\$4.26	\$12.48	Y
	Creswell	Creswell	\$4.26	\$12.48	Y
	Depoe Bay	Depoe Bay	\$4.26	\$12.48	Y
	Drain	Drain	\$4.26	\$12.48	Y
	Durkee	Durkee	\$4.26	\$12.48	Y
	Echo	Echo	\$4.26	\$12.48	Y
	Fossil	Fossil	\$4.26	\$12.48	Y
	Fort Klamath	Fort Klamath	\$4.26	\$12.48	Y
	Gilchrist	Gilchrist	\$4.26	\$12.48	Y
	Glide	Glide	\$4.26	\$12.48	Y
	Gleneden Beach	Gleneden Beach	\$4.26	\$12.48	Y
	Government Camp	Government Camp	\$4.26	\$12.48	Y
	Harney	Harney	\$4.26	\$12.48	N
	Huntington	Huntington	\$4.26	\$12.48	Y
	Hepner	Hepner	\$4.26	\$12.48	N
	Inoe	Inoe	\$4.26	\$12.48	N
	Jewell	Jewell	\$4.26	\$12.48	Y
	John Day	John Day	\$4.26	\$12.48	Y
	Knappa	Knappa	\$4.26	\$12.48	Y
	Lebanon	Lebanon	\$4.26	\$12.48	Y
	Long Creek	Long Creek	\$4.26	\$12.48	Y

<u>ILEC</u>	<u>Wire Center</u>	<u>Exchange</u>	<u>Monthly OUSE Support</u>	<u>Residential Service Rate</u>	<u>Verizon Wireless Voice Coverage</u>
	Lakeview	Lakeview	\$4.26	\$12.48	Y
	Lexington	Lexington	\$4.26	\$12.48	N
	Malin	Malin	\$4.26	\$12.48	Y
	Maupin	Maupin	\$4.26	\$12.48	N
CenturyTel (Cont.)	Monument	Monument	\$4.26	\$12.48	N
	Merrill	Merrill	\$4.26	\$12.48	Y
	Mitchell	Mitchell	\$4.26	\$12.48	N
	North Powder	North Powder	\$4.26	\$12.48	Y
	North Umpqua	North Umpqua	\$4.26	\$12.48	N
	Paulina	Paulina	\$4.26	\$12.48	Y
	Pilot Rock	Pilot Rock, Starkey	\$4.26	\$12.48	Y
	Pine Grove	Pine Grove	\$4.26	\$12.48	N ¹
	Paisley	Paisley	\$4.26	\$12.48	Y
	Rocky Point	Rocky Point	\$4.26	\$12.48	Y
	Scappoose	Scappoose	\$4.26	\$12.48	Y
	Seneca	Seneca	\$4.26	\$12.48	N
	Shedd	Shedd	\$4.26	\$12.48	Y
	Silver Lake	Silver Lake	\$4.26	\$16.55	Y
	Spray	Spray	\$4.26	\$12.48	N
	Sprague River	Sprague River	\$4.26	\$12.48	Y
	Sweet Home	Sweet Home	\$4.26	\$12.48	Y
	Tygh Valley	Tygh Valley	\$4.26	\$12.48	N
	Ukiah	Ukiah	\$4.26	\$12.48	Y
	Wamic	Wamic	\$4.26	\$12.48	N
	Yoncalla	Yoncalla	\$4.26	\$12.48	Y
---	---	---	---		---
United	Arlington	Arlington	\$2.94	\$13.43	Y
	Beaver	Beaver	\$2.94	\$13.43	Y
	Butte Falls	Butte Falls	\$2.94	\$13.43	N
	Bay City	Bay City	\$2.94	\$13.43	Y
	Cloverdale	Cloverdale	\$2.94	\$13.43	Y
	Crater Lake	Crater Lake	\$2.94	\$13.43	N
United (Cont.)	Carlton	Carlton	\$2.94	\$13.43	Y
	Cascade Locks	Cascade Locks	\$2.94	\$13.43	Y
	Diamond Lake	Diamond Lake	\$2.94	\$13.43	Y
	Fish Lake	Fish Lake	\$2.94	\$13.43	N
	Garibaldi	Garibaldi	\$2.94	\$13.43	Y

¹ The U.S. Postal Service shows two different Pine Groves, and this assumes CenturyTel serves 97037.

<u>ILEC</u>	<u>Wire Center</u>	<u>Exchange</u>	<u>Monthly OUSF Support</u>	<u>Residential Service Rate</u>	<u>Verizon Wireless Voice Coverage</u>
	Grand Ronde	Grand Ronde	\$2.94	\$13.43	Y
	Grass Valley	Grass Valley	\$2.94	\$13.43	N
	Hood River	Hood River	\$2.94	\$13.43	Y
	Lincoln City	Lincoln City	\$2.94	\$13.43	Y
	Moro	Moro	\$2.94	\$13.43	N
	Mosier	Mosier	\$2.94	\$13.43	Y
	Odell	Odell	\$2.94	\$13.43	Y
	Pacific City	Pacific City	\$2.94	\$13.43	Y
	Parkdale	Parkdale	\$2.94	\$13.43	Y
	Prospect	Prospect	\$2.94	\$13.43	N
	Rockaway	Rockaway	\$2.94	\$13.43	N
	Rufus	Rufus	\$2.94	\$13.43	N
	Shady Cove	Shady Cove	\$2.94	\$13.43	N
	Sheridan	Sheridan	\$2.94	\$13.43	Y
	The Dalles	The Dalles	\$2.94	\$13.43	Y
	Tillamook	Tillamook	\$2.94	\$13.43	Y
	Wasco	Wasco	\$2.94	\$13.43	N
	White City	White City	\$2.94	\$13.43	Y
	Willamina	Willamina	\$2.94	\$13.43	Y
---	---	---	---		---
Pioneer	Alea	Alea, Lobster Valley	\$2.75	\$15.00	N
	Blodgett	Blodgett, Harlan, Summit	\$2.75	\$15.00	Y/N ²
	Bellfountain	Bellfountain	\$2.75	\$15.00	Y
	Bellfountain	Horton	\$2.75	\$15.00	Y
	Bellfountain	Triangle Lake	\$2.75	\$15.00	Y
	Eddyville	Chitwood	\$2.75	\$15.00	Y
	Philomath	Philomath	\$2.75	\$15.00	Y
	South Beach	South Beach	\$2.75	\$15.00	Y
	Waldport	Waldport, Tidewater	\$2.75	\$15.00	Y
	Yachats	Yachats	\$2.75	\$15.00	Y
---	---	---	---		---
Citizens	Azalea	Azalea	\$3.53	\$13.67	Y
	Canyonville	Canyonville	\$3.53	\$13.67	Y
	Cave Junction	Cave Junction	\$3.53	\$13.67	Y
	Days Creek	Days Creek	\$3.53	\$13.67	Y

² This wire center appears to serve areas in three separate, non-contiguous counties: Coos, Benton, and Lincoln. Verizon Wireless serves some but not all of the areas.

<u>ILEC</u>	<u>Wire Center</u>	<u>Exchange</u>	<u>Monthly OUSF Support</u>	<u>Residential Service Rate</u>	<u>Verizon Wireless Voice Coverage</u>
	Glendale	Glendale	\$3.53	\$13.67	Y
	Myrtle Creek	Myrtle Creek	\$3.53	\$13.67	Y
	O'Brien	O'Brien	\$3.53	\$13.67	Y
	Riddle	Riddle	\$3.53	\$13.67	Y
	Selma	Selma	\$3.53	\$13.67	Y
	Wolf Creek	Wolf Creek	\$3.53	\$13.67	Y
---	---	---	---		---
Malheur	Nyssa	Nyssa	\$4.39		Y
	Ontario	Ontario	\$4.39		Y
	Oregon Slope	Oregon Slope	\$4.39		Y
	Vale	Vale	\$4.39		Y
---	---	---	---		---
Canby	Canby	Canby	\$4.20	\$12.80	Y
	Needy	Canby	\$4.20	\$12.80	Y
---	---	---	---		---
Cascade Utilities	Elkton	Ash Valley	\$2.71	\$18.99	Y
	Corbett	Corbett	\$2.71	\$18.99	Y
	Elkton	Elkton	\$2.71	\$18.99	Y
	Eagle Creek	Estacada	\$2.71	\$18.99	Y
	Estacada	Estacada	\$2.71	\$18.99	Y
	Ripplebrook	Estacada	\$2.71	\$18.99	N
	Haines	Haines	\$2.71	\$18.99	Y
	Medical Springs	Medical Springs	\$2.71	\$18.99	N
	Scottsburg	Scottsburg	\$2.71	\$18.99	Y
	Mt. Hood Meadows	Estacada	\$2.71	\$18.99	N
---	---	---	---		---
Stayton	Stayton	Stayton	\$2.35	\$11.60	Y
---	---	---	---		---
Molalla	Molalla	Molalla	\$7.68	\$14.95	Y
---	---	---	---		---
Beaver Creek	Beaver Creek	Beaver Creek	\$8.10	\$27.00	Y
---	---	---	---		---
Clear Creek	Redland	Redland	\$2.51	\$18.89	Y
---	---	---	---		---
Nehalem	Nehalem	Nehalem	\$1.75	\$13.00	Y
---	---	---	---		---
Mt. Angel	Mt. Angel	Mt. Angel	\$0.26	\$9.00	Y
---	---	---	---		---
Gervais	Gervais	Gervais	\$6.20	\$12.50	Y

<u>I L E C</u>	<u>W i r e C e n t e r</u>	<u>E x c h a n g e</u>	<u>M o n t h l y O U S F S u p p o r t</u>	<u>R e s i d e n t i a l S e r v i c e R a t e</u>	<u>V e r i z o n W i r e l e s s V o i c e C o v e r a g e</u>
---	---	---	---		---
Monroe	Monroe	Monroe	\$11.53	\$11.69	Y
---	---	---	---		---
Home	Condon	Condon	\$1.95	\$16.55	N
---	---	---	---		---
Roome	Halsey	Halsey	\$13.61	\$18.00 ³	Y
---	---	---	---		---
Monitor	Monitor	Monitor	\$9.21	\$14.05	Y
---	---	---	---		---
Oregon-Idaho	Adrian	Adrian	\$8.43	\$18.65	Y
	Jordan Valley	Jordan Valley	\$8.43	\$18.65 ⁴	Y
	Ridgeview	Ridgeview	\$8.43	\$18.65	Y
---	---	---	---		---
St. Paul	St. Paul	St. Paul	\$3.76	\$10.50	Y
---	---	---	---		---
North-State	Dufur	Dufur	\$0.22	\$12.45	N
---	---	---	---		---
Eagle	Richland	Richland	\$7.24	\$11.60	Y
---	---	---	---		---
Helix	Helix	Helix	\$10.95	\$17.80 ⁵	Y
	Meacham	Meacham	\$10.95	\$17.80	Y

³ The matrix shows the highest possible rate (Zone 2). The Zone 1 rate is \$15.00.

⁴ The matrix shows the highest possible rate (Zone B). The base rate is \$11.65, and the Zone A rate is \$13.65.

⁵ The matrix shows the highest rate possible rate (Zone 2). The "Base Area" rate is \$13.80, and the Zone 1 rate is \$15.80.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1481

VERIZON

**Exhibit Accompanying
Opening Testimony of Don Price**

Exhibit Verizon/102

December 10, 2012

Oregon
Docket No. UM 1481
Response to Verizon Data Request Set 1
Respondent: John Felz
Response Date: November 16, 2012

Data Request Verizon DR No. 3

Please state the rates that your company charges for basic local exchange telephone service to residential and business customers in Oregon. Please provide details for all rate elements that comprise the company's basic local exchange telephone rates to the extent appropriate.

RESPONSE:

Please see Attachments 3A, 3B and 3C for information on the rates by exchange for basic local exchange telephone service for residential and business customers for United Telephone of the Northwest, CenturyTel of Oregon/Eastern Oregon, and Qwest. The attachments provide the basic local service rates and the rates for mandatory extended area service (EAS).

Exchange	1FR Rate	EAS Res	Total Res Rate	1FB Rate	EAS Bus	Total Bus Rate
United						
Arlington	\$13.43	\$0.00	\$13.43	\$24.00	\$0.00	\$24.00
Bay City	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Beaver	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Butte Falls	\$13.43	\$9.00	\$22.43	\$24.00	\$14.85	\$38.85
Carlton	\$13.43	\$9.00	\$22.43	\$24.00	\$14.85	\$38.85
Cascade Locks	\$13.43	\$2.00	\$15.43	\$24.00	\$3.30	\$27.30
Cloverdale	\$13.43	\$2.00	\$15.43	\$24.00	\$3.30	\$27.30
Crater Lake	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Diamond Lake	\$13.43	\$0.00	\$13.43	\$24.00	\$0.00	\$24.00
Fish Lake	\$13.43	\$0.00	\$13.43	\$24.00	\$0.00	\$24.00
Garibaldi	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Grand Ronde	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Grass Valley	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Hood River	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Lincoln City	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Moro	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Mosier	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Odell	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Pacific City	\$13.43	\$2.00	\$15.43	\$24.00	\$3.30	\$27.30
Parkdale	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Prospect	\$13.43	\$9.00	\$22.43	\$24.00	\$14.85	\$38.85
Rockaway	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Rufus	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Shady Cove	\$13.43	\$9.00	\$22.43	\$24.00	\$14.85	\$38.85
Sheridan	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
The Dalles	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Tillamook	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
Wasco	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67
White City	\$13.43	\$9.00	\$22.43	\$24.00	\$14.85	\$38.85
Willamina	\$13.43	\$4.04	\$17.47	\$24.00	\$6.67	\$30.67

Exchange	1FR Rate	EAS Res	Total Res Rate	1FB Rate	EAS Bus	Total Bus Rate
CenturyTel						
Aurora	\$12.48	\$10.00	\$22.48	\$20.31	\$15.00	\$35.31
Bly	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Boardman	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Bonanza	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Brownsville	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Burns	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Camas Valley	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Charbonneau	\$12.48	\$10.00	\$22.48	\$20.31	\$15.00	\$35.31
Chemult	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Chiloquin	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Creswell	\$12.48	\$8.50	\$20.98	\$20.31	\$12.75	\$33.06
Depoe Bay	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Drain	\$12.48	\$8.50	\$20.98	\$20.31	\$12.75	\$33.06
Durkee	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Echo	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Fort Klamath	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Fossil	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Gilchrist	\$12.48	\$8.50	\$20.98	\$20.31	\$12.75	\$33.06
Gleneden Beach	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Glide	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Government Camp	\$12.48	\$10.00	\$22.48	\$20.31	\$15.00	\$35.31
Harney	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Heppner	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Huntington	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Ione	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Jewell	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
John Day	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Knappa	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Lakeview	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Lebanon	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Lexington	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Long Creek	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Malin	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Maupin	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Merrill	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Mitchell	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Monument	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
North Powder	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
North Umpqua	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Paisley	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Paulina	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78

Exchange	1FR Rate	EAS Res	Total Res Rate	1FB Rate	EAS Bus	Total Bus Rate
CenturyTel						
Pilot Rock	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Pine Grove	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Rocky Point	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Scappoose	\$12.48	\$10.00	\$22.48	\$20.31	\$15.00	\$35.31
Seneca	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Shedd	\$12.48	\$8.50	\$20.98	\$20.31	\$12.75	\$33.06
Silver Lake	\$16.55	\$6.50	\$23.05	\$27.25	\$9.75	\$37.00
Sprague River	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06
Spray	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Sweet Home	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Tygh Valley	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Ukiah	\$12.48	\$5.00	\$17.48	\$20.31	\$7.47	\$27.78
Wamic	\$12.48	\$4.83	\$17.31	\$20.31	\$7.25	\$27.56
Yoncalla	\$12.48	\$6.50	\$18.98	\$20.31	\$9.75	\$30.06

Exchange	1FR Rate	EAS Res	Total Res Rate	1FB Rate	EAS Bus	Total Bus Rate
Qwest						
Adair	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Albany	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Ashland	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Astoria	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Athena	\$14.80	\$1.28	\$16.08	\$30.50	\$1.95	\$32.45
Baker City	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Bend	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Blue River	\$14.80	\$2.20	\$17.00	\$30.50	\$3.27	\$33.77
Burlington	\$13.80	\$4.97	\$18.77	\$28.50	\$7.49	\$35.99
Camp Sherman	\$14.80	\$2.20	\$17.00	\$30.50	\$3.27	\$33.77
Cannon Beach	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Central Point	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Corvallis	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Cottage Grove	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Culp Creek	\$14.80	\$2.20	\$17.00	\$30.50	\$3.27	\$33.77
Culver	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Dallas	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Eugene	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Falls City	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Florence	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Gold Hill	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Grants Pass	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Hermiston	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Independence	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Jacksonville	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Jefferson	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Junction City	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Klamath Falls	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Lake Oswego	\$12.80	\$4.97	\$17.77	\$26.00	\$7.49	\$33.49
Lapine	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Leaburg	\$14.80	\$2.20	\$17.00	\$30.50	\$3.27	\$33.77
Lowell	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Madras	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Mapleton	\$14.80	\$1.28	\$16.08	\$30.50	\$1.95	\$32.45
Marcola	\$14.80	\$2.20	\$17.00	\$30.50	\$3.27	\$33.77
Medford	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Milton-Freewater	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Newport	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
North Plains	\$12.80	\$4.97	\$17.77	\$28.50	\$7.49	\$35.99
Nyssa	\$13.80	\$0.60	\$14.40	\$29.84	\$0.85	\$30.69
Oak Grove-Milwaukie	\$12.80	\$4.97	\$17.77	\$26.00	\$7.49	\$33.49

Exchange	1FR Rate	EAS Res	Total Res Rate	1FB Rate	EAS Bus	Total Bus Rate
Qwest						
Oakland-Sutherlin	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Oakridge	\$14.80	\$2.20	\$17.00	\$30.50	\$3.27	\$33.77
Ontario	\$12.80	\$0.60	\$13.40	\$30.19	\$1.20	\$31.39
Oregon City	\$12.80	\$4.97	\$17.77	\$26.00	\$7.49	\$33.49
Oregon Slope	\$14.80	\$0.60	\$15.40	\$30.50	\$1.20	\$31.70
Pendleton	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Phoenix	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Portland	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Prineville	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Rainier	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Redmond	\$12.80	\$2.20	\$15.00	\$26.00	\$3.27	\$29.27
Rogue River	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Roseburg	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Salem	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Seaside	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Siletz	\$14.80	\$1.28	\$16.08	\$30.50	\$1.95	\$32.45
Sisters	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Spring River	\$13.80	\$0.00	\$13.80	\$28.50	\$0.00	\$28.50
St. Helens	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Stanfield	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Toledo	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Umatilla	\$13.80	\$1.28	\$15.08	\$28.50	\$1.95	\$30.45
Vale	\$13.80	\$1.10	\$14.90	\$30.54	\$1.55	\$32.09
Veneta	\$13.80	\$2.20	\$16.00	\$28.50	\$3.27	\$31.77
Warm Springs	\$14.80	\$2.20	\$17.00	\$30.50	\$3.27	\$33.77
Warrenton	\$12.80	\$1.28	\$14.08	\$26.00	\$1.95	\$27.95
Westport	\$13.80	\$1.28	\$15.08	\$30.50	\$1.95	\$32.45
Woodburn-Hubbard	\$12.80	\$4.97	\$17.77	\$26.00	\$7.49	\$33.49

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1481

VERIZON

**Exhibit Accompanying
Opening Testimony of Don Price**

Exhibit Verizon/103

December 10, 2012

1 **Data Request Verizon 3:** Please state the rates that your company charges for basic local exchange
2 telephone service to residential and business customers in Oregon. Please provide details for all
3 rate elements that comprises the company's basic local exchange telephone rates to the extent
4 appropriate.

5 **RESPONSE:** Please see the attached schedule.

6

7 Response prepared by: Richard A. Finnigan
8 Title: Attorney

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

Verizon DR 3
Local Service Rates¹

Company	Residential Rate	EAS - Flat	EAS - Measured Per Minute	Single Line Business Rate ²	EAS - Flat	EAS - Measured Per Minute
Asotin	12.75	N/A	N/A	13.25	N/A	N/A
Beaver Creek ³						
Canby ⁴	12.80	12.20	0.07	19.60	16.92	0.07
Cascade ⁵						
Clear Creek	18.89	8.48	0.07	30.53	12.73	0.07
Colton	16.50	21.35	0.08	28.40	28.40	0.08
Eagle	11.60	N/A	N/A	16.95	N/A	N/A
Gervais	12.50	15.00	0.08	14.50	21.80	0.08
Helix ⁶						
Home	16.55	N/A	N/A	25.55	N/A	N/A
Molalla	14.95	13.00	0.07	19.95	18.00	0.07
Monitor	14.05	2.40	0.08	17.20	3.80	0.08
Monroe	11.69	11.89	0.08	16.99	17.53	0.08
Mt. Angel	9.00	9.00	0.08	15.20	15.20	0.08
Nehalem	13.00	N/A	N/A	16.00	N/A	N/A
North-State	12.45	12.45	0.08	17.40	17.40	0.08
Oregon Tel. Corp. ⁷	11.95	10.55	0.08	16.50	14.85	0.08
Oregon-Idaho ⁸						
People's	13.95	8.95	0.06	17.95	11.95	0.06
Pine	12.00	N/A	N/A	17.00	N/A	N/A
Pioneer Coop. ⁹						
RTI ¹⁰						
Scio ¹¹	11.50	11.65	0.08	13.75	17.11	0.08
St. Paul ¹²	10.50	11.85	0.08	10.50	11.85	0.08
Stayton	11.60	6.89	0.06	14.02	14.08	0.06
Trans-Cascades	14.80	9.32	0.08	29.95	16.94	0.08

Rates do not include SLC, ARC, E-911 or RSPF charges.

Note that for many companies other forms of business service are available: Multiline, ISDN, Centrex, etc.

¹ Please see Attachment A.

³ Canby also offers measured rate local service.

⁵ See attachment B.

⁸ See Attachment C.

⁷ Rates for the Bates Exchange are \$8.95 for residential service and \$12.25 for business service. Rates for the Harper and Juntura Exchange are \$14.35 for residential service and \$14.35 for residential EAS and \$19.00 for business service and \$18.90 for business EAS. Residential EAS at \$0.08 per minute is also available in the Harper Exchange.

⁹ See Attachment D.

¹⁰ See attachment E.

¹⁰ See Attachment F.

¹¹ EAS rates listed are for Salem. EAS rates for Albany are \$13.00/month for residential service and \$19.11/month for business service.

¹² EAS rates listed are for Newberg, Gervais and Salem. EAS for Newberg and Gervais only is \$0.40 per month.

ATTACHMENT A
Beaver Creek Cooperative Telephone Company

BCT requires customers to pay a Network Access Charge and a Class of Service rate which together constitute the full rate.

<u>Residential Service</u>	<u>Single Line</u>
\$27.00	<u>Business Service</u>
	\$27.75
 EAS Rates	
Metro-Pak Service - Business	
Usage under 3,000 minutes	\$0.04 per MOU, not to exceed \$24.95/month
Usage over 3,000 minutes	\$0.02 per MOU, not to exceed \$59.95/month
Flat Rate Service - Business	
(not to exceed 3,000 MOU)	\$24.95/month
Premium Flat Rate Service - Business	
(unlimited MOU)	\$59.95/month
Metro-Pak Service - Residential	
Usage up to 3,000 minutes	\$0.04 per MOU, not to exceed \$13.00/month
Usage over 3,000 minutes	\$0.02 per MOU, not to exceed \$39.95/month
Flat Rate Service - Residential	
(not to exceed 3,000 MOU)	\$13.00/month
Premium Flat Rate Service - Residential	
(unlimited MOU)	\$39.95/month

ATTACHMENT B
Cascade Utilities, Inc.

Exchange	RESIDENTIAL			BUSINESS		
	Access Line	Flat EAS	Measured EAS	Access Line	Flat EAS	Measured EAS
Ash Valley	\$18.99	\$4.00	\$0.05	\$34.47	\$8.00	\$0.05
Corbett	\$18.99	\$10.65	\$0.05	\$34.47	\$21.30	\$0.05
Elkton	\$18.99	\$7.00	\$0.05	\$34.47	\$14.00	\$0.05
Estacada	\$18.99	\$10.65	\$0.05	\$34.47	\$21.30	\$0.05
Haines	\$18.99	\$7.00	\$0.05	\$34.47	\$12.00	\$0.05
Medical Springs	\$18.99	\$6.00	\$0.05	\$34.47	\$12.00	\$0.05
Scottsburg	\$18.89	\$4.00	\$0.05	\$34.47	\$8.00	\$0.05

ATTACHMENT C
Helix Telephone Co.

	<u>Residential</u>	<u>Business</u>
Base Area	\$13.80	\$16.60
Zone 1	\$15.80	\$19.10
Zone 2	\$17.80	\$21.60

ATTACHMENT D
Oregon-Idaho Utilities, Inc.

<u>Exchange</u>	<u>Residential Local Voice Service</u>	<u>Business Local Voice Service</u>
Jordan Valley, OR	\$11.65	\$23.35
Jordan Valley, OR - Zone A	\$13.65	\$26.35
Jordan Valley, OR - Zone B	\$18.65	\$31.35
Ridgeview, OR	\$18.65	\$31.35
Ridgeview, OR EAS	\$1.40	\$3.50
Adrian, OR	\$18.65	\$31.35

ATTACHMENT E
Pioneer Telephone Cooperative

Exchange	ONE PARTY RESIDENCE		ONE PARTY BUSINESS	
	Access Line	Flat EAS *	Access Line	Flat EAS *
Alsea	\$15.00	\$2.95	\$16.00	\$5.90
Bellfountain	\$15.00	\$7.00	\$16.00	\$14.00
Blodgett	\$15.00	\$2.95	\$16.00	\$5.90
Chitwood	\$15.00	\$3.95	\$16.00	\$6.90
Harlan	\$15.00	\$2.95	\$16.00	\$5.90
Horton	\$15.00	\$7.00	\$16.00	\$14.00
Lobster Valley	\$15.00	\$2.95	\$16.00	\$5.90
Philomath	\$15.00	\$3.95	\$16.00	\$6.90
South Beach	\$15.00	\$4.95	\$16.00	\$7.90
Summit	\$15.00	\$2.95	\$16.00	\$5.90
Tidewater	\$15.00	\$2.95	\$16.00	\$5.90
Triangle Lake / Deadwood	\$15.00	\$8.00	\$16.00	\$14.00
Waldport	\$15.00	\$2.95	\$16.00	\$5.90
Yachats	\$15.00	\$2.95	\$16.00	\$5.90

* Measured EAS is available at \$0.05 per minute.

ATTACHMENT F
Roome Telecommunications, Inc.

Residential - Zone 1 (In Town)	\$15.00
Residential - Zone 2 (Out of Town)	\$18.00
Business - Zone 1 (In Town)	\$20.00
Business - Zone 2 (Out of Town)	\$25.00
Residential EAS	\$12.00
Business EAS	\$15.00
Measured EAS	\$0.08/minute

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1481 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

Charles L Best
Attorney At Law
1631 NE Broadway #538
Portland, OR 97232-1425
Chuck@Charleslbest.Com

AT&T
Sharon L Mullin
Director External Affairs
400 W 15th St, Ste 930
Austin, TX 78701
Smullin@Att.Com

At&T
David Collier
645 E Plumb Ln
PO Box 11010
Reno, NV 89502
David.Collier@Att.Com

At&T
Cynthia Manheim
Po Box 97061
Redmond, WA 98052
Cindy.Manheim@Att.Com

Ater Wynne Llp
Arthur A Butler
601 Union Street, Ste 1501
Seattle, WA 98101-3981
Aab@Aterwynne.Com

Ater Wynne Llp
Joel Paisner
601 Union Street, Ste 1501
Seattle, WA 98101-3981
jrp@aterwynne.Com

Centurylink, Inc.
William E Hendricks, Attorney
805 Broadway St
Vancouver, WA 98660-3277
Tre.Hendricks@Centurylink.Com

Centurylink
Ron L. Trullinger
310 SW Park Ave 11th Fl
Portland, OR 97205-3715
ron.trullinger@centurylink.com

Comcast
Doug Cooley
Gov. Affairs Manager
1710 Salem Industrial Dr NE
Salem, OR 97303
Dougcooley@Cable.Comcast.Com

Citizens' Utility Board Of Oregon
OPUC Dockets
610 SW Broadway, Ste 400
Portland, OR 97205
dockets@Oregoncub.Org

Citizens' Utility Board Of Oregon
Gordon Feighner
610 SW Broadway, Ste 400
Portland, OR 97205
Gordon@Oregoncub.Org

Citizens' Utility Board Of Oregon
G Catriona McCracken
610 SW Broadway, Ste 400
Portland, OR 97205
Catriona@Oregoncub.Org

Davis Wright Tremaine
Mark P Trincherro
1300 SW Fifth Ave Ste 2300
Portland, OR 97201 -5682
Marktrincherro@Dwt.Com

Comspan Communications, Inc.
Tim Spanring
278 NW Garden Valley Blvd.
Roseburg, OR 97470
tims@comspancomm.com

Frontier Communications of America, Inc.
Kevin L. Saville
2378 Wilshire Blvd.
Mound, MN 55364
kevin.saville@ftr.com

GVNW, Inc
Carsten Koldsbaek
Consulting Manager
8050 SW Warm Springs Rd
Tualatin, OR 97062
Ckoldsbaek@Gvnw.Com

GVNW Consulting Inc
Jeffrey H Smith
Vp & Division Manager
8050 SW Warm Springs Ste 200
Tualatin, OR 97062
Jsmith@Gvnw.Com

Oregon Cable And Telecom Association
Michael Dewey
Executive Director
1249 Commercial St Se
Salem, OR 97302
Mdewey@Legadv.Com

Oregon Exchange Carrier Association
Craig Phillips
800 C St
Vancouver, WA 98660
Cphillips@Oeca.Com

Davis Wright Tremaine LLP
Alan J. Galloway
1300 SW Fifth Avenue
Portland, OR 97201-5682
marktrincherro@dwt.com

Embarq Communications
Barbara Young
State Executive - OR & WA
902 Wasco St – Orhdra 0305
Hood River, OR 97031-3105
Barbara.C.Young@Centurylink.Com

Frontier Communications
Renee Willer
External Affairs Manager
20575 NW Von Neumann Dr
Beaverton, OR 97006-6982
Renee.Willer@Ftr.Com

GVNW Consulting, Inc.
Jim Rennard
PO Box 2330
Tualatin, OR 97062
jrennard@gvnw.com

Integra Telecom, Inc.
J. Jeffery Oxley
6160 Golden Hills Drive
Golden Valley, MN 55416-1020
jjoxley@integratelecom.com

Integra Telecom Of Or.
Douglas K Denney
Director, Costs & Policy
6160 Golden Hills Dr
Golden Valley MN 55416
Dkdenney@Integratelecom.Com

Oregon Telecom Assn
Brant Wolf
Executive Vice President
777 13th St Se - Ste 120
Salem, OR 97301-4038
Bwolf@Ota-Telecom.Org

Public Utility Commission
Kay Marinos
PO Box 2148
Salem, OR 97301-4038
kay.marinos@state.or.us

Public Utility Commission
Roger White
Program Manager
PO Box 2148
Salem, OR 97308
Roger.White@State.Or.Us

Department Of Justice
Jason W. Jones
Business Activities Section
1162 Court St Ne
Salem, OR 97301-4096
jason.w.jones@Doj.State.Or.Us

Qwest Corporation
Carla Butler
310 SW Park Avenue, 11th Floor
Portland, OR 97205-3715
Carla.butler@centurylink.com

Lyndall Nipps
TW Telecom of Oregon, LLC
9665 Granite Ridge Drive, Suite 500
San Diego, CA 92123
Lyndall.nipps@twtelecom.com

Verizon Communications
Rudolph M. Reyes
Corporate Counsel
711 Van Ness Ave., Suite 300
San Francisco, CA 94102
rudy.reyes@Verizon.Com

Verizon Communications
Milt H Doumit
State Gov. Relations
410 -- 11th Ave. Se, Ste 103
Olympia, WA 98501
Milt.H.Doumit@Verizon.Com


Verizon Business
Richard B. Severy
Assistant General Counsel
2775 Mitchell Dr., Bldg. 8-2
Walnut Creek, CA 94598
Richard.b.severy@verizonbusiness.com

WSTC
Adam Haas
10325 SW Hawthorne Ln
Portland, Or 97225
adamhaas@convergecomm.com

Marsha Spellman
Warm Springs Telecommunications
10425 SW Hawthorne Lane
Portland, OR 97225
Marsha.spellman@warmspringstelecom.com

Richard A Finnigan
Attorney At Law
2112 Black Lake Blvd SW
Olympia, WA 98512
Rickfinn@Localaccess.Com

Dated: December 10, 2012


Wendy McIndoo