



CARLA M. BUTLER

December 10, 2012

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

RE: UM 1481 – Oregon Universal Service Fund

Dear:

Enclosed for filing please find an original and five copies of the Opening Testimony of John M. Felz on behalf of CenturyTel of Oregon, Inc., CenturyTel of Eastern Oregon, Inc., United Telephone Company of the Northwest and Qwest Corporation, along with a certificate of service. Exhibit CTL/102 to Mr. Felz's Testimony is Confidential, is printed on yellow paper, and sealed in a separate envelope marked "Confidential."

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

Sincerely,

A handwritten signature in black ink that reads "Carla M. Butler".

Carla M. Butler
Paralegal

Enclosures
cc: Service List

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BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UM 1481

In the Matter of

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

Staff investigation of the Oregon Universal
Service Fund

OPENING TESTIMONY OF

JOHN M. FELZ

ON BEHALF OF

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

1 **Q. Please state your name and business address.**

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

4
5 **Q. Who is your employer and what is your position?**

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

7
8 **Q. Please describe your educational background, work experience and present
9 responsibilities.**

10 A. I received my Bachelor's degree in Accounting from Rockhurst University in
11 Kansas City, Missouri in 1979. In 1989, I earned a Master's Degree in Business
12 Administration with an emphasis in Finance from Rockhurst University. I began
13 my career with Sprint as an internal auditor in 1979 and assumed increasing
14 levels of responsibility in that department, including positions as Senior Auditor,
15 Audit Manager and Assistant Director. From 1986 to 1988, I was Revenue
16 Accounting Manager for Sprint's Midwest Group of local telephone companies
17 with responsibility for billing approximately 500,000 customers in six states. In
18 1988, I was named to the position of Financial Budget Manager and had
19 responsibility for preparing and managing the budget for Sprint's Midwest
20 Group of local telephone companies. From 1991 to 1996, in the position of

1 Revenue Planning Manager, I was responsible for regulatory and tariff issues for
2 Sprint's local telephone operations in Kansas. From 1996 to 1998, I held the
3 position of Senior Manager - Wholesale Markets with responsibility for
4 negotiating and implementing interconnection agreements with competitive
5 local exchange carriers and wireless providers. From January 1998 through May
6 2006, I held the position of Director – State Regulatory for Sprint and provided
7 state regulatory support for Sprint's local, long distance and wireless operations
8 in several assigned states. In May 2006, I assumed the position of Director – State
9 Regulatory for Embarq, a new company formed by the spin-off of Sprint's local
10 telephone operations. In 2009, Embarq was acquired by CenturyLink and I was
11 named to my current position as Director - State Regulatory Operations. In this
12 position, I have responsibility for development and implementation of
13 regulatory policies for CenturyLink's operations in a number of states, including
14 Oregon.

15
16 **Q. What is the purpose of your testimony?**

17 **A.** The purpose of my testimony is to explain the Oregon Universal Service Fund
18 (OUSF) support received by CenturyLink's Oregon operating companies and to
19 provide CenturyLink's positions on the issues identified for review in this
20 proceeding.

1

2 **I. CenturyLink's Oregon Companies and Service Area**

3 **Q. Please describe CenturyLink's Oregon operating companies.**

4 A. CenturyLink operates four separate Incumbent Local Exchange Carrier (ILEC)
5 companies in Oregon – Qwest Corporation ("Qwest"), CenturyTel of Oregon,
6 Inc., CenturyTel of Eastern Oregon, Inc., and United Telephone Company of the
7 Northwest ("United"). CenturyTel of Oregon and CenturyTel of Eastern Oregon
8 are combined into a single study area with respect to OUSF matters, and will be
9 referenced as "CenturyTel" for purposes of this testimony. Because there are
10 differences among the CenturyLink companies with respect to their OUSF
11 support, I will refer to them separately as Qwest, CenturyTel and United.

12

13 **Q. Could you please describe the characteristics of CenturyLink's Oregon service**
14 **area?**

15 A. Through its four ILECs in Oregon, CenturyLink provides service to
16 approximately 735,000 lines in the state spread across 154 exchanges. With the
17 exception of a few urban areas served by Qwest, such as Portland, Salem and
18 Eugene, CenturyLink's service territory is generally very rural, sparsely
19 populated and costly to serve. This is borne out by a review of the household

1 density of CenturyLink's exchanges, measured as households per square mile,
2 shown in the following table.

Households Per Square Mile	Number of Exchanges	Percentage of Exchanges
Less than 10	68	44%
10 to 29	36	23%
30 to 50	12	8%
Greater than 50	38	25%

3
4 Over 44% of the exchanges have less than 10 households per square mile, and a
5 full 75% have less than 50 households per square mile. Analyzing density at a
6 lower level of detail, based upon census block groups and illustrated in Exhibit
7 CTL/101 to my testimony, reinforces the fact that CenturyLink's Oregon service
8 area is characterized by large geographic areas with few households, with only a
9 few areas that exhibit significant density. Customer density is a critical driver
10 influencing the costs of providing service that must be considered in any review
11 of the OUSF.

12
13 **Q. Can you provide an illustrative example of how the dispersion of customers**
14 **within a wire center impacts CenturyLink's cost to provide basic telephone**
15 **service?**

16 **A.** Yes. Confidential Exhibit CTL/102 to my testimony shows all of Qwest's existing
17 customer locations in the Mapleton wire center. This map demonstrates that in

1 general, the density of the wire center is very low at just over 4 access lines per
2 square mile. But examining the dispersion of customers throughout the wire
3 center reveals that while customer density within the area served directly from
4 the Mapleton central office switch is 33 lines per square mile, density in the
5 remainder of the wire center is 2 lines per square mile. This illustration of the
6 "donut and the hole" concept, demonstrates that providing service to areas
7 outside the "donut hole" becomes more costly because of the sparse population
8 and greater investment needed to serve a relatively limited number of customers.
9 Investment per line in the "donut" area is nearly three times more per line than
10 the investment per line in the area served directly from the Mapleton central
11 office switch. The average length of customer loops in the wire center is over
12 27,000 feet. This is just one illustration of the realities of making service available
13 to all areas within an ILEC's service territory – there are many other CenturyLink
14 wire centers that exhibit similar high-cost characteristics. These high cost areas
15 form the basis for CenturyLink's continuing need for OUSF to ensure the
16 provision of service to these high cost areas at rates that remain reasonable and
17 affordable.

18
19 **II. CenturyLink's Current Oregon Universal Service Fund (OUSF) Support**

20 **Q. Please describe Qwest's participation in the OUSF.**

1 **A.** Qwest's participation in the OUSF was established in the Commission's Order
2 No. 00-312 in Phase IV in Docket UM 731. In that order, the Commission
3 approved the final plan for the OUSF and initiated the OUSF's operations for
4 Oregon's two non-rural companies: GTE (now Frontier) and U S West (now
5 Qwest Corporation). A forward-looking economic cost model developed by the
6 FCC was utilized to calculate the cost of providing basic telephone service for
7 each wire center. Those wire centers whose costs exceeded the benchmark
8 established by the Commission began receiving OUSF support in 2001 - for
9 Qwest, 44 out of 81 wire centers were identified as high cost and eligible for
10 OUSF support. Support amounts were calculated on a per line basis and the
11 support is distributed monthly based upon the number of lines Qwest serves in
12 each of the 44 supported wire centers.

13
14 **Q.** How were the OUSF support amounts applied for Qwest?

15 **A.** Consistent with the provisions of the Commission's Order No. 00-312, Qwest
16 reduced certain business rates in an amount equal to the OUSF support to be
17 received. The effect was to replace the implicit universal service support
18 previously derived from traditional telephone service pricing with explicit
19 universal service support from the OUSF.

20

1 **Q. Has there been any change in the determination or utilization of OUSF**
2 **support for Qwest since 2001?**

3 **A.** No. Neither the forward-looking costs per line, nor the benchmark used to
4 determine the amount of OUSF support, have been modified since they were
5 originally established in 2001. However, because the OUSF support is
6 determined on a per line basis, as Qwest has experienced declines in access lines,
7 the absolute level of OUSF support received has also declined. This reduction in
8 support occurs in spite of the fact that Qwest has not experienced commensurate
9 reductions in costs, because it still must invest to expand the network to serve
10 new customer locations, maintain a network that is capable of serving all
11 households in its serving area, and continue to provide quality service in
12 compliance with Commission standards. This approach has led to reductions in
13 support for Qwest from approximately \$27.7M¹ annually in 2001 to \$16.4M² for
14 2012.

15

16 **Q. Please describe how the OUSF operates for CenturyTel and United.**

17 **A.** In docket UM 1017, the Commission brought rural telecommunications carriers
18 into the OUSF, including CenturyTel and United. In Order 03-082, issued on

¹ Qwest received OUSF for only 10 months in 2001 – the \$27.7M represents an annualized amount based on the 10 months of actual OUSF receipts.

² Based on actual OUSF receipts for the period January through November 2012 annualized.

1 February 3, 2003 in docket UM 1017, the Commission approved a stipulation that
2 resolved issues in the docket and established among other things the calculation,
3 distribution, contribution and rate rebalancing methodologies of the OUSF
4 program for rural carriers. Costs per line were calculated at a total study area
5 basis utilizing an embedded cost approach that included the costs of the loop, the
6 allocated cost of switching and transport, and associated overheads, taxes and
7 return on investment. Support amounts per line were then calculated by
8 subtracting federal support mechanisms and the Commission established
9 benchmark from the embedded costs. The resulting support per line amounts
10 were distributed monthly based on the number of lines CenturyTel and United
11 served in their respective study areas.

12
13 **Q. How were the OUSF support amounts applied for United?**

14 **A.** Consistent with the provisions of the Commission's Order No. 03-082, United
15 reduced intrastate carrier common line access charges. The effect was to reduce
16 the implicit universal service support previously derived from access charges
17 with explicit universal service support from the OUSF.

18
19 **Q. How were the OUSF support amounts applied for CenturyTel?**

1 A. Until 2011, CenturyTel participated in the Oregon Customer Access Fund
2 (OCAF), an intrastate access charge pool administered by the Commission
3 through the Oregon Exchange Carrier Association (OECA). Consistent with the
4 provisions of the Commission's Order No. 03-082, rural ILECs that participated
5 in the OCAF, including CenturyTel, reduced their common line revenue
6 requirement submitted to OECA by the amount of OUSF support received. The
7 effect was to lower the access charges calculated by OECA, resulting in a
8 reduction of the implicit universal service support previously derived from the
9 pool's access charges with explicit universal service support from the OUSF.

10

11 **Q. Have there been any changes in the determination or utilization of OUSF**
12 **support for CenturyTel or United since 2003?**

13 A. Yes. The Commission initiated triennial reviews of the rural OUSF support in
14 2006, 2009 and 2012. In 2006 and 2012, OUSF support amounts for the rural
15 companies, including CenturyTel and United, were revised subject to
16 agreements among the parties approved by the Commission. No changes in
17 support amounts resulted from the 2009 triennial review. The impact of the
18 changes in OUSF support for CenturyTel in 2006 was reported to OECA and
19 reflected in revised OCAF access rates. With CenturyTel's exit from the OCAF in
20 2012, the increased OUSF support resulting from the 2012 triennial review was

1 offset with reductions to CenturyTel's intrastate access rates. For United,
2 incremental OUSF support amounts resulting from the 2006 and 2012 triennial
3 reviews were offset with reductions to United's intrastate access rates.

4

5 **III. Commission Issue 2: What changes should be made to the existing OUSF**
6 **related to the calculation, the collection and the distribution of funds?**

7

8 **Q. What is the purpose of the OUSF?**

9 **A.** The purpose of the OUSF is codified under the Oregon Revised Statutes (ORS)

10 759.425 which states:

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

16

17 Based on this legislative directive, the Commission conducted separate
18 proceedings to establish OUSF support for those areas where the costs of
19 providing basic telephone service exceed what can be recovered through
20 application of a reasonable and affordable rate.

21

22 **Q. Has that purpose been fulfilled in the CenturyLink areas?**

23 **A.** Yes, OUSF support amounts have helped the CenturyLink ILECs continue to
24 invest in and maintain their networks to allow the provision of basic telephone

1 service at affordable rates. And, consistent with the requirements of the OUSF,
2 the CenturyLink ILECs were able to use their OUSF receipts to remove some of
3 the implicit subsidies included in their historical rate structures.

4
5 **Q. Given changes in technology, competition and federal universal service**
6 **support mechanisms, is there still a need for the OUSF?**

7 **A.** Absolutely. These changes have elevated the importance of the OUSF in
8 carrying out the statutory mandate to ensure basic telephone service is available
9 at a reasonable and affordable rate. Specifically, advancements in technology
10 have accelerated the pace and magnitude of competition and have continued to
11 strain historical implicit funding mechanisms that provided subsidies for
12 consumers in high cost areas. In addition, the FCC's 2011 *USF/ICC*
13 *Transformation Order*³ set the stage to nearly eliminate any remaining terminating
14 switched access revenues over the next few years, transferring those costs to the
15 end users. The federal USF, which previously provided support for voice
16 network services in broad high cost areas, is being fundamentally transformed
17 through Connect America Fund (CAF) II to support the build-out and

³ *In the Matter of Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform-Mobility Fund*, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Rcd 17663 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order*).

1 maintenance of broadband networks in limited qualifying areas. Once CAF II
2 commences in 2013 or 2014, traditional federal USF for voice networks
3 throughout high cost areas will quickly transition away and the available CAF II
4 support for Price Cap carriers will be held to a budget that does not fully fund
5 high cost areas. Federal support shifts to focus specifically on broadband
6 network deployment in targeted areas. Historically, OUSF has functioned in
7 conjunction with the federal USF to provide support in high cost areas.
8 However, with uncertainty about the impacts of the coming changes to federal
9 USF and the redirection of this support to broadband, the OUSF takes on
10 additional significance in ensuring necessary support for basic telephone service
11 remains available to carriers serving high cost areas.

12
13 **Q. What are the potential consequences of reducing OUSF support?**

14 **A.** The OUSF support received by the CenturyLink ILECs has contributed to the
15 companies' ability to achieve the Oregon legislative goals of providing universal
16 service. Significant reductions in OUSF support could jeopardize CenturyLink's
17 ability to complete the necessary network investments and maintenance
18 expenditures to not only meet Oregon USF goals, but also to meet basic carrier of
19 last resort (COLR) obligations and Commission established service quality
20 standards. In addition, significant reductions in OUSF support could accelerate

1 the need for local rate increases and result in rates for rural customers that
2 exceed those of customers in lower cost areas over time. The net result would
3 jeopardize achievement of the statutory goal of maintaining reasonable and
4 affordable telephone service rates for all Oregon consumers.

5
6 **Q. Should the Commission reexamine the costs of providing basic telephone
7 service in this proceeding?**

8 **A.** No. As previously discussed, OUSF support amounts for the non-rural
9 companies (Qwest and Frontier) are based on forward-looking costs calculated at
10 a wire center level using an FCC developed cost model. Substantial effort would
11 be required by the Commission and other parties to this proceeding to reexamine
12 forward-looking costs. The Commission would need to consider whether the
13 previously used FCC cost model could be effectively updated to incorporate
14 enhanced modeling techniques or whether individual company cost models
15 could be used to calculate forward looking costs. In addition, significant time
16 and resources would be required to evaluate potential changes to the cost model
17 input values. These efforts would require significantly more time than the
18 Commission has allotted for this proceeding. Further, if the original cost model
19 used to calculate existing support levels was updated with just current line
20 counts to recognize the significant decline in access lines that Qwest has

1 experienced, the result would be greater costs per line and potentially more areas
2 that would qualify for support.

3
4 For the rural companies, costs were recently updated based on the 2012 triennial
5 review reflecting 2011 costs. The Memorandum of Understanding (MOU)
6 among the parties participating in that triennial review in Docket UM 1017
7 limited the OUSF surcharge to 8.5% and CenturyLink's rural ILEC's prospective
8 OUSF support agreed to in the MOU is substantially below the level that the
9 company's costs would otherwise support. Therefore, because costs for the rural
10 companies were just recently updated, and CenturyLink's prospective OUSF
11 support for its rural companies is a negotiated amount, there is no need to
12 reexamine costs in this proceeding.

13
14 **Q. Are changes needed to the \$21 per line benchmark currently utilized to**
15 **determine OUSF support?**

16 **A.** The current \$21 benchmark is a cost-based benchmark reflecting the statewide
17 average cost per line adopted by the Commission in Order No 00-312 in Docket
18 UM 731, and used in determining support levels for both the non-rural and rural
19 carriers receiving OUSF support. If the Commission desires to continue with a
20 cost based benchmark, any changes in the benchmark would necessitate a review

1 and determination of the current costs of basic telephone service. If the
2 Commission decides to consider a local rate benchmark, CenturyLink believes
3 the benchmark rate should be established at a statewide level and should reflect
4 a reasonable and affordable rate only for the service being supported – basic
5 telephone service. In addition, based on my understanding of ORS 759.425 (3)(a),
6 the Commission is directed to establish a benchmark for basic telephone service
7 and accordingly the benchmark should not consider revenues from other
8 services.

9
10 **Q. Did the FCC address the affordability of basic telephone service for residential**
11 **consumers in docket FCC 11-161 which could be useful in evaluating the**
12 **reasonableness of Oregon’s current benchmark?**

13 **A.** Yes. To protect residential consumers and to presumably address the issue of
14 affordability the FCC, in their *USF/ICC Transformation Order*, adopted a
15 residential rate ceiling which prohibits an ILEC from assessing an Access
16 Recovery Charge (ARC) on any residential consumer paying an inclusive local
17 service rate of \$30 or more. The FCC defined “inclusive local service charge” to
18 include the basic local residential service rate, extended area service charges, the
19 federal subscriber line charge (SLC), state E911, telecommunications relay and
20 state USF charges and the ARC. As demonstrated in the chart attached to my

1 testimony as Exhibit CTL/103, if the charges not related to the recovery of the
2 intrastate costs for providing basic local telephone service – the SLC, the ARC,
3 the E911 charge, telecommunications relay and state USF charges – are
4 subtracted from the FCC’s \$30 rate ceiling, the resulting rates are very close to
5 the current \$21 benchmark being used for OUSF calculations for each of the
6 CenturyLink ILECs. This supports leaving the OUSF benchmark at the current
7 \$21 level.

8
9 **Q. Should the Commission consider changes to the OUSF with respect to which**
10 **carriers are eligible to receive OUSF support?**

11 **A.** Yes. The Commission should limit distribution of OUSF to only those carriers
12 that have COLR obligations. COLRs are charged with providing local telephone
13 service throughout their designated service area, including sparsely populated
14 areas that are uneconomic to serve. In contrast, competitive providers can
15 choose where to offer service, and thereby avoiding areas that are uneconomic to
16 serve. In addition, COLRs are obligated to meet Commission established service
17 quality standards for service installation, reliability and repair, which can drive
18 additional costs that are not incurred by competitive providers. For these
19 reasons, OUSF support should be limited to COLRs who have the obligation to

1 provide service to their entire service territory sufficient to meet Commission
2 established standards and should not be extended to competitive providers.

3
4 **Q. Should the size of a carrier be a relevant consideration to a carrier's eligibility
5 for OUSF support?**

6 **A.** No. Size of the carrier should not be a factor in determining continued eligibility
7 for OUSF support. OUSF support should continue to be based on the costs to
8 serve customers and whether support is needed to ensure service can be
9 provided at reasonable rates. Competition and access reform have taken away a
10 carrier's ability to offset costs of serving high cost areas with revenues from
11 lower cost urban areas, business services and access revenues. Therefore, a
12 carrier's size should not be a factor in determining whether it should receive
13 support for its high cost areas that meet the criterion established by the fund.
14 Eligibility for OUSF support should continue to focus on a comparison of
15 whether the cost to provide basic telephone service in a geographic area exceeds
16 the benchmark for that service. If costs exceed the benchmark, the carrier should
17 be eligible for OUSF support for that high-cost area, regardless of the size of the
18 carrier.

19

1 **IV. Commission Issue 3: What changes should be made to the existing OUSF**
2 **related to how funds are used?**

3
4 **Q. What are the current requirements of the OUSF with respect to how the OUSF**
5 **support is to be utilized?**

6 **A.** As explained earlier in my testimony, there are different requirements related to
7 use of the OUSF support between the non-rural and rural companies. For Qwest,
8 certain business rates were reduced in an amount equal to the OUSF support
9 received. For United and CenturyTel, the OUSF support has been directed to
10 revenue neutral reductions to intrastate access charges⁴. Thus, the OUSF support
11 received by Qwest, CenturyTel and United has been used to replace implicit
12 universal service support previously derived from business rates and intrastate
13 access charges with explicit support. This explicit support has allowed the
14 CenturyLink ILECs to maintain basic telephone service at reasonable and
15 affordable rates, which is the statutory mandate of the OUSF.

16
17 **Q. Is there a need to change how OUSF support is used?**

18 **A.** No. The current law limits the use of funding to ensure basic telephone service is
19 available at reasonable and affordable rates. Thus, so long as the existing

⁴ For CenturyTel, the reductions to intrastate access rates to reflect OUSF support were handled through the OCAF pool through 2011. In 2012, CenturyTel exited the OCAF pool and established its own intrastate access rates and incremental OUSF support received in 2012 was offset with intrastate access reductions effective in August 2012.

1 requirements for use of OUSF support are effective in accomplishing that goal,
2 which CenturyLink believes they are, no changes can or should be made.

3

4 **V. Commission Issue 4: What changes should be made to the existing OUSF**
5 **related to transparency and accountability?**

6

7 **Q. What have been the historical reporting requirements related to an ILEC's use**
8 **of OUSF support?**

9 **A.** The original framework of the OUSF required ILECs to demonstrate that revenue
10 neutral rate filings were made to offset the support amounts received.
11 Companies were held accountable for the use of OUSF through the
12 Commission's review of the extensive financial reports that ILECs are required to
13 file annually. In addition, companies were held accountable to their continuing
14 COLR obligations to meet service quality requirements and extend service
15 consistent with tariff and Commission requirements. OUSF support has
16 historically not been conditioned upon demonstration of investment or
17 maintenance expenditures to specific areas.

18

19 **Q. Have there been recent changes in the reporting requirements for companies**
20 **receiving OUSF support?**

1 **A.** Yes, but only for the non-rural companies receiving OUSF support. In Order No.
2 10-496, issued on December 28, 2010 in this docket, the Commission adopted
3 interim measures applicable to the non-rural companies that required OUSF
4 support be used only for investment in infrastructure or maintenance. In
5 addition, it established a requirement to file semiannual reports to demonstrate
6 that funds were used in areas with demonstrably higher installation and
7 maintenance costs. Qwest and Frontier filed a petition seeking reconsideration
8 of this order and a stay of the requirements, which was granted. Subsequently,
9 the Commission directed Staff, Frontier and Qwest to work together to develop
10 an acceptable approach for ensuring transparency and accountability for OUSF
11 support received.

12

13 **Q.** **What requirements for reporting ultimately resulted from that process?**

14 **A.** As outlined in the Commission's Order 12-065, issued on February 28, 2012 in
15 this docket, Qwest reached agreement with Commission Staff on a reporting
16 process that requires filing of annual summarized reports of investment and
17 expenses at the wire center level for each of the high cost wire centers receiving
18 OUSF support. Investments are broken out into three general categories: local
19 loop, central office, and interoffice facilities. Expenses are based on an allocation
20 of central office, cable and wire and network operations expense incurred for the

1 reporting year. The resulting report provides the Commission information that
2 can be compared to the support the company is receiving for reasonableness.
3 Qwest has filed reports for 2010 and 2011.

4
5 **Q. Would it be appropriate to extend these requirements to CenturyLink's non-**
6 **rural companies?**

7 **A.** No. Qwest agreed to this additional level of reporting as a compromise to
8 address concerns expressed by the parties in the earlier phase of this docket. The
9 approach makes sense when the OUSF support was determined based on
10 specifically identified high cost wire centers. For CenturyTel and United, current
11 OUSF support is calculated at the study area level and not directed to specific
12 wire centers. Therefore, it is appropriate for the Commission to continue to hold
13 the companies accountable for prudent use of OUSF support through their
14 review and evaluation of financial reports, service quality performance, and
15 other measures. The Commission has ample information to evaluate whether the
16 companies are meeting their COLR obligations throughout their service territory
17 without imposing any additional requirements.

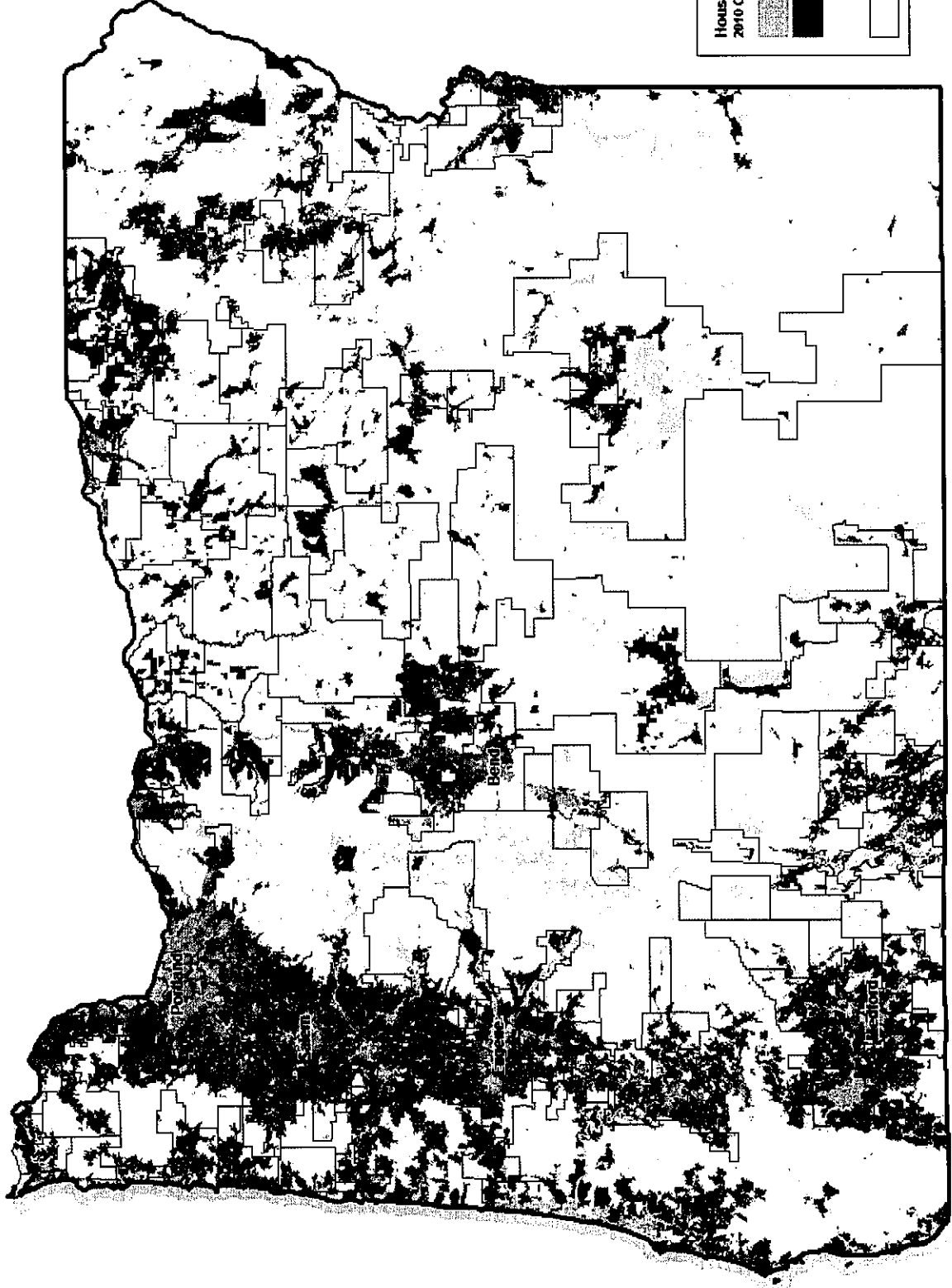
18
19 **Q. Does this conclude your testimony?**

20 **A.** Yes.

CenturyLink Oregon

Density by Census Block

Exhibit CTL/101
Felz/23



Housing Units per Square Mile
2010 Census Blocks

- 50 or more
- 1 to less than 50
- Less than 1

CenturyLink Wire Center

Analysis of State Local Rate Benchmark Considering FCC Residential Rate Ceiling

	Source	Qwest	CenturyTel	United
1. FCC Residential Rate Ceiling	FCC Rules	\$ 30.00	\$ 30.00	\$ 30.00
2. Access Recovery Charge	FCC Tariff	\$ 0.50	\$ 0.50	\$ 0.50
3. State 911	Customer Billing	\$ 0.75	\$ 0.75	\$ 0.75
4. Federal End User Common Line Charge	FCC Tariff	\$ 6.45	\$ 6.50	\$ 5.91
5. State Residential Service Protection Fund Charge	Commission order	\$ 0.12	\$ 0.12	\$ 0.12
6. Per line state OUSF charge	8.5% of local rate			
Weighted average local rate plus EAS	Customer billing	\$ 16.71	\$ 18.98	\$ 18.49
8.5% surcharge rate	Commission order	8.5%	8.5%	8.5%
Per line OUSF avg. surcharge for local service	Avg rate X surcharge	\$ 1.42	\$ 1.61	\$ 1.57
7. State related rate based on FCC rate cap	Line 1 - 2 - 3 - 4 - 5 - 6	\$ 20.76	\$ 20.52	\$ 21.15

CERTIFICATE OF SERVICE

UM 1481

I hereby certify that on the 10th day of December 2012, I served the foregoing **OPENING TESTIMONY OF JOHN M. FELZ** on behalf of CenturyTel of Oregon, Inc., CenturyTel of Eastern Oregon, Inc., United Telephone Company of the Northwest and Qwest Corporation for the above entitled docket on the following persons via e-mail transmission only.

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