

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 26, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE _____ NA _____

DATE: September 8, 2017

TO: Public Utility Commission

FROM: Stephen Hayes 

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck 

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF REPORT: (Docket No. UM 1686) Commission Review of the CenturyTel of Oregon, CenturyTel of Eastern Oregon, and United Telephone Company of the Northwest Price Plan.

STAFF RECOMMENDATION:

Staff provides the attached OPUC Staff report which reviews CenturyTel of Oregon, CenturyTel of Eastern Oregon, and United Telephone Company of the Northwest's (referred to jointly as Companies or individually as CenturyTel or United) performance under their price plan according to Commission Order No. 14-347, dated October 7, 2014.

DISCUSSION:

Issue

Whether CenturyTel and United have met the Commission goals for their Price Plan for the review period.

Applicable Law

Oregon Revised Statute (ORS) 759.255(3) provides that the Commission may not consider return on investment of the utility when the Commission reviews the Price Plan during its operation. This Section also requires the Commission to establish conditions for review of a price plan.

The Commission established conditions for review of the Price Plan,¹ which include requiring the Companies to file a report providing specific information. Appendix A (also marked Exhibit A) of Order No. 14-347 provides that the Commission will review the plan every three years.² The Order's Appendix A outlines in Section W the process for modifying, investigating, or terminating the Price Plan, if necessary as a result of the review.

Analysis

Staff's Three Year Review Report

Staff's detailed review is in the attached report and is intended to facilitate the required three year Commission review.

Following is a summary of the Companies' use of the rate flexibility in accordance with established price-caps through June 30, 2017. The attached report examines the use of pricing flexibility more fully. The Companies did not exceed any of the price caps and increased rates up to or less than the maximum amounts allowed under the Price Plan.

The Companies have increased the monthly rates for residential primary line basic service by the maximum allowable \$3.00 since the beginning of the Price Plan. CenturyTel and United have not modified the rates for non-recurring charges for residential primary line basic service since the Price Plan began. The rates have not increased for Switched Access, EAS, Toll Restriction, Call Trace and Unlisted Numbers/Directory Listings in compliance with the Price Plan. However, certain rate group rates enjoyed EAS rate decreases for both residential and business customers.

CenturyTel and United have both increased the monthly rates for business primary line basic service between \$2.00 and \$3.00 for most business customers. Business services, generally, are not price-capped under the Price Plan.

CenturyTel and United have not increased the monthly rates for DS-1 or ISDN-PRS, even though those services are not price-capped.

The Price Plan has also allowed CenturyTel and United to increase the rates for "Other Services" (e.g., custom calling features). While recurring charges, and Other Services individually had increases, the residential packages' monthly rates had modest increases.

¹ Section 5 of its Order No. 14-347, pp. 4.

² Order No. 14-347, Appendix A, Section W, Three-year review, pp. 13.

CenturyTel and United complied with their requirements to maintain the pre-plan rates for the following: 1) non-recurring charges for residential primary line basic service; 2) Switched Access, 3) EAS, 4) Toll Restriction; 5) Call Trace; and 6) Unlisted Numbers.

In addition to pricing flexibility, the Price Plan provided regulatory relief through waiving statutes and rules; some in whole, some in-part.

The Companies report that they have completed their public interest specific commitments. The CenturyLink Companies, including Qwest, calculate that they jointly exceeded the total expenditure requirements by approximately \$666,313.

The Companies met plan objective numbers 1, 2, 4, 5, 6, and 7 which speak to issues related to retail telecommunications services rates and regulatory relief provided under the Price Plan.

Conclusion

In addition to meeting most Price Plan objectives, the Companies made use of the pricing flexibility to increase their prices and fulfilled their public interest specific commitments. The Company also gained regulatory relief from the Commission waiving statutes and rules consistent with ORS 759.255.

In part to comply with the price plan statute, and in part to bring the Price Plan into compliance with the statutory review criteria and the Plan's objective 3, Staff is currently considering submitting a request to the Commission to require the Companies to submit a service quality performance plan in order to mitigate their poor service quality performance.

The companies did not meet plan Objective No. 8 as no new services were introduced. Staff plan to explore modifications to this Objective in potential future price plans as it could incentivize the introduction of new services. Staff does not consider this to be a reason to terminate or seek changes to the existing Price Plan.

At this time, other than measures to mitigate poor service quality, Staff sees no reason for additional follow up in the context of the price plan review.

Staff concludes that the Price Plan met or will meet the Commission's Price Plan statutory review criteria: 1) Ensuring prices for telecommunications services that are just and reasonable; 2) Ensuring high quality of existing telecommunications services and makes new services available; 3) Maintaining the appropriate balance between the need for regulation and competition and 4) simplifying regulation.

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PROPOSED COMMISSION MOTION:

Take no action with regard to the Companies' Price Plan.

UM1686.CenturyTel.United.3Year.Commission.Review.Report.09182017

OREGON PUBLIC UTILITY COMMISSION

STAFF REPORT

THREE YEAR REVIEW OF THE

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

PRICE PLAN

DOCKET NO. UM 1686

BY STEPHEN HAYES

AUGUST 30, 2017

BACKGROUND

The Oregon Public Utility Commission adopted a Price Plan for CenturyTel of Oregon, Inc., CenturyTel of Eastern Oregon, Inc., and United Telephone Company of the Northwest (jointly referred to in this report as 'the Companies' or CenturyTel/United or referred to individually as CenturyTel or as United) in Order No. 14-347, Docket No. UM 1686, on October 7, 2014. The CenturyTel/United Price Plan resulted from a stipulation among several parties including Commission Staff, the Oregon Citizens' Utility Board, Integra Telecom of Oregon, Inc., and its affiliates (Integra), and the Telecommunications Ratepayers Association for Cost-Based and Equitable Rates (TRACER).

The Price Plan, Section V, contains provisions requiring the Commission to complete a comprehensive review of CenturyTel/United's performance under the Price Plan every three years.¹ To commence the three year review process, CenturyTel and United are required to file a detailed report regarding their performance as compared to the objectives of the plan by the 90th day of the third year of operation under the plan, which the companies did through their joint *Price Plan Performance Report* on January 4, 2017. The report must review how the objectives of the plan are being met and include the following information:

- (1) Analysis of current market conditions for the various categories of CenturyTel and United's regulated retail telecommunications services to the extent such information is publicly available;
- (2) Data regarding the gain or loss of access lines by wire center;
- (3) A discussion of how the pricing flexibility allowed CenturyTel and United to meet the plan's objectives;
- (4) Identification of any new services that CenturyTel and United have introduced; and
- (5) Identification of any ways in which the burden of regulation have been either simplified or reduced for either CenturyTel and United or the Commission.

CenturyTel/United's joint report was submitted on time and is complete. This staff report provides an evaluation of CenturyTel and United's performance under the Price Plan and of the information provided in the *Price Plan Performance Report*. CenturyTel and United's performance is evaluated compared to the objectives of the Price Plan as well as its apparent consequences.

In accordance with Section V of the Price Plan, the Companies filed a notice of intent to extend the Price Plan an additional year on September 27, 2016. Absent Commission intervention, the Price Plan will remain in effect through October 6, 2018. Having

¹ In the Matter of Qwest Corporation, Petition for Approval of Price Plan Pursuant to ORS 759.255, Docket UM 1354, Order No. 14-346, Appendix A, at 22-23.

requested to extend the Price Plan for a fourth year means that the Companies are required to petition the Commission for a new form of regulation no later than the end of the third year; which is October 6, 2017. It appears that CenturyTel and United will be filing for a modified plan on or before October 6, 2017.

STAFF ANALYSIS

I. Price Plan Objectives and Commitments

The current Price Plan has the following objectives:²

1. Ensure the plan is operating in a way that is in the public interest.
2. Produce prices for CenturyTel/United's retail telecommunications services that are just and reasonable.
3. Ensure that the quality of existing telecommunications services will stay at or above current levels.
4. Maintain the appropriate balance between the need for regulation and competition.
5. Simplify and reduce the burden of regulation for both CenturyTel/United and the Commission.
6. Maintain the availability of primary line basic service at affordable rates throughout the state.
7. Increase CenturyTel/United's pricing flexibility to meet changing market conditions.
8. Make new telecommunications services available.

The Price Plan also contains the following public interest commitments---“Specific Commitments”:³

1. Service performance guarantee. If the standard in OAR 860-023-0055(4) on a statewide basis, or OAR 860-023--0055(6) for any repair center, is missed for 3 months out of a twelve-month rolling period, the Companies were to implement a service guarantee plan within 90 days, consistent with the terms of the plan adopted for Qwest in Order No. 08-408. The plan could be removed following a 12 month period in which the standard is met.
2. Network and other project investments. CenturyTel and United were to make incremental investments of at least \$650,000 in link diversity improvements and other projects at shareholder expense. Projects included the Companies’ portion of a South Oregon Coast Diversity Project at an estimated cost of \$150,000 to provide route diversity and a public safety benefit to customers in that region. In addition, the Companies agreed to construct a Hood River Gorge Diversity Project. This is a fiber ring to supply route diversity to the Hood River, Columbia

² Order No. 14-347, Appendix A at 28.

³ Ibid, Appendix A at 33-34.

Gorge and Mount Hood areas, and also provide diversity for legacy CenturyTel and United Internet connections statewide and 911 SS7 link redundancy for legacy CenturyTel and United customers in the Hood River, Columbia Gorge and Mount Hood areas. The estimated equipment cost for this project is \$500,000.

Staff evaluates the Companies' performance with respect to these objectives in Section III. In Section II, Staff details the results of the price plan and the pricing flexibility it afforded.

II. Results of Rate Changes Under the Current Price Plan

Under the Price Plan, CenturyTel and United service rates are regulated through four different methods: (1) There are specific nominal (dollar) caps for Residential Primary line basic service; (2) certain services are price-capped at pre-plan rates; (3) "Other Services" for residential customers have proportional price-caps (percentages); and (4) Business services are generally not price-capped.

While the following section focuses primarily on the companies' utilization of pricing flexibility to increase prices, it is important to note that there is considerable latitude available for the Companies to decrease prices. The Legislature provided a statute⁴ intended to allow a company to quickly decrease its rates when faced with competitive forces. Section 4 of that Statute provides a price floor limitation equal to the incremental service cost but allows the Commission to go even further to approve residential local exchange service at any level (including below the incremental service cost) in order to achieve the Commission's universal service objectives. Under the current form of regulation the Companies possess great freedom to reduce prices (one day notice⁵) and also to increase prices where they find it profitable.

Staff describes here CenturyTel/United's use of its pricing flexibility through June 30, 2017 (both upward and downward) organized by Price Plan sections of Attachment A.

Non-Recurring Charges - Under the current Price Plan, United Telephone Company of the Northwest's non-recurring charges associated with residential primary line basic service may increase a maximum of \$10.00 during the period of the Price Plan. However, the CenturyTel companies' non-recurring charges associated with residential primary line basic service are capped at pre-Plan rates. Accordingly, CenturyTel has not modified the rates for non-recurring charges for residential primary line basic service since the Price Plan began. United refrained from changing its non-recurring rates even though it had upward and downward flexibility.

⁴ ORS 759.255(1)

⁵ One day notice is allowed for Price Listed services. Tariffed or new services may require longer noticing and Commission approval.

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Recurring Charges for Residential Service - Under the current Price Plan, monthly rates for primary line basic service for residential customers may increase a maximum of \$3.00 during the period of the Price Plan. The Price Plan allows increases of up to \$2.00 on the Price Plan’s effective date, and an additional \$1.00 increase beginning in year two of the Price Plan. CenturyTel has increased residential primary line basic service rates, both flat rate and measured service, in Rate Group I by \$2.00 effective March 1, 2015 (Advice No. 339) and by \$1.00 in Rate Group I and Rate Group II effective June 1, 2016 (Advice No. 349). United increased residential primary line basic service rates (both flat rate and measured service) by \$2.00 effective March 1, 2015 (Advice No. OR15-01) and by \$1.00 effective June 1, 2016 (Advice No. 16-01). The Companies have therefore increased their rates by the maximum allowed by the Plan.

Switched Access, E9-1-1, Extended Area Service (EAS), Toll Restriction, Call Trace and Unlisted Numbers - The rates for these services were capped at pre-plan rates with no upward pricing flexibility. These rates remained constant except for switched access which decreased.⁶ For EAS, CenturyTel and United did decrease rates for both residential and business customers as follows:

Company	EAS Rate Change Description	Rate Decrease	Effective Date	Advice No.
CenturyTel	Residential Bands D & E	\$ (2.00)	March 1, 2015	339
CenturyTel	Residential Bands C, D & E	\$ (1.00)	June 1, 2016	349
CenturyTel	Business Band A	\$ (0.25)	June 1, 2016	349
CenturyTel	Business Band B	\$ (0.47)	June 1, 2016	349
CenturyTel	Business Band C	\$ (0.75)	June 1, 2016	349
CenturyTel	Business Band D	\$ (2.75)	June 1, 2016	349
CenturyTel	Business Band E	\$ (3.00)	June 1, 2016	349
United	Residential Level 3	\$ (2.00)	March 1, 2015	OR15-01
United	Residential Level 3	\$ (1.00)	June 1, 2016	16-01
United	Business Level 1	\$ (0.30)	June 1, 2016	16-01
United	Business Level 2	\$ (0.67)	June 1, 2016	16-01
United	Business Level 3	\$ (3.85)	June 1, 2016	16-01

Recurring and non-recurring charges for business primary line basic services - Under the Price Plan, recurring and non-recurring charges associated with business primary line basic service are not subject to price caps. CenturyTel and United have not modified the rates for *non-recurring* charges for business primary line basic service since the effective date of the current Price Plan, but did increase their *recurring* charges.

⁶ Interstate and Intrastate switched access rates have decreased pursuant to FCC Order 11-161; https://apps.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf.

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For flat rate business primary line basic service *recurring* charges, CenturyTel increased rates by \$2.69 in Rate Group I and \$0.75 in Rate Group II effective June 1, 2016 (Advice No. 16-002-PL). The rates for CenturyTel's measured rate business primary line basic service *recurring* charges were increased by \$2.00 in Rate Group I and \$2.75 in Rate Group II effective June 1, 2016 (Advice No. 16-002-PL).

United increased flat rate business primary line basic service *recurring* charges by \$3.00 and measured rate business primary line basic service *recurring* charges by \$2.65 effective June 1, 2016 (Advice No. 16-002-PL).

DS-1 and (ISDN-PRS) Business Services - Rates for DS-1 and ISDN-PRS services are not subject to price caps under the current Price Plan. These rates remained constant.

Packages/Bundles

Section O of the Price Plan allows the rates for all Packages and Bundles to be increased by any amount as long as the resulting rate is not more than the sum of the retail rates of the individual regulated services available in the package or bundle. CenturyTel increased the monthly rates for six packages/bundles between \$1.00 and \$7.00 per unit, which is an increase of three percent to eleven percent, effective June 1, 2016 (Advice No. 16-002-PL).

United increased the monthly rates for six packages/bundles between \$1.00 and \$2.00 per unit, which is an increase of three percent to six percent, effective June 1, 2016 (Advice No. 16-002-PL).

None of the proposed rates is greater than the sum of the retail rates of the individual regulated services available in the packages/bundles, respectively. Therefore, the proposed rate increases do not violate the conditions of the Price Plan.

Other Services. Under the current Price Plan, monthly rates for "Other Services" for business customers are not subject to price caps. Monthly rates for residential customers may increase up to fifty percent or \$0.50, annually, whichever is greater. The cumulative price increase over the term of the Price Plan is not to exceed 200 percent for residential customers.

CenturyTel used this pricing flexibility to increase rates for certain residential and business features and services with filings effective March 1, 2015 (Advice No. 15-001-PL) and June 1, 2016 (Advice No. 16-002-PL). The price increases complied with the above stated provisions of the Price Plan.

United used this pricing flexibility to increase rates for certain residential and business features and services with filings effective March 1, 2015 (Advice No. 15-002-PL) and June 1, 2016 (Advice No. 16-002-PL). The price increases complied with the above stated provisions of the Price Plan.

Directory Listings - Under the current Price Plan, CenturyTel and United are allowed to increase the rates for additional listings and other directory listing services subject to the pricing flexibility allowed in the “Other Services” category. CenturyTel and United increased the rates for additional directory listings by \$0.50 per month effective March 1, 2015 and by an additional \$0.50 per month effective June 1, 2016. The increases were filed by CenturyTel in Advice Nos. 15-001-PL and 16-002-PL, respectively, and by United in Advice Nos. 15-002-PL and 16-002-PL, respectively.

The Price Plan provided CenturyTel and United an option to petition the Commission for removal or adjustment of the price caps applied to primary line basic service. Neither CenturyTel nor United have filed any such petition with the Commission.

III. Performance Objectives:

Objective 1 - *Ensure the plan is operating in a way that is in the public interest.*

Staff monitored the progress of CenturyTel and United's Price Plan to ensure that it continued to operate consistent with the public interest. Staff worked with the Companies to ensure that the Specific Commitments were completed and that the price caps were observed.

Following is a summary of CenturyTel and United's use of the rate flexibility in accordance with established price-caps:

The Companies have increased the monthly rates for residential primary line basic service by the maximum allowable \$3.00 since the beginning of the Price Plan. CenturyTel and United have not modified the rates for non-recurring charges for residential primary line basic service since the Price Plan began. The rates have not increased for Switched Access, EAS, Toll Restriction, Call Trace and Unlisted Numbers/Directory Listings in compliance with the Price Plan. However, certain rate group rates enjoyed EAS rate decreases for both residential and business customers.

CenturyTel and United have both increased the monthly rates for business primary line basic service between \$2.00 and \$3.00 for most business customers. Business services, generally, are not price-capped under the Price Plan.

CenturyTel and United have not increased the monthly rates for DS-1 or ISDN-PRS even though those services are not price-capped.

The Price Plan has also allowed CenturyTel and United to increase the rates for “Other Services” (e.g., custom calling features) while recurring charges and Other Services individually had increases. The Price Plan also allowed CenturyTel and United to change prices for packages/bundles.

While making use of the pricing flexibility provided under the Price Plan, CenturyTel and United complied with maintaining the pre-plan rates for the following: 1) non-recurring charges for residential primary line basic service; 2) Switched Access, 3) EAS, 4) Toll Restriction; 5) Call Trace; and 6) Unlisted Numbers.

CenturyTel and United also report that both have completed the Specific Commitments. CenturyTel and United calculate that they jointly provided \$157,821 along with Qwest (per its commitment in Order No. 14-346) to complete the south coast diversity project which is an important public safety benefit to residents of the southern Oregon coast.

Another Specific Commitment related to diversity identified in the Price Plan was an enhancement in the Hood River and Gorge area. CenturyTel and United report that they jointly invested \$1,166,313, along with Qwest, in this project providing route diversity--an important safety enhancement for residents in this area. This is \$666,313 over the Price Plan estimate. These improvements also contribute to compliance with FCC route diversity requirements for enhanced 9-1-1.

Another Specific Commitment of the Price Plan was for CenturyTel and United to institute service performance guarantee credits if certain service quality metrics became out-of-standard during the term of the Price Plan. Both CenturyTel and United instituted service performance guarantee credits through tariff filings: Advice Letter No. 353 (Docket No. ADV 384) for CenturyTel and Advice Letter No. 16-04 (Docket No. ADV 360) for United. Service performance guarantee plans give customers a credit if CenturyTel and United miss specified service performance. The companies did pay these credits during the Price Plan review period. The service quality standard misses requiring the companies to institute these plans as described in the respective Staff Advice Letter memos. This commitment also helps to improve the public interest benefit balance with the Company benefits provided under the plan.

Objective 2 - Produce prices for CenturyTel and United's retail telecommunications services that are just and reasonable.

CenturyTel and United's pre-plan rates were deemed to be just and reasonable by the Commission. The Price Plan's flexibility allowed the rates to increase within the Commission approved framework, and the Companies stayed within the bounds of the Price Plan framework, so the Companies' rates continue to be just and reasonable.

Objective 3 - Ensure that the quality of existing telecommunications services will stay at or above current levels.

United fails the Price Plan objective 3 in the following service quality metrics:

1) Commitments for Service per 860-023-0055(4)(a)(A) and (b)(A) 90 percent of all commitments for service must be met not more than six business days after a request for service unless a later date is negotiated. Certain considerations may also be

considered when establishing the initial commitment date. Companies are allowed exclusions if the missed commitment was due to certain circumstances.

2) Repair Clearing Time per OAR 860-023-0055(6) 90 percent of all trouble reports within 48 hours of report for each repair center, with a weekend exception; use best efforts to complete out-of-service restorations for business customers; use best efforts to complete out-of-service restorations for residential customers who either have a medical necessity or no access to an alternative means of voice or E-911 communications.

3) Trouble Reports per OAR 860-023-0055(5) Monthly trouble report rate may not exceed two or three per 100 working access lines per wire center more than three times during a sliding 12-month period, depending on number of access lines per wire center.

The most recent service quality results for United can be found at the following link <http://www.puc.state.or.us/telecom/squality/large/EMBARQ.pdf>. United fails to meet Price Plan Objective No. 3 by: 1) failing to meet the required commitment for service percentage in January of 2017; 2) failing to meet the repair clearing time required percentage of repairs within forty-eight hours twenty-two times out of thirty-six potential times for its three reporting repair centers; and 3) failing to meet the required trouble report rate per hundred lines in its Sheridan wire center. United was required to initiate service performance guarantees pursuant to Price Plan Section T, as documented in Docket No. 360.

CenturyTel fails Price Plan Objective No. 3 because it was required to initiate service performance guarantees (Price Plan Attachment A, Section T, Sub-section a) for missing the Repair Clearing Time metric. This is documented in Docket No. ADV 384. CenturyTel received a waiver from reporting service quality results.⁷ CenturyTel began reporting monthly again in compliance with merger conditions, but ceased monthly reporting after April 2013. CenturyTel provided its current service quality results as requested by Staff to use for this report, but these are not posted on the Commission website.

Service quality remains a key concern for Staff. Service Quality standards are one of the laws that cannot be waived by the Price Plan⁸. Even with deregulation in some states Staff finds the rules remain a meaningful means of assessing service quality for legacy telecommunications services. Some modernization of the standards and measurements would likely be in order to ensure providers continue to meet the general requirement to furnish adequate and safe service and equipment especially if the Companies utilize newer technology.⁹

⁷ Commission Order No. 08-205.

⁸ ORS 759.450(3). This specifically requires the metrics to be included in the Commission's rules.

⁹ ORS 759.035 Duty to furnish adequate and safe service at reasonable rates. Also refer to OAR 860-023-0005, "...must have and maintain its entire plant and system in such condition that it will furnish safe, reliable, and reasonably continuous service."

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Competitive Local Exchange Carriers (CLECs) and Interexchange Carriers (IXCs)¹⁰ are also subject to PUC service quality regulations as well as other requirements¹¹. Staff finds that it is not unreasonable to expect regulated telecommunication companies to meet minimum service quality standards as the Price Plan requires.

In response to discussions regarding our service quality standards, Staff conducted an all-service-provider workshop on retail service quality on January, 15, 2015. Staff received no comments at the workshop or in the time that has since passed on how to modify existing service quality rules.

Staff remains open to discussing modifications to the Commission's service quality rules and metrics and anticipates that discussions will continue.

Objective 4 - Maintain the appropriate balance between the need for regulation and competition and Objective 5 - Simplify and reduce the burden of regulation for both CenturyTel and United and the Commission.

The Price Plan allowed the Companies to modify their rates with minimum requirements and in an expedited manner. Price Listed services may be modified upon one day's notice to customers. In addition, the legislature has authorized¹² the Commission to waive a significant number of statutes and rules, which the Commission has done for the Companies, including:

Statute or Rule	Description	Extent of Waiver
ORS 759.120	Form and manner of accounts prescribed by Commission.	Partial waiver per Order No. 10-067, Condition #12
ORS 759.125	Records of accounts prescribed by Commission etc.	Partial waiver per Order No. 10-067.
ORS 759.135	Depreciation accounts.	Full Waiver – continue reporting on Form O.
ORS 759.180	Hearing on reasonableness of rates etc.	Full Waiver
ORS 759.185	Suspension of rates pending hearing etc.	Full Waiver
ORS 759.190	Notice of Schedule Change	Full Waiver
ORS 759.195	Price Listing of services	Full Waiver
ORS 759.200	Inclusion of amortization in rates etc.	Full Waiver
ORS 759.215(2)	Public access to schedules	Full Waiver
ORS 759.220	Joint rates etc.	Partial Waiver
ORS 759.285	Charging rates based on cost of property not in service etc.	Full Waiver
ORS 759.300 – 759.360	Issuance of Securities	Full Waiver
ORS 759.685 to 759.393	Affiliate Interest Contracts	Full Waiver

¹⁰ IXCs have a different set of rules that apply to them.

¹¹ Cable companies are often subject to service quality requirement in local franchise agreements.

¹² ORS 759.255 Setting prices without regard to return on utility investment; petition; findings; conditions; application of statute to approved plan.

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Statute or Rule	Description	Extent of Waiver
OAR 860-022-0025(2)(b) and (c)	Tariff Filing Requirements	Full Waiver
OAR 860-022-0030	Increase Rates Filing requirements	Full Waiver
OAR 860-027-0015	New Construction Budget	Full Waiver
OAR 860-027-0050	Uniform System of Accounts	Partial Waiver per Order No. 10-067, condition No. 12.
OAR 860-027-0052	Allocation of Costs	Full Waiver
OAR 860-027-0100	Reporting of Affiliate Transactions	Full Waiver
Waiver of certain merger conditions.	-	-
Form O Reporting	No regional information required and the following schedules are not required: B-2, B-3, B-4, I4, I6, I7, and I8	-
Form I Reporting	Reduced to every three years and according to Price Plan Attachment 1.	

The regulatory relief provided to modify rates and the waiving of statutes and rules provided an acceptable balance, given the current competitive environment. Regulation appears helpful in balancing the public interest and company interests. For example, while competitors may exist across the state, they do not have a COLR obligation and do not serve all customers who request service. So one residential customer may have many similarly-priced options to choose among, while another does not. The Price Plan has helped ensure continued access to basic services at reasonable rates for Oregonians. Staff concludes that the existing price plan platform provides the best environment to provide regulatory relief where needed and protect the public interest where protection is needed. The last round of price plan dockets gave all stakeholders a forum to address their concerns and Staff believes this is a fruitful approach that should continue to be used.

Objective 6 - Maintain the availability of primary line basic service at affordable rates throughout the state.

The Price Plan met this objective by maintaining primary basic line service at no higher price than allowed by the plan and did not deaverage the price it charged any further than allowed.

Objective 7 - Increase CenturyTel and United's pricing flexibility to meet changing market conditions.

While the Price Plan allowed CenturyTel and United the flexibility to decrease rates to meet changing market conditions, except for extended area service (EAS), it did not elect to do so. The Company did make use of the pricing flexibility to increase rates. Examples are the rate increases for "Other Services" (especially custom calling features). The Price Plan provided an opportunity for CenturyTel and United to change their prices for "Other Services" and packages/bundles to meet its perception of market conditions.

Objective 8: - *Make New Services Available.*

CenturyTel and United report that they did not introduce any new services subject to the Commission's jurisdiction since the effective date of the current Price Plan. The Price Plan inherently met the objective by incentivizing the introduction of new services through open ended pricing flexibility. However, both companies failed to capitalize on the objective's potential. Staff does not view the failure of meeting this objective to result in new services as a reason for plan termination or other action.

IV. CenturyTel and United Analysis of Current Market Conditions in Oregon

In the Companies' Performance Report, CenturyTel and United describe the telecommunications market in Oregon as "exceptionally competitive, and the mix of competitive telecommunications alternatives continue to grow and evolve." CenturyTel and United cite *wireline cable* companies, such as Comcast and Charter, and a number of competitive local exchange carriers (CLECs), such as Integra, XO, AT&T, and Verizon, as continuing to aggressively compete with CenturyTel and United. CenturyTel and United cite intermodal voice services from *wireless* companies, such as AT&T, Verizon, Sprint, and T-Mobile, and *Voice over Internet Protocol ("VoIP")* services from companies like Vonage and Google as rapidly gaining a significant share of the telecommunications market in Oregon.

Staff does not disagree that competition is present and may be intense in some areas of the state. However, Staff is not convinced that competition adequately addresses public interest concerns in all areas of the state; particularly in rural areas. For instance, cable providers may choose to serve the core of a town, but do not provide service to all areas. Similarly, while wireless phones are available to anyone, they do not always provide adequate service at an individual's residence and are many times more expensive than the landline alternative.

V. CenturyTel and United Access Line Gain or Loss

During the time period that the Price Plan has been in effect since October 2014, CenturyTel and United report continued declines in access lines, which have declined by 10.7 percent from 78,946 lines in October, 2014, to 70,531 lines in September 2016. Residential retail access lines declined 9.9 percent and business retail access lines dropped 12.5 percent over the period. During this same time frame, the Company has *increased* many of its prices and has had difficulties maintaining high-quality service. In addition to the secular trends described by the Companies Staff observes that the combination of reduced service quality coupled with higher prices may also have contributed to line losses.

Conclusion

CenturyTel and United met Price Plan objective numbers 1, 2, 4, 5, 6, and 7, which speak to issues related to retail telecommunications services rates and regulatory relief provided under the Price Plan. In part to comply with the price plan statute and in part to bring the Price Plan into compliance with the statutory review criteria and the Plan's objective 3, Staff is currently considering submitting a request to the Commission to require the Companies to submit a service quality performance plan in order to mitigate their poor service quality performance. CenturyTel and United did not exceed any of the price caps. The Company made use of pricing flexibility to increase its prices but not to decrease prices and fulfilled its specific public interest commitments. The Price Plan's objective number eight attempted to incentivize the introduction of new services by providing open ended pricing flexibility. Neither CenturyTel nor United utilized this incentive. Staff plans to explore modifications to Objective 8 for potential future plans for better results. In addition to meeting most Price Plan objectives, Staff concludes that the Price Plan itself remains a good mechanism to meet the related statutory objectives: 1) Ensuring prices for telecommunications services that are just and reasonable; 2) Ensuring high quality of existing telecommunications services and makes new services available; 3) Maintaining the appropriate balance between the need for regulation and competition and 4) Simplifying regulation.

CenturyTel.United.PricePlanPerfEval.08.30.2017