

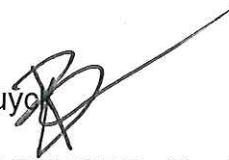
PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 26, 2017

REGULAR CONSENT EFFECTIVE DATE _____ NA _____

DATE: September 18, 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 1354): Commission Review of the Qwest Corporation Price Plan.

STAFF RECOMMENDATION:

Staff provides the attached OPUC Staff report, which reviews Qwest's (Qwest or Company) performance under its price plan pursuant to Commission Order No. 14-346 dated October 3, 2014.

DISCUSSION:

Issue

Whether Qwest has met the Commission's goals for its most recent 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 Company to file a report providing specific information. Appendix A (also marked Exhibit A) of Order No. 14-346 provides that the Commission will review the

¹ Section 7 of its Order No. 14-346, pp. 5.

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 Company's use of the rate flexibility in accordance with established price-caps. The attached report examines the use of pricing flexibility more fully. The Company did not exceed any of the price caps and increased rates up to or less than the maximum amounts allowed under the Price Plan. Qwest:

- 1) Increased residential primary line basic service rates by a total of \$3.00 for measured and flat rate;
- 2) Decreased band B and C EAS rates by \$0.27 and \$1.49 respectively;
- 3) Increased all rate groups (three) for measured and flat rate business service by \$2.00; and
- 4) Increased forty-four residential and business Customized Local Area Signaling Service (CLASS) services, custom calling and residential packages ranging from \$0.50 to \$3.00.

Qwest complied with its requirement to maintain the pre-plan rates for the following: 1) Switched Access³, 2) EAS⁴, 3) Toll Restriction; 4) Call Trace; and 5) Unlisted Numbers. Additionally, Qwest has not increased the monthly rates for, DS-1 or ISDN-PRS.

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

The Company reports 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.

² Order No. 14-346, Appendix A, Section W, Three-year review, pp. 13.

³ Qwest was required to reduce switched access rates by the FCC.

⁴ Qwest lowered rates in some EAS rate-groups.

The Company 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 Company made use of the pricing flexibility to increase its prices and fulfilled its public interest specific commitments. The Company also gained regulatory relief from the Commission's waiving of statutes and rules consistent with ORS 759.255.

The company did not meet plan Objective No. 3 as service quality has experienced a marked decline. In response to the sub-standard service quality metrics, Staff recommended the Commission require Qwest to submit a service quality performance plan at its July 25, 2017 Regular Public Meeting. This performance plan should serve to bring the Company into compliance with Objective No. 3 prior to the end of the current Price Plan.

The company 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 already put in place 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.

PROPOSED COMMISSION MOTION:

Take no action with regard to Qwest's Price Plan.

OREGON PUBLIC UTILITY COMMISSION

STAFF REPORT

THREE YEAR REVIEW OF THE

QWEST CORPORATION

PRICE PLAN

DOCKET NO. UM 1354

BY STEPHEN HAYES

August 30, 2017

BACKGROUND

The Oregon Public Utility Commission adopted a Price Plan for Qwest Corporation's Oregon operations in Order No. 14-346, Docket UM 1354, on October 3, 2014. (Qwest Corporation does business as CenturyLink QC [Qwest].) Qwest's 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 Qwest's performance under the Price Plan every three years.¹ To commence the three year review process, Qwest is required to file a detailed report regarding its performance as compared to the objectives of the plan and include the following information:

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

The report was to be filed by the 90th day of the third year of operation under the plan, which the company did through its *Price Plan Performance Report* January 4, 2017. Qwest's report was submitted on time and is complete. This staff report provides an evaluation of Qwest's performance under the Price Plan and of the information provided in the *Price Plan Performance Report*. Qwest's performance is evaluated compared to the objectives of the Price Plan as well as its apparent consequences.

On September 27, 2016, Qwest filed a timely notice of intent to extend the Price Plan by an additional year. Consequently, the current Price Plan will be extended through October 2, 2018, absent Commission intervention. Having requested to extend the Price Plan for a fourth year means that the Company is required to petition the Commission for a new form of regulation no later than the end of the third year, which is October 2, 2017. It appears that Qwest will be filing a modified plan on or before October 2, 2017.

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.

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 Qwest'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 Qwest and the Commission.
6. Maintain the availability of primary line basic service at affordable rates throughout the state.
7. Increase Qwest'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”:

1. Service performance guarantee. The service performance guarantee present in the Price Plan adopted in Order No. 08-408 was to be removed. That guarantee was to be reinstated 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 12-month rolling period. (Qwest did not remove its service guarantee plan from its tariff³ and continued to provide credits). The Company paid repair commitment credits during the Price Plan review period.
2. Network and other project investments. Qwest was to make incremental investments of at least \$650,000 in route diversity improvements and other projects at shareholder expense. Projects included CenturyLink's 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, CenturyLink agreed to construct a Hood River Gorge Diversity Project. This is a fiber ring to supply route diversity to the Hood River, Columbia 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. Qwest details in its

² Ibid, Appendix A at 13.

³ P.U.C. Oregon No. 33, Exchange and Network Services, Section 2.2.2., Original Sheet 25.1.

report the completion of each of these projects and reports actual costs exceeding the estimates in the Price Plan.

Staff evaluates Qwest's performance with respect to these objectives in order 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, Qwest's 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, and (4) Business services are generally not price-capped.

While the following section focuses primarily on Qwest's utilization of pricing flexibility to increase prices, it is important to note that there is considerable latitude available for the Company 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 Statue 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 Company possesses great freedom to reduce prices (upon one days' notice⁵) and also to increase prices where it finds it profitable.

Staff describes here Qwest'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, non-recurring charges associated with residential primary line basic service may increase a maximum of \$10.00 during the period of the Price Plan. Other than the \$10.00 increase to the returned payment charge in Advice No. 2124, these rates remained constant.

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. Qwest increased residential primary line basic service rates (both flat rate and measured service) by \$2.00 effective May 9, 2015 (Advice No. 2124) and by \$1.00 effective June 1, 2016 (Advice No. 2127).

⁴ ORS 759.255(4).

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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Advice No.		2124	2127	Total
Effective Date	Pre-Plan	5/9/2015	6/1/2016	Rate
Qwest Residential Service Description	Rate	Rate	Rate	Increase
Measured Residential	\$6.37	\$8.37	\$9.37	\$3.00
One-Party Residential (Primary)				
Rate Group 1	\$12.80	\$14.80	\$15.80	\$3.00
Rate Group 2	\$13.80	\$15.80	\$16.80	\$3.00
Rate Group 3	\$14.80	\$16.80	\$17.80	\$3.00
One-Party Residential (Non-Primary)				
Rate Group 1	\$12.80	\$14.80	\$15.80	\$3.00
Rate Group 2	\$13.80	\$15.80	\$16.80	\$3.00
Rate Group 3	\$14.80	\$16.80	\$17.80	\$3.00

Qwest has therefore increased its rates by the maximum allowed by the Plan.

Switched Access, E911, 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. Consistent with this limitation, Qwest has not increased the rates for switched access,⁶ toll restriction, call trace and unlisted numbers since the effective date of the current Price Plan. For EAS, Qwest did not increase any rates but did decrease rates for business EAS for rate bands B and C effective July 17, 2016, (Advice No. 2129).

Advice No.		2129	
Effective Date		7/17/2016	
Qwest Service Description	Pre-Plan Rate	Rate Reduction	New Rate
EAS Rate Band			
B	\$3.27	(\$0.27)	\$3.00
C	\$7.49	(\$1.49)	\$6.00

Directory Listings - Under the current Price Plan, Qwest is allowed to increase the rates for additional listings and other directory listing services. Qwest has not increased the rates for these services since the effective date of the current Price Plan.

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. The rates for *non-recurring* charges for business primary line basic service remained constant. For flat rate business primary line basic service *recurring* charges, Qwest increased rates by \$2.00 in Rate Group 1 and \$1.50 in Rate Groups 2 and 3 effective July 17, 2016 (Advice No. 2016-006-PL).

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.

Three Year Price Plan Review Report
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The rates for measured rate business primary line basic service *recurring* charges were increased by \$2.00 across all three rate groups in the same filing. Refer to the chart below.

Advice No.		2016-006PL	Total
Effective Date	Pre-Price-Plan	7/17/2016	Rate
Qwest Business Service Description	Rate	Rate	Increase
Business Flat Rate Service			
Rate Group 1	\$ 26.00	\$ 28.00	\$ 2.00
Rate Group 2	\$ 28.50	\$ 30.00	\$ 1.50
Rate Group 3	\$ 30.50	\$ 32.00	\$ 1.50
Business Measured Service Individual Line			
Rate Group 1	\$ 18.00	\$ 20.00	\$ 2.00
Rate Group 2	\$ 18.00	\$ 20.00	\$ 2.00
Rate Group 3	\$ 18.00	\$ 20.00	\$ 2.00

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. Qwest Advice No. 2015-002-PL increased the rates for 27 grandfathered packages/bundles by \$2.00. Qwest Advice No. 2016-004-PL increased the rates for the same 27 grandfathered packages/bundles by \$2.00. 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 of specific sums. Monthly rates for residential customers may increase up to 50 percent or \$.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.

Qwest used this pricing flexibility to increase rates for select residential services with filings effective May 9, 2015, (Advice No. 2015-002-PL) and June 1, 2016 (Advice No. 2016-004-PL). Qwest's price increases for services complied with the above stated provisions of the Price Plan. Qwest also used this pricing flexibility to increase rates for select business services in the same filings. The following chart shows the rate changes to Packages/Bundles and Other Services.

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Advice No.		2015-002PL	2016-004PL	Total Increase
Effective Date	Pre-Price-Plan	5/9/2015	6/1/2016	Rate
Qwest's Other Services Description	Rate	Rate	Rate	Increase
Residential Custom Calling Services (each line)				
Call Forwarding - Don't Answer	\$ 0.80	\$ 1.30	\$ 1.80	\$ 1.00
Call Forwarding - Don't Answer (Expanded)	\$ 0.80	\$ 1.30	\$ 1.80	\$ 1.00
Call Forwarding - Busy Line (Expanded)	\$ 0.45	\$ 0.95	\$ 1.35	\$ 0.90
Call Forwarding - Busy Line (Overflow)	\$ 0.45	\$ 0.95	\$ 1.35	\$ 0.90
Call Forwarding - Busy Line (Programmable)	\$ 1.85	\$ 2.25	\$ 2.75	\$ 0.90
Call Forwarding - Busy Line/Don't Answer (Expanded)	\$ 1.05	\$ 1.55	\$ 2.05	\$ 1.00
Call Forwarding - Busy Line (Overflow)/Don't Answer	\$ 1.05	\$ 1.55	\$ 2.05	\$ 1.00
Continuous Redial	\$ 4.50	\$ 5.00	\$ 5.00	\$ 0.50
Speed Calling - Eight Code Capacity	\$ 4.50	\$ 5.00	\$ 5.00	\$ 0.50
Speed Calling - Thirty Code Capacity	\$ 4.50	\$ 5.00	\$ 5.00	\$ 0.50
Warm Line, each line arranged	\$ 2.50	\$ 3.00	\$ 3.00	\$ 0.50
Residential Custom Calling Services (per occurrence)				
Continuous Redial	\$ 0.75	\$ 1.25	\$ 1.25	\$ 0.50
Last Call Return	\$ 0.75	\$ 1.25	\$ 1.25	\$ 0.50
Three-Way Calling	\$ 0.75	\$ 1.25	\$ 1.25	\$ 0.50
Business Custom Calling Services (per occurrence)				
Continuous Redial	\$ 0.75	\$ 1.25	\$ 1.25	\$ 0.50
Last Call Return	\$ 0.75	\$ 1.25	\$ 1.25	\$ 0.50
Three-Way Calling	\$ 0.75	\$ 1.25	\$ 1.25	\$ 0.50
Obsolete Residential Packages (per flat rate line)				
CUSTOMCHOICE (obsolete 9/30/2000)	\$ 29.95	\$ 31.95	\$ 32.95	\$ 3.00
CUSTOMCHOICE (obsolete 9/30/2000) - additional line	\$ 26.95	\$ 28.95	\$ 29.95	\$ 3.00
SELECTPAK - (obsolete 9/30/2000)	\$ 23.95	\$ 25.95	\$ 26.95	\$ 3.00
CUSTOMCHOICE (obsolete 5/5/2003)	\$ 35.99	\$ 37.99	\$ 38.99	\$ 3.00
CUSTOMCHOICE (obsolete 5/5/2003) - additional line	\$ 32.99	\$ 34.99	\$ 35.99	\$ 3.00
SELECTPAK (obsolete 5/5/2003)	\$ 29.99	\$ 31.99	\$ 32.99	\$ 3.00
Two-line CUSTOMCHOICE (obsolete 5/5/03)	\$ 41.95	\$ 43.95	\$ 44.95	\$ 3.00
POPULARCHOICE (obsolete 5/5/2005) - w/ Voice Messaging	\$ 35.99	\$ 37.99	\$ 38.99	\$ 3.00
POPULARCHOICE (obsolete 5/5/2005) - no Voice Messaging	\$ 35.99	\$ 37.99	\$ 38.99	\$ 3.00
Two-line POPULARCHOICE (obsolete 5/5/2005) - w/ Voice Messaging	\$ 42.95	\$ 44.95	\$ 45.95	\$ 3.00
Two-line POPULARCHOICE (obsolete 5/5/2005) - no Voice Messaging	\$ 42.95	\$ 44.95	\$ 45.95	\$ 3.00
CUSTOMCHOICE-COMPLETE (obsolete 5/5/2005) - w/ Voice Messaging	\$ 39.99	\$ 41.99	\$ 42.99	\$ 3.00
CUSTOMCHOICE-COMPLETE (obsolete 5/5/2005) - no Voice Messaging	\$ 39.99	\$ 41.99	\$ 42.99	\$ 3.00
Two-line CUSTOMCHOICE-COMPLETE (obsolete 5/5/2005) - w/ Voice Messaging	\$ 52.95	\$ 54.95	\$ 55.95	\$ 3.00
Two-line CUSTOMCHOICE-COMPLETE (obsolete 5/5/2005) - no Voice Messaging	\$ 52.95	\$ 54.95	\$ 55.95	\$ 3.00
VALUECHOICE (obsolete 8/16/2004)	\$ 29.99	\$ 31.99	\$ 32.99	\$ 3.00
Two-line VALUECHOICE (obsolete 8/16/2004)	\$ 36.99	\$ 38.99	\$ 39.99	\$ 3.00
PREFERREDCHOICE (obsolete 8/16/2004) - w/ Voice Messaging	\$ 35.99	\$ 37.99	\$ 38.99	\$ 3.00
PREFERREDCHOICE (obsolete 8/16/2004) - no Voice Messaging	\$ 35.99	\$ 37.99	\$ 38.99	\$ 3.00
Two-line PREFERREDCHOICE (obsolete 8/16/2004) - w/ Voice Messaging	\$ 44.99	\$ 46.99	\$ 47.99	\$ 3.00
Two-line PREFERREDCHOICE (obsolete 8/16/2004) - no Voice Messaging	\$ 44.99	\$ 46.99	\$ 47.99	\$ 3.00
QWEST CHOICE Home (obsolete 8/16/2004)	\$ 27.99	\$ 29.99	\$ 30.99	\$ 3.00
QWEST CHOICE Two-line Home (obsolete 8/16/2004)	\$ 35.99	\$ 37.99	\$ 38.99	\$ 3.00
QWEST CHOICE Home (obsolete 6/18/2010)	\$ 30.99	\$ 32.99	\$ 33.99	\$ 3.00
QWEST CHOICE Two-line Home (obsolete 6/18/2010)	\$ 39.99	\$ 41.99	\$ 42.99	\$ 3.00
QWEST CHOICE Home Plus (obsolete 6/18/2010)	\$ 34.99	\$ 36.99	\$ 37.99	\$ 3.00
QWEST CHOICE Two-line Home Plus (obsolete 6/18/2010)	\$ 44.99	\$ 46.99	\$ 47.99	\$ 3.00

The Price Plan provides Qwest an option to petition the Commission for removal or adjustment of the price caps applied to primary line basic service. Qwest has not sought Commission approval for such a petition.

III. Performance Objectives

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

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

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

- 1) Increased residential primary line basic service rates by a total of \$3.00 for measured and flat rate, the maximum allowed;
- 2) Decreased band B and C EAS rates by \$0.27 and \$1.49 respectively;
- 3) Increased all rate groups (1-3) for measured and flat rate business service by \$2.00; and
- 4) Increased Forty-Four Residential and Business Customized Local Area Signaling Service (CLASS) Services, Custom Calling and Residential Packages ranging from \$0.50 to \$3.00.

While making use of the pricing flexibility provided under the Price Plan, Qwest complied with maintaining the pre-plan rates for the following: 1) Switched Access, 2) EAS, 3) Toll Restriction; 4) Call Trace; and 5) Unlisted Numbers. Additionally, Qwest has not increased the monthly rates for, DS-1 or ISDN-PRS.

Qwest has completed its public interest commitments. Qwest reports that in compliance with Commission Order No. 14-347, the South Oregon Coast Diversity Project is complete and functional. Qwest and CenturyTel/United Telephone (per its commitment in Order No. 14-347) have each completed the Coos Bay project. All grooming of traffic onto the new diverse OC192 was executed during third quarter of 2016. Qwest reports that it invested \$157,821 in this project.

Qwest reports that the Hood River Gorge project was expanded beyond its initial estimate and it is nearly complete. All cable and electronics are in place and operating. Orders to create capacity to roll the existing circuits onto the new infrastructure have been issued and are pending. This final aspect of the project was originally anticipated to be complete during the first quarter of 2017 but has been delayed and is expected to be completed in September 2017. This project, when complete, creates the diversity planned in the Gorge. Qwest reports that, jointly with CenturyTel/United, it has invested

\$1,166,313 in this project. These specific commitments also helps to improve the public interest benefit balance with Company benefits provided under the plan.

Objective 2 - Produce prices for CenturyLink QC's (Qwest) retail telecommunications services that are just and reasonable.

Qwest'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 Company stayed within the bounds of the Price Plan frame work so the Company's rates continue to be just and reasonable.

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

As illustrated in Qwest's report and based on Staff's review of monthly service quality reports, Qwest failed the Price Plan objective 3 in the following service quality metrics:

1) Provisioning and Held Orders for Lack of Facilities per OAR 860-023-0055(4) (At least 90 percent of commitments for service must be met; Held orders for lack of facilities must not exceed the larger of two per wire center per month or five per 1,000 inward orders. Primary held orders. Primary held orders for lack of facilities in excess of 30 days past the initial commitment date must not exceed 10 percent of total monthly held orders due to lack of facilities within the utility's Oregon service territory.

2) 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.

3) 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.

The Company's most current service quality results are posted on the Commission website at the following link, <http://www.puc.state.or.us/telecom/squality/large/qwest.pdf>. In Order No. 17-175 (Docket No. UM 1836), the Commission required Qwest to submit a service quality performance plan. Qwest timely submitted a service quality performance plan intended to meet these three service quality standards, and the plan has been approved by the Commission.

Service quality remains a key concern for Staff. Service Quality standards are one of the laws that cannot be waived by the Price Plan.⁷ 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 in the near future to ensure providers continue to meet the general requirement to furnish adequate and safe service and equipment especially if Qwest utilizes newer technology.⁸

Competitive Local Exchange Carriers (CLECs) and Interexchange Carriers (IXCs) are also subject to PUC service quality regulations as well as other requirements.⁹ 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 service quality on January 15, 2015. Staff received no comments at the workshop or in the time that has passed on how to modify existing service quality rules. The primary comment was that the service quality rules are no longer necessary. 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 Qwest and the Commission.

The Price Plan allowed the Company to modify its rates with minimum requirements and in an expedited manner, Price Listed services upon one day’s notice. In addition, the legislature has authorized¹⁰ the Commission to waive a significant number of statutes and rules, which the Commission has done for the company, including:

Statute or Rule	Description	Extent of Waiver
ORS 759.120	Form and manner of accounts prescribed by Commission.	Partial waiver per Order No. 11-095, Condition #11
ORS 759.125	Records of accounts prescribed by Commission etc.	Partial waiver per Order No. 11-095, Condition #11
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

⁷ ORS 759.450(3) This specifically requires the metrics to be included in the Commission’s rules.

⁸ 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.”

⁹ IXCs have a different set of rules that apply to them.

¹⁰ 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
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
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 Affiliated Transactions	Full Waiver
Waiver of certain merger conditions.	-	-
Specific Reporting Relief	Not required to provide regional information in the Form O or file the following Form O schedules – B-1, B-3, B-4, I-4, I-6, I-7, and I-8. Form I Filing due every three years.	-

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 carrier of last resort (COLR) obligations and do not serve all customers who request service. So one residential customer may have many similarly-priced options to choose among, while another customer 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 a fruitful 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 the environment 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 striking a balance between allowing for profitable utility operation and maintaining affordable rates throughout the state. Along with limiting price increases statewide, affordable rates are also achieved by maintaining statewide price averaging and not allowing further rate group deaveraging.

Objective 7 - Increase Qwest's pricing flexibility to meet changing market conditions.

While the Price Plan allowed Qwest 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 Qwest to change its prices for "Other Services" and packages/bundles to meet its perception of market conditions.

Objective 8: - Make New Telecommunications Services Available.

Qwest states that it has not introduced any new services since the inception of the Price Plan. The Price Plan inherently met the objective by incentivizing the introduction of new services through open ended pricing flexibility. However, Qwest did not introduce any new services. Staff does not recommend any commission action regarding the failure to meet this objective.

IV. Qwest Analysis of Current Market Conditions in Oregon

In its Performance Report, Qwest says the "telecommunications market in Oregon is exceptionally competitive and the mix of competitive telecommunications alternatives continues to grow and evolve." Qwest cites *wireline cable* companies, such as Comcast, BendBroadband and Charter, and a number of competitive local exchange carriers (CLECs), such as Integra, XO, AT&T, and Verizon, as continuing to compete with Qwest. Qwest cites intermodal competition 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 gaining a significant share of telecommunications market in the state.

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. Qwest Access Line Gain or Loss

During the time period that the Price Plan has been in place, Qwest states that it has continued to experience declines in access lines by 19.3 percent from 376,422 lines in October, 2014, to 303,738 lines in September, 2016. Qwest further states that residential retail access lines declined 20.5 percent and business retail access lines dropped 13.5 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 company Staff observes that the combination of reduced service quality coupled with higher prices may also have contributed to line losses.

Conclusion

Qwest 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. During the term of the Price Plan, Qwest did not exceed any of the price caps. The Company made use of pricing flexibility to increase its prices, but except for EAS, they decided not to decrease prices and fulfilled their specific public interest commitments. With respect to objective number 3, the Commission recently ordered Qwest to submit a plan to improve its service quality and bring it within standards within 6 months of its approval, well in advance of the end of the current Price Plan. The Price Plan's objective number 8 attempted to encourage the introduction of new services by providing open ended pricing flexibility. Qwest did not introduce any new services. 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.

QwestPricePlanPerformEvaluation.09.18.17