

ITEM NO. CA4

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

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ NA \_\_\_\_\_

DATE: September 18, 2017

TO: Public Utility Commission

FROM: Stephen Hayes 

THROUGH: Jason Eisdorfer, Bryan Corway, and Bruce Hellebuyck 

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF REPORT: (Docket No. UM 1677) Commission Review of Frontier Communications Northwest, Inc. Price Plan.

**STAFF RECOMMENDATION:**

Staff provides the attached OPUC Staff report which reviews Frontier Communications Northwest, Inc. (referred to as Frontier or the Company) performance under their price plan according to Commission Order No. 14-290 dated August 18, 2014.

**DISCUSSION:**

Issue

Whether Frontier has met the Commission goals for its 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,<sup>1</sup> which include requiring Frontier to file a report providing specific information. Appendix A (also marked Exhibit A) of Order No. 14-290 provides that the Commission will review the

<sup>1</sup> Section 5 of its Order No. 14-290, pp. 4, Section 5.

plan every three years.<sup>2</sup> The Order's Appendix A outlines in Section X 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.

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

- 1) Increased residential primary line basic service rates by a total of \$2.75 for measured rate service (under the allowable maximum) and \$3.00 for flat rate service (the maximum allowed);
- 2) Increased rates for five business services, three of the five affected services having three rate groups making a total of eleven separate affected rates, seven out of the eleven affected rates increased to the full \$4.00 maximum allowable;
- 3) Increased twenty-four "Other Services" rates by fifty cents; the maximum allowable for the year the increase was made; and
- 4) Increased directory listings by \$1.00; the maximum allowable for the two years increases were made.

While making use of the pricing flexibility provided under the Price Plan, Frontier 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. Additionally, Frontier has not increased the monthly rates for DS-1 or ISDN-PRS even though rates could have been increased ten percent annually under the plan.

Notably the Company did not use pricing flexibility to lower prices. Other than some package and bundle offerings, staff observes that there is no apparent use of price to attempt to stem the tide of line loss in response to the intense competition the Company describes in its report.

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<sup>2</sup> Order No. 14-290, Appendix A, Section W, Three-year review,

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

Frontier reports that it has completed its public interest specific commitments. Frontier calculates that it exceeded the total expenditure requirements by approximately \$200,000.

Frontier has met plan objective numbers 1, 2, 4, 5, 6, 7, and 8, 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 commitments. The Company also gained regulatory relief from the Commission waiving statutes and rules consistent with ORS 759.255.

In part to comply with service quality related statute and in part to bring the Price Plan into compliance with the statutory review criteria and the Plan's objective 3, Staff recommended, and the Commission required Frontier to submit a service quality performance plan in order to mitigate the poor service quality performance prior to the end of the current Price Plan.

At this time 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 Frontier's Price Plan.

**OREGON PUBLIC UTILITY COMMISSION**

**STAFF REPORT**

**THREE YEAR REVIEW OF THE**

**FRONTIER COMMUNICATIONS NORTHWEST, INC.**

**PRICE PLAN**

**DOCKET NO. UM 1677**

**BY STEPHEN HAYES**

**August 30, 2017**

## BACKGROUND

The Oregon Public Utility Commission adopted a Price Plan for Frontier Communications Northwest, Inc. (Frontier or the Company) in Order No. 14-290, Docket No. UM 1677, on August 18, 2014. The Frontier Price Plan resulted from a stipulation among several parties including Commission Staff, the Oregon Citizens' Utility Board (CUB), Integra Telecom of Oregon, Inc., and its affiliates (Integra), and PriorityOne Telecommunications, Inc. (Priority One).

The Price Plan, Section W, contains provisions requiring the Commission to complete a comprehensive review of Frontier's performance under the Price Plan every three years.<sup>1</sup> To commence the three year review process, Frontier is required to file a detailed report regarding its performance as compared to the objectives of the plan by the 90<sup>th</sup> day of the third year of operation under the plan. 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 Frontier's regulated retail telecommunications services;
- (2) Data regarding the gain or loss of access lines by wire center;
- (3) A discussion of how the pricing flexibility allowed Frontier to meet the plan's objectives;
- (4) Identification of any new services that Frontier has introduced; and
- (5) Identification of any ways in which the burden of regulation has been either simplified or reduced for either Frontier or the Commission.

Frontier filed a motion on November 9, 2016, requesting a report filing extension to January 18, 2017. Chief Administrative Law Judge Michael Grant approved the motion to modify Order No. 14-290 for good cause on November 18, 2016. Frontier timely filed its report on January 18, 2017.

Frontier's report was submitted on time and is complete. This staff report provides a review of Frontier's performance under the Price Plan and of the information provided in the *Price Plan Performance Report*. Frontier's performance is evaluated compared to the objectives of the Price Plan as well as its apparent consequences.

In accordance with Section W of the Price Plan Attachment A, on August 12, 2016, Frontier filed its notice of intent to extend the current Price Plan by one year. Absent Commission intervention this would make the current Price Plan effective through August 17, 2018. 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 August 17, 2017. In order No. 17-312

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<sup>1</sup> In the Matter of Frontier Corporation, Petition for Approval of Price Plan Pursuant to ORS 759.255, Docket UM 1677, Order No. 14-290, Appendix A at 19, Three year review.

the Commission approved Frontier's request for an extension of time to file its petition to September 7, 2017.

## STAFF ANALYSIS

### I. Price Plan Objectives and Commitments

The current Price Plan (Attachment A, p.2.) has the following objectives:

1. Ensure the plan is operating in a way that is in the public interest.
2. Produce prices for Frontier'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 Frontier and the Commission.
6. Maintain the availability of primary line basic service at affordable rates throughout the state.
7. Increase Frontier's pricing flexibility to meet changing market conditions.
8. Make new telecommunications services available.

The Price Plan also makes the following public interest commitments---"Specific Commitments":

1. Service performance guarantee. Frontier will retain the service guarantees in its existing tariff. Frontier commits to provide refresher training to all call center representatives to reinforce the policy of offering customers with missed installation and repair commitments the tariffed service performance guarantee within 60 days of the Commission's approval of the Price Plan.
2. Network and other investments. Frontier commits during the Price Plan to public benefit commitments totaling \$400,000.
  - a. Complete the South Coast Diversity project at an estimated cost of \$300,000, providing a public safety benefit for customers in that region.
  - b. Frontier will additionally replace the existing DCM-24 equipment at Swedetown, Clatskanie at an estimated cost of \$50,000.
  - c. Frontier will also provide \$50,000 to CUB Connects, which provides a public benefit by helping consumers to navigate the competitive marketplace for telecommunications services.

Staff evaluates Frontier'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, Frontier service rates are regulated through five different methods: (1) There are specific nominal (dollar) caps for Residential Primary line basic service, (2) The total price of Packages and Bundles for both residential and business customers may not exceed the retail price of all services within the bundle, (3) Certain services are price-capped at pre-plan rates, (4) “Other Services” may increase up to 25 percent or \$0.50 annually, and (5) Business DS-1 and ISDN-PRI are allowed to increase 10 percent annually.

While the following section focuses primarily on Frontier’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 statute<sup>2</sup> 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 Company possesses great freedom to reduce prices (one day notice<sup>3</sup>) and also to increase prices where it finds it profitable.

Staff describes here Frontier’s use of its pricing flexibility through June 30, 2017 (both upward and downward) organized by Price Plan section.

### Non-Recurring Charges

Under the current Price Plan, Frontier’s *non-recurring* charges associated with residential and business primary line basic service are capped at pre-Plan rates. Accordingly, these rates remained constant.<sup>4</sup>

### 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 three of the Price Plan. As reported, Frontier has increased residential primary line basic service rates, both flat rate and measured service, as shown in the table below. Since both residential services were increased less than the first-year \$2.00 maximum when the Company increased One-Party Residential by \$1.25 on April 18, 2017, it was within the \$3.00 overall maximum

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<sup>2</sup> ORS 759.255(1).

<sup>3</sup> One day notice is allowed for Price Listed services. Tariffed or new services may require longer noticing and Commission approval.

<sup>4</sup> The Company restructured its residential and business service order charges for nationwide uniformity. Some charges were decreased and two new charges were added creating a zero-net-effect. This maintains the non-recurring charges at pre-plan rates according to the Price Plan. In conjunction with the restructuring, Frontier introduced an installment billing option for non-recurring charges allowing customers to spread the non-recurring charges over three months.

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allowable under the Price Plan. The Company increased its One-Party Residential rate by the maximum allowed by the Plan.

Advice No.		1042	1046	1054	Total
Effective Date	Pre-Price Plan	10/19/2014	10/18/2015	4/18/2017	Rate
Frontier Business Service Description	Rate	Rate	Rate	Rate	Increase
<b>Measured Residential</b>	\$ 8.07	\$ 9.82	\$ 9.82	\$ 10.82	\$ 2.75
<b>One-Party Residential</b>	\$ 12.59	\$ 14.34	\$ 14.34	\$ 15.59	\$ 3.00

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, these rates did not increase<sup>5</sup>.

Recurring and non-recurring charges for business primary line basic services

Under the Price Plan *recurring* charges associated with business primary line basic service are subject to a maximum aggregate increase (cap) of \$4.00 during the Plan's term. The Company's business service price increases are described in the following table.

Advice No.		1042	1046	1054	Total
Effective Date	Pre-Price Plan	10/19/2014	10/18/2015	4/18/2017	Rate
Frontier Business Service Description	Rate	Rate	Rate	Rate	Increase
<b>One-Party Business</b>					
One-Party RG1	\$ 19.00	\$ 20.75	\$ 22.00	\$ 23.00	\$ 4.00
One-Party RG2	\$ 24.00	\$ 25.75	\$ 27.00	\$ 28.00	\$ 4.00
One-Party RG3	\$ 28.27	\$ 30.02	\$ 31.27	\$ 31.50	\$ 3.23
<b>PBX Trunk (Business)</b>					
PBX Trunk RG1	\$ 22.00	\$ 23.75	\$ 25.00	\$ 26.00	\$ 4.00
PBX Trunk RG2	\$ 27.00	\$ 28.75	\$ 30.00	\$ 31.00	\$ 4.00
PBX Trunk RG3	\$ 31.20	\$ 32.95	\$ 34.20	\$ 34.50	\$ 3.30
<b>Measured Business</b>	\$ 18.00	\$ 19.75	\$ 21.00	\$ 22.00	\$ 4.00
<b>Public Access Line (PAL)</b>					
Public Access Line RG1	\$ 19.00	\$ 20.75	\$ 22.00	\$ 23.00	\$ 4.00
Public Access Line RG2	\$ 24.00	\$ 25.75	\$ 27.00	\$ 28.00	\$ 4.00
Public Access Line RG3	\$ 28.27	\$ 30.02	\$ 31.27	\$ 31.50	\$ 3.23
<b>Central Office Located Trunk</b>	\$ 18.12	\$ 19.87	\$ 19.87	\$ 19.87	\$ 1.75

In compliance with the Price Plan Frontier has not modified the rates for *non-recurring* charges for business primary line basic service.

<sup>5</sup> 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](https://apps.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf).



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The Price Plan provides Frontier an option to petition the Commission for removal or adjustment of the price caps applied to primary line basic service. Frontier has not filed any such petition with the Commission.

DS-1 and (ISDN-PRS) Services

Rates for DS-1 and ISDN-PRS services are not subject to price caps under the current Price Plan but are limited to 10 percent annual increases. These rates remained constant.

Packages/Bundles

Section P 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 services available in the package or bundle. These rates remained constant.

Other Services

Under the current Price Plan, monthly rates for “Other Services” may increase up to 25 percent or \$.50, annually, whichever is greater.

Frontier used this pricing flexibility to increase twenty-four rates for certain residential and business features and services with filings effective November 15, 2015, (Advice No. 040SPL). The price increases for this advice filing shown in the table below is the maximum allowed by the Price Plan.

Frontier Other Services	Residence				Business			
	Old	New	Diff	%	Old	New	Diff	%
Call Waiting/Cancel Call Waiting	\$2.12	\$2.62	\$0.50	24%	\$2.12	\$2.62	\$0.50	24%
Distinctive Ring	\$3.00	\$3.50	\$0.50	17%	\$3.00	\$3.50	\$0.50	17%
Speed Call 8	\$2.00	\$2.50	\$0.50	25%	\$2.00	\$2.50	\$0.50	25%
Speed Call 30	\$3.00	\$3.50	\$0.50	17%	\$3.00	\$3.50	\$0.50	17%
3 Way Calling - Per Line	\$3.50	\$4.00	\$0.50	14%	\$3.50	\$4.00	\$0.50	14%
3 Way Calling - Per Use	\$0.75	\$1.25	\$0.50	67%	\$0.75	\$1.25	\$0.50	67%
Basic Call Forward	\$2.00	\$2.50	\$0.50	25%	\$2.00	\$2.50	\$0.50	25%
Call Forward Busy/No Answer	\$3.00	\$3.50	\$0.50	17%	\$3.50	\$4.00	\$0.50	14%
Fixed Call Forward	\$2.00	\$2.50	\$0.50	25%	\$2.00	\$2.50	\$0.50	25%
Fixed Call Forward Busy	\$1.25	\$1.75	\$0.50	40%	\$1.25	\$1.75	\$0.50	40%
Fixed Call Forward No Answer	\$1.25	\$1.75	\$0.50	40%	\$1.25	\$1.75	\$0.50	40%
Remote Call Forward	\$12.00	\$12.50	\$0.50	4%	\$12.00	\$12.50	\$0.50	4%

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Continued Service	Residence				Business			
	Old	New	Diff	%	Old	New	Diff	%
Enhanced Call Forward - Existing Number	N/A	N/A	N/A	N/A	\$7.00	\$7.50	\$0.50	7%
Anonymous Call Block/Rejection	\$0.25	\$0.75	\$0.50	200%	\$0.25	\$0.75	\$0.50	200%
*66 Busy Number Redial - Per Line	\$2.00	\$2.50	\$0.50	25%	\$2.00	\$2.50	\$0.50	25%
*66 Busy Number Redial - Per Use	\$0.75	\$1.25	\$0.50	67%	\$0.75	\$1.25	\$0.50	67%
*69 Call Return - Per Line	\$2.95	\$3.45	\$0.50	17%	\$2.95	\$3.45	\$0.50	17%
*69 Call Return - Per Use	\$0.75	\$1.25	\$0.50	67%	\$0.75	\$1.25	\$0.50	67%
Call ID with Name	\$6.50	\$7.00	\$0.50	8%	\$8.00	\$8.50	\$0.50	6%
Caller ID Number Only	\$5.95	\$6.45	\$0.50	8%	\$7.50	\$8.50	\$1.00	13%
Priority Call	\$2.00	\$2.50	\$0.50	25%	\$2.00	\$2.50	\$0.50	25%
Selective Call Acceptance	\$3.00	\$3.50	\$0.50	17%	\$3.50	\$4.00	\$0.50	14%
Selective Call Forward	\$2.00	\$2.50	\$0.50	25%	\$3.00	\$3.50	\$0.50	17%
Selective Call Block/Rejection	\$3.00	\$3.50	\$0.50	17%	\$3.00	\$3.50	\$0.50	17%

Frontier again used this pricing flexibility the following year to increase fourteen rates for certain residential and business features and services effective December 15, 2016, (Advice No. 048SPL). The price increases for this advice filing shown in the table below complied with the applicable provisions of the Price Plan.

Service	Residential				Business			
	Curr	Prop	Diff	%	Curr	Prop	Diff	%
Call Waiting/Cancel Call Waiting	\$2.62	\$3.10	\$0.48	18%	\$2.62	\$3.10	\$0.48	18%
3 Way Calling - Per Line	\$4.00	\$4.50	\$0.50	13%	\$4.00	\$4.50	\$0.50	13%
3 Way Calling - Per Use	\$1.25	\$1.75	\$0.50	40%	\$1.25	\$1.75	\$0.50	40%
Basic Call Forward	\$2.50	\$3.00	\$0.50	20%	\$2.50	\$3.00	\$0.50	20%
Call Forward Busy/No Answer	\$3.50	\$4.00	\$0.50	14%	\$3.50	\$4.00	\$0.50	14%
Fixed Call Forward	\$2.50	\$3.00	\$0.50	20%	\$2.50	\$3.00	\$0.50	20%
Fixed Call Forward Busy	\$1.75	\$2.25	\$0.50	29%	\$1.75	\$2.25	\$0.50	29%
Fixed Call Forward No Answer	\$1.75	\$2.25	\$0.50	29%	\$1.75	\$2.25	\$0.50	29%
Remote Call Forward	\$12.50	\$13.00	\$0.50	4%	\$12.50	\$13.00	\$0.50	4%
Enhanced Call Forward - Existing Number	N/A	N/A	N/A	N/A	\$7.50	\$8.00	\$0.50	7%
Anonymous Call Block/Rejection	\$0.75	\$1.25	\$0.50	67%	\$0.75	\$1.25	\$0.50	67%
*66 Busy Number Redial - Per Use	\$1.25	\$1.75	\$0.50	40%	\$1.25	\$1.75	\$0.50	40%
*69 Call Return - Per Use	\$1.25	\$1.75	\$0.50	40%	\$1.25	\$1.75	\$0.50	40%
Call ID with Name	\$7.00	\$7.50	\$0.50	7%	\$8.50	\$9.00	\$0.50	6%

### Directory Listings

Under the current Price Plan, Frontier is allowed to increase the rates for additional listings and other directory listing services subject to the pricing flexibility allowed in the "Other Services" category. Frontier increased the rates for additional directory listings by \$0.50 per month effective December 14, 2014 and by an additional \$0.50 per month effective March 19, 2017. The increases were filed by Frontier in Advice Nos. 035SPL and 049SPL, respectively. This represented the maximum allowable increase; except the company could have increased Directory Listings again in 2015 but did not.

### **III. Performance Objectives**

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

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

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

- 1) Increased residential primary line basic service rates by a total of \$2.75 for measured and \$3.00 for flat rate;
- 2) Increased rates for five business services, three of the five affected services having three rate groups making a total of eleven separate affected rates, seven out of the eleven affected rates increased to the full \$4.00 maximum;
- 3) Increased twenty-four "Other Services" rates; and
- 4) Increased directory listings by \$1.00.

While making use of the pricing flexibility provided under the Price Plan to increase prices, Frontier 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. Additionally, Frontier has not increased the monthly rates for DS-1 or ISDN-PRS even though rates could have been increased ten percent annually under the plan.

Frontier also reports that it has completed its public interest Specific Commitments. Frontier calculates that it exceeded the total expenditure requirements by approximately \$200,000. It completed the south coast diversity project which is an important public safety benefit to residents of the southern Oregon coast. This was a joint project undertaken by Frontier and Qwest. Frontier calculates that its contribution to this project exceeded its estimate included in the Price Plan. Frontier estimated that it would cost at least \$50,000 to replace the failing equipment serving parts of Swedetown in Clatskanie. Frontier quotes expenditures of \$72,711. Finally, Frontier reports it made the donation to CUB for its CUB Connects project. As a result, Frontier met its Price Plan public interest commitments.

Another Specific Commitment of the Price Plan was for Frontier to retain its Service Performance Guarantee. This gives customers a credit if Frontier misses specified service performance. The Company paid customer credits during the Price Plan review period. This commitment also helps to improve the public interest benefit balance with Company benefits provided under the plan.

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

Frontier'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 framework 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.*

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

**1) Access to Utility Representatives** per OAR 860-023-0055(8) 80 percent of calls must be answered within 20 seconds or measure an average speed of answer time of 50 seconds or less. Frontier has opted to measure the average speed of answer time.

**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.

While not readily apparent in the most current rolling 12-month window of time Frontier has missed the Trouble Report standard for Gaston and Scholls during the Price Plan. 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/frontier.pdf>. In part to mitigate the lack of performance on Price Plan objective three the Commission required Frontier to submit a service quality performance plan at its August 22, 2017 meeting.

Service Quality remains a key concern for Staff. Service Quality standards are one of the laws that cannot be waived by the Price Plan<sup>6</sup>. 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

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<sup>6</sup> ORS 759.450(3). This specifically requires specific metrics to be included in the Commission's rules.

meet the general requirement to furnish adequate and safe service and equipment especially if Frontier utilizes newer technology.<sup>7</sup>

Competitive Local Exchange Carriers (CLECs) and Interexchange Carriers (IXCs) are also subject to PUC service quality regulations as well as other requirements. 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. 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 discussion 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 Frontier and the Commission*

The Price Plan allowed the Company to modify its 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 Price-Plan Statute<sup>8</sup> allowed the Commission to waive a significant number of Statutes and Rules 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. 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
OAR 860-022-0025(s)(b) and (c)	Tariff Filing Requirements	Full Waiver

<sup>7</sup> 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."

<sup>8</sup> ORS 759.255 Setting prices without regard to return on utility investment; petition; findings; conditions; application of statute to approved plan.

Statute or Rule	Description	Extent of Waiver
OAR 860-022-0030	Increase Rates Filing requirements	Full Waiver
OAR 860-022-0042	Privilege Tax rule limiting pass through	Partial 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
Waiver of certain merger conditions.	-	-

*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 Frontier's pricing flexibility to meet changing market conditions.*

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

*Objective 8 - Make New Services Available.*

Frontier introduced Multiple Simultaneous Call Forward as a new feature available to business customers. This feature allows customers to specify the number of calling paths that will be forwarded from one subscriber line to another telephone number. Frontier's price plan defines a "New Service" to be "a retail telecommunications service that is offered in Oregon for the first time following the effective date of this price plan." Furthermore, according to Section I of Frontier's price plan, New Services are not subject to price caps. Staff considers Multiple Simultaneous Call Forward to be a New Service under Frontier's price plan, and the introduction of this service at a monthly rate of \$11.00 therefore complies with the applicable pricing requirements in Frontier's price plan.

The Company also introduced two new packages/bundles during the term of the price plan, Frontier OneVoice Bundled Service and Frontier Commercial Voice Unlimited.

#### **IV. Frontier Analysis of Current Market Conditions in Oregon**

In its Performance Report, Frontier says it faces "fierce competition" in the Oregon telecommunications market including some of the most rural parts of the state. Frontier

cites *wireline cable* companies, such as Comcast and Charter, and a number of competitive local exchange carriers (CLECs), such as Integra, Level 3, AT&T, and Verizon, as continuing to compete with Frontier. Frontier 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 providing a widely accepted replacement to wireline voice service.

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 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. Frontier Access Line Gain or Loss**

During the first two years of the Price Plan approved in August 2014, Frontier indicates it experienced a 16.7 percent decline in access lines. Frontier states that line losses generally have occurred in 56 of its 58 wire centers. 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**

The Company made use of pricing flexibility to increase its prices but not to decrease prices and fulfilled its specific public interest commitments.

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 carrier of last resort (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 a helpful 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.

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Frontier has met objective numbers 1, 2, 4, 5, 6, 7 and 8, which speak to issues related to retail telecommunications services rates and regulatory relief provided under the Price Plan. Frontier did not exceed any of the price caps and increased rates up to or less than the maximum amounts allowed under the Price Plan.

With respect to objective number 3, the Commission recently ordered Frontier to submit a plan to improve its service quality and bring it within standard within 6 months of the Commission's Order; well in advance of the end of the current Price Plan term.

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.

ThreeYearFrontierPricePlanReview.08.30.17