ORDER NO. 03-082

ENTERED FEB 03 2003

# BEFORE THE PUBLIC UTILITY COMMISSION

# OF OREGON

UM 1017

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| In the Matter of the Investigation into<br>Expansion of the Oregon Universal Service<br>Fund to Include the Service Areas of Rural<br>Telecommunications Carriers. | )<br>)<br>)<br>) | ORDER |

DISPOSITION: POLICY ISSUES ADOPTED FOR SERVICE AREAS OF RURAL TELECOMMUNICATIONS CARRIERS.

## ORDER SUMMARY

In this order, we bring rural telecommunications carriers into the Oregon Universal Service (OUS) program. In doing so, we take another step along the path of encouraging competition among carriers to provide a variety of local as well as toll services. Federal and state legislation mandates the opening of the national telecommunications network to competition. A necessary step in that process is the determination of appropriate costs, particularly those that apply to would-be new competitors. In this order we adopt a type of embedded cost methodology to determine the costs of rural carriers. The information and expertise required to determine costs by a forward-looking econometric model are not now available in usable form. We will address costing issues for rural carriers as information and expertise become available.

Historically, telecommunications rates have included many implicit subsidies of one service by other services. That approach is inconsistent with open competition. The natural tendency of new carriers is to provide service only for the most profitable services, leaving high-cost services to be provided by incumbent carriers. The universal service program is designed to reduce or eliminate implicit subsidies and instead use explicit subsidies for the services that need support. The subsidies will be portable among the carriers that provide the supported services.

Including rural carriers in the Oregon Universal Service Fund (OUSF) will bring all Oregon carriers into the universal service program. Until now, the OUSF has included only Oregon's two largest incumbent telecommunications carriers. With this order, the program can support a high-cost carrier, whether the carrier is large or small. The FCC has not adopted a final set of rules for determining the costs of rural carriers.

We could wait until it adopts final rules, but we are moving forward now to make the benefits of the OUSF available to the customers of all Oregon local exchange carriers. Implicit subsidies will be reduced and competition will be encouraged. *See* Order No. 01-576. Oregon's telecommunications carriers support the decisions we make in this order.

## INTRODUCTION AND PROCEDURAL HISTORY

In Order No. 00-312 we completed our initial development and implementation of the Oregon Universal Service (OUS) program for non-rural carriers. Non-rural carriers are those that do not qualify as rural carriers.[1] Currently in Oregon, Qwest Corporation and Verizon Northwest qualify as non-rural telecommunications carriers, and other telecommunications carriers qualify as rural telecommunications carriers.

We have been investigating universal service proposals since 1994. In 1996 the federal Telecommunications Act of 1996 (the Act) was passed by Congress and signed by the President. The Act requires state and federal regulators to establish policies and programs for the preservation and advancement of universal service. The Act declares that consumers in all regions of the nation, including those living in rural, insular, and high-cost areas, should have access to telecommunications services at reasonably comparable rates.

The Federal Communications Commission (FCC) established the federal high-cost universal service fund (USF) and implemented it for non-rural local exchange carriers (LECs) as of January 1, 2000. For non-rural carriers the FCC adopted a forward-looking econometric cost methodology based on a very sophisticated computer model. For rural LECs, the FCC adopted an interim cost methodology based on existing embedded costs. The interim methodology became effective on July 1, 2001. The FCC continues to work on a long-term USF plan for rural LECs.

The 1999 Oregon Legislative Assembly enacted Senate Bill 622, now codified in ORS 759.425. The statute requires the Commission to establish and implement a competitively neutral and nondiscriminatory OUSF to ensure that basic telephone service is available at reasonable and affordable rates. The OUSF must not conflict with Section 254 of the Act. The Commission implemented the OUSF for non-rural LECs effective September 1, 2000.

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[1] 47 U.S.C. 153 defines a rural carrier as a local exchange carrier that: (a) provides service to any area that does not include (1) any incorporated place of 10,000 or more inhabitants, or (2) any urbanized area as defined by the Bureau of the Census; (b) provides telephone exchange service, including exchange access, to fewer than 50,000 access lines; (c) provides telephone exchange service to any local exchange carrier study area with fewer than 100,000 access lines, or (d) has less than 15 percent of its access lines in communities of more than 50,000. All other carriers are classified as non-rural.

ORS 759.425 allows the Commission to delay the expansion of the OUSF for rural LECs for up to six months after the FCC adopts a cost methodology for rural LECs. On May 23, 2001, the FCC released Order No. 01-157 relating to costs of rural telecommunications carriers. The FCC allowed the carriers to continue the use of embedded costs, but made modest modifications to the methodology. The FCC adopted that approach for an interim five-year period while the agency continues to consider a forward-looking cost methodology for rural carriers.

On July 13, 2001, we issued Order No. 01-576. We determined that FCC Order No. 01-157 did not trigger the six-month time limitation of ORS 759.425. However, we decided to move forward and address issues relating to rural telecommunications carriers. On March 20, 2001, we opened this docket to investigate the expansion of the OUSF to include the service territories of rural incumbent local exchange carriers (ILECs). On November 4, 2002, Staff filed a Stipulation to settle issues in this proceeding. Eleven parties signed the Stipulation prepared by Staff. On November 22, 2002, Staff and the Oregon Telecommunications Association Small Company Committee (OTASCC) filed testimony supporting the adoption of the Stipulation. No testimony opposing the Stipulation was filed.[2]

## THE STIPULATION

The Stipulation would cause a straightforward addition of rural carrier operations to the existing OUSF for non-rural carriers. The existing procedural rules would continue like they are now; they have served the OUSF without significant problems.

**Cost Computation.** One principal difference between rural and non-rural carriers would be the calculation of costs that figure into the amount each carrier contributes to the fund. Non-rural carrier costs are determined on the basis of forward-looking costs calculated by a very sophisticated econometric computer program. In contrast, the Stipulation would have the costs applicable to rural carriers determined by analyzing embedded costs rather than forward-looking economic costs. The use of embedded costs would be interim, to be addressed again when the FCC makes a final determination of how to calculate rural carrier costs. In negotiations in this proceeding, the participants used cost data from the year 2000. They all agree that the 2000 numbers should be updated to 2001 information. The embedded cost of basic telephone service includes the costs of the subscriber loop, the allocated cost of switching and transport, plus certain overheads, taxes and return on investment.

**Contributions and Billing.** Contributions to the OUSF are based on a percentage surcharge applied to intrastate retail telecommunications services sold in Oregon. A problem presents itself when billing for revenues received from

[2] The first three pages of the Stipulation attached to this order contain additional information about the Commission's activities in this and other universal service dockets.

telecommunications services that combine intrastate and interstate services. The calculation can be confusing to the end user. The Stipulation does not resolve this billing issue, but recommends that a future rulemaking proceeding determine the details of billing for combined intrastate and interstate services.

**Distributions.** Distributions to non-rural carriers from the OUSF are made monthly and are based on the number of common lines used in the provision of basic telephone service. Rural carriers would join the Fund and receive distributions according to the same distribution schedule.

**Study Area.** The basic geographic area for OUSF support computations would be the total service territory within Oregon served by a rural carrier. It is referred to as a study area. The Stipulation provides that a rural carrier may petition the Commission to disaggregate costs so they apply to smaller areas, such as a wire center or an exchange, after the Commission certifies a competitive local exchange carrier (CLEC) is eligible to serve a particular service area.

**Portability.** Support would be portable to CLECs certified as eligible by the Commission. The support would be on a per-line basis for a specific service area. The amount of support available to a CLEC would depend on the manner in which it provisions its loop facilities. The formula would be the same as the one used now for non-rural carriers. The endnote to this order shows the formula. We addressed the formula on Pages 18 and 19 of Order No. 00-312.

**Impacts.** Commission Staff calculated the embedded costs of basic telephone service for 31 rural ILECs. Costs ranged from a low of $30.00 per line per month to a high of $217.00 per line per month. Calculating the amount of support for individual carriers depends, in general terms, on the cost of basic telephone service, less federal loop compensation and USF amounts, less the Commission-established benchmark. The Commission's current benchmark is $21.00 per month per line, and the Stipulation would adopt that amount. That formula produces support payments between $0.00 per month and $34.71 per month.

The OUSF currently distributes $47 million per year. Staff estimates that bringing rural carriers into the OUSF program will cause the Fund to expand by $11.3 million annually, based on the number of estimated 2003 lines. The OUSF Surcharge currently is set at 5.5 percent of intrastate retail telecommunications revenues. Including rural carriers in the OUSF will cause an increase of 1.2 percentage points, bringing the total OUSF percentage surcharge to 6.7 percent. By way of comparison, the federal rate on interstate revenues is 7.28 percent. Staff recommends that the Commission not change the surcharge rate at this time. Staff will be updating cost information and would like to present up-to-date information to the Commissioners at a future Public Meeting. The Commission would then have current information on which to make costing and pricing decisions.

**Rate rebalancing**. Under the Stipulation, many eligible rural carriers will receive support payments from the OUSF. In order to maintain revenue neutrality, rural ILECs will need to file revenue-neutral tariff filings. In accordance with the Stipulation, the tariff filings would be effective coincident with the first OUSF distributions to rural carriers. The parties agree that the tariff changes should work to reduce implicit subsidies that have traditionally been used to support the costs of basic telephone service. The parties agreed that the first priority should be to reduce carrier access charges.

The Oregon Customer Access Plan (OCAP) governs current intrastate toll/access charges in Oregon. OCAP established the Oregon Customer Access Fund (OCAF), which allows the pooling of access charge revenue requirements and the development of a common access charge tariff. The Oregon Exchange Carrier Association (OECA) administers OCAP, and participation in the OCAF is optional for rural ILECs. The parties agree that a number of changes should be made in the OCAP and agree as to how those changes should be considered for change. They agree that OECA should file a petition with the Commission in Docket No. UM 384 to modify the OCAP. The petition should be due within 45 days of the signing of this order.

**OTASCC Comments.** OTASCC points out that the Stipulation would cause a significant reduction in the intrastate access charges interexchange carriers would have to pay, but there is no requirement that interexchange carriers must pass those cost savings on to their customers. OTASCC doubts that interexchange carriers will reduce their interexchange charges enough to fully reflect their access charge reductions. OTASCC is concerned that the total telephone bills of rural end-user customers will be increased because they will not fully benefit from the access charge reductions. OTASCC also filed comments about the Commission's jurisdiction. OTASCC points out that adoption of the Stipulation would not constitute a waiver of an OTASCC cooperative member company's exemption from overall regulatory oversight by the Commission.

OTASCC's comments do not constitute an objection to adoption of the Stipulation. OTASCC supports the Stipulation and recommends that the Commission issue an order adopting it.

**Scope of Stipulation.** The parties reached agreement on the required issues necessary to integrate carriers serving rural areas into the OUSF. However, they did not reach agreement on all issues relating to the integration. Several aspects of how to account for long-distance services have not been resolved. The definition of "public interest" in determining whether to designate additional telecommunications carriers into areas served by rural ILECs was not resolved. The parties recommend that future rulemaking proceedings address these issues.

## DISCUSSION

We commend the parties for their diligent efforts to address the relevant issues and consider the concerns of other parties. The parties met numerous times, held several workshops, and distributed information to each other. Adoption of the Stipulation will merge carriers serving rural areas into the Commission's already-existing OUS Program for non-rural carriers. The existing program is working very well and serves as an excellent platform for deciding how best to provide universal service support for carriers serving rural areas.

The time is not ripe to use an econometric model to determine the costs of carriers serving rural areas. The enormous volume of information necessary to construct an econometric model of forward-looking economic costs for rural carriers is not now available in usable form. The FCC is investigating how the costs of carriers serving rural areas should be determined. In the meantime, it uses embedded costs. We elect to do likewise. We plan to investigate this issue again in the future.

The Stipulation makes recommendations that take advantage of decisions we have made in other universal service investigations. We are happy with those decisions and how the existing program is running. We are confident that adopting the Stipulation will create a workable and reasonable universal service program for rural and non-rural telecommunications carriers in Oregon.

OTASCC need not worry about the jurisdiction of the Commission. The Commission is well aware of its jurisdictional boundaries and does not intend to use this proceeding to broaden its jurisdictional reach.

Establishing a fair and effective universal service program requires that basic decisions be decided at its initiation. We need, however, to continue addressing important universal service issues. The Stipulation suggests several issues to be decided in future proceedings. We agree that there still are issues to resolve, and we intend to address them in future proceedings.

## CONCLUSIONS

The Stipulation meets the requirements of statutory law and previous Commission decisions. It is reasonable and should be adopted.

ORDER NO. 03-082

## ORDER

IT IS ORDERED that:

1. The Commission adopts the Stipulation filed by the parties on November 4, 2002. The Stipulation is attached to and made a part of this order as Attachment A (including Appendices A and B to the Stipulation);

2. The OECA shall file a petition in Docket No. UM 384 in accordance with the provisions in the Stipulation.

Made, entered, and effective FEB 03 2003.

**Roy Hemmingway**
Chairman

**Lee Beyer**
Commissioner

**Joan H. Smith**
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

Endnote

- For customer lines served by the CLEC's own loop facilities, the CLEC will receive the full OUSF support;

- For customer lines served by a CLEC who is merely reselling an ILEC's supported retail local service, the CLEC will receive no OUS fund support;

- For customer lines served via UNE loops leased from an ILEC, OUS fund support will be divided as follows:

(a) If the composite UNE platform price for basic local service is less than or equal to the benchmark, the ILEC will receive the full support and the CLEC will receive no OUS fund support.

(b) If the composite UNE platform price for basic local service is greater than the benchmark but less than the OUS cost, the CLEC and ILEC will share support based on the relative differences of the UNE platform price and the benchmark (CLEC portion) and of the OUS cost and UNE platform price (ILEC portion).

(c) If the composite UNE platform price for basic local service is equal to or greater than the OUS cost, the CLEC will receive the full OUS support and the ILEC will receive no support.

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# BEFORE THE PUBLIC UTILITY COMMISSION
# OF OREGON

UM 1017

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| In the Matter of the Investigation into the Expansion of the Oregon Universal Service Fund to Include the Service Areas of Rural Telecommunications | ) ) ) ) | STIPULATION TO SETTLE ISSUES |

## STIPULATION TO SETTLE ISSUES IN UM 1017

## RECITALS

**WHEREAS**, the parties to this Stipulation are the Commission Staff (Staff); AT&T Communications of the Pacific Northwest (AT&T); Beaver Creek Cooperative Telephone; CenturyTel of Oregon (Century); Citizens Telecommunications Company (Citizens); GVNW Consulting (GVNW); Nehalem Telephone & Telegraph; Oregon Exchange Carrier Association (OECA); OTA Small Company Committee (OTA); Time Warner Telecom of Oregon (TWT); Qwest Corporation (Qwest); Sprint/United Telephone Company of the Northwest, (Sprint); Verizon Northwest (Verizon); and WorldCom.

**WHEREAS**, Section 254 of the federal Telecommunications Act of 1996 establishes principles and policies for the preservation and advancement of universal service. Section 254(f) grants states the authority to adopt universal service regulations and mechanisms not inconsistent with the federal rules. Section 214(e) grants State commissions the authority to designate eligible carriers to receive universal service support. In designating additional eligible carriers for an area served by a rural incumbent telephone company,[1] the State commission shall find that the designation is in the public interest.

[1] A rural incumbent telephone company means a rural local exchange carrier (LEC) as defined in the federal Telecommunications Act. For purposes of the Oregon Universal Service Fund and this Stipulation, the definition of a rural incumbent LEC (ILEC) includes cooperative telephone companies, telecommunica-

**WHEREAS**, the 1999 Oregon Legislative Assembly enacted SB 622 (Section 28), which was codified as ORS 759.425. The statute requires the Commission to establish and implement a universal service fund in Oregon (OUSF). In compliance with the statute, the OUSF was established for non-rural carriers in Docket UM 731, and was implemented on September 1, 2000. ORS 759.425(1) allows the Commission to delay expansion of the OUSF for rural carriers for up to six months after the date that the Federal Communications Commission (FCC) adopts a cost methodology for rural carriers.

**WHEREAS**, on March 20, 2001, the Commission opened an investigation into the expansion of the OUSF to include the service territories of rural ILECs.

**WHEREAS**, on May 23, 2001, the FCC released Order No. 01-157, hereafter referred to as the Rural Task Force (RTF) Order. The RTF Order modified embedded cost rules for the federal high-cost universal service support for rural carriers. It established an interim five-year plan while the FCC continued to study how to create a forward-looking cost methodology for rural carriers.

**WHEREAS**, on July 13, 2001, the Commission issued Order No. 01-576. The Commission ruled that the RTF Order did not trigger the six-month deadline to expand the OUSF to include rural carriers. Nonetheless, the Commission directed the parties to continue to address and resolve issues relating to an appropriate cost methodology for rural carriers in Oregon.

**WHEREAS**, on January 25, 2002, the Administrative Law Judge (ALJ) issued a ruling adopting thirteen issues in this docket.

**WHEREAS**, on May 3, 2002, Staff proposed to the other parties that the schedule be suspended and that Staff would file a proposal on July 1, 2002. A motion to amend the schedule was filed with the ALJ on May 17, 2002, and granted on May 24, 2002.

**WHEREAS**, on July 1, 2002, Staff filed a proposal to resolve all issues in this docket.

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tions utilities regulated under ORS 759.040, CenturyTel of Oregon, and Sprint/United Telephone Company of the Northwest.

**WHEREAS**, on July 16 and 17, 2002, the parties conducted a workshop (the third workshop in this proceeding) to address Staff's proposal. Nine additional issues were added to the original thirteen. For purposes of reference in this document, the additional issues are re-numbered from 14 to 22. The entire list of issues is provided in Appendix A. The parties agreed to address the additional nine issues at a fourth workshop scheduled for August 13, 2002.

**WHEREAS** on August 13, 2002, the fourth workshop was conducted. The parties to this stipulation agreed to an interim embedded cost methodology, a mechanism to expand the OUSF to rural carriers, and certain modifications of the Oregon Customer Access Plan (OCAP) (*See* PUC Order No. 93-1133 in UM 384) subject to the terms set forth below. To understand the proposed OUSF expansion for rural carriers, the terms are organized by concept and not by issue. Reference to the issue number, as identified in Appendix A, is shown in parentheses and in bold type after the associated term.

**NOW, THEREFORE, THE PARTIES TO THIS STIPULATION** agree and stipulate to the following terms in order to settle this matter without hearings as allowed by OAR 860-014-0085:

## AGREEMENT

### General Terms

**1.** This Stipulation is entered into to resolve and settle disputed issues for the Commission in UM 1017. It does not represent a statement or agreement by any party that the provisions herein can or should be used in any other jurisdiction for any purpose. Rather, it is an agreement to settle disputed matters in this proceeding in order to avoid the expense of further litigation, and to expeditiously implement the expansion of the OUSF to include rural ILECs. A party's agreement to this Stipulation shall not be used as a statement by such party as endorsing the cost methodology or mechanisms set forth below. The parties reserve all rights to propose and pursue offering incentives, interim or permanent, for universal service funding, including reductions, for rural areas in future phases of UM 1017 or another appropriate proceeding. **(Issue 18)**

**Embedded Cost Per Line Methodology**

2. The embedded cost methodology set forth in this Stipulation is interim. The FCC continues to work on a forward-looking cost methodology for rural ILECs. Upon conclusion of the FCC's investigation, the Commission may, on its own motion or upon petition, open a new investigation. *See* RTF Order, paragraph 25. **(Issue 19)**

3. The basis for the computation of the embedded cost of basic telephone service will be the annual Form I Separated Results of Operations Report. For ILECs that do not perform separation studies (hereafter referred to as "average schedule companies") the computation of embedded cost will be based on the annual Form O Financial Report. *See also* paragraph 9.

4. The initial computation of embedded cost will be based on the 2001 Form I Report (or Form O Report for average schedule companies). Because of the change in the initial test period from 2000 to 2001,[2] the estimated increase in the size of the OUSF and the effect on the OUSF surcharge will be calculated after October 31, 2002. **(Issue 7)**

5. The interval for reviewing and updating the embedded cost calculations will not be longer than three years, unless extended by the Commission. Companies may request, or the Commission may initiate, a more frequent review, but not more frequently than once a calendar year. A company requesting a more frequent review will do so by November 15 for the previous calendar year.[3] The OUSF study area[4] support per line per month amount will remain unchanged until the next embedded cost review.

6. In determining the embedded cost of basic telephone service, Staff may propose ratemaking adjustments to rate base, expenses, taxes, and allocation factors. Disputes between the company and Staff over the adjustments will be resolved through informal negotiations or through a formal Commission proceeding.

7. The embedded cost of basic telephone service per line per month will consist of the following elements:

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[2] Staff's July 1st Proposal was based on the 2000 Form I. Staff originally estimated that the OUSF would increase by $11.3 million. This would increase the OUSF surcharge by about 1.2 percentage points.
[3] The Form I for the previous calendar year is due on or before October 31. *See* OAR 860-027-0070(2) and OAR 860-034-0395)
[4] A study area is the LEC's incumbent service territory in Oregon. *See* 47 CFR 36 Appendix Glossary.

(a) The unseparated cost of common subscriber lines.[5]

(b) The separated (i.e., allocated on relative use) cost of switching and local transport used in the provision of local exchange telephone service. (For 2001 and going forward, the interstate unweighted separation factors are frozen based on calendar year 2000 factors. *See* FCC Order 01-162. The remaining intrastate separation factors will be allocated to intrastate toll/access, extended area service (EAS), and local exchange/other operations based on relative use. The total allocation must equal 100 percent.)

(c) Appropriate overhead costs associated with general support plant (i.e., land and buildings, furniture, office equipment, motor vehicles, and work equipment), customer operations, and corporate operations that are reasonably necessary in the provision of local exchange telephone service.

(d) A return on used and useful rate base (ROR) of 11.1 percent, calculated state and federal income taxes, and allocated general taxes associated with the provision of local exchange telephone service. **(Issue 22)**

(e) The resultant embedded cost is divided by the average number of common subscriber lines[6] for the base year and is then divided by 12 to yield a cost per line per month.

**8.** For rural ILECs that perform separation studies, the computation and cost allocation methods will be based on the Form I Report, as set forth in Appendix B.

**9.** For average schedule companies, the total cost per line will be computed based on their Form O Report and allocated to local exchange operations based on the allocation factors developed from similar-sized rural ILECs from paragraph 8 above.

[5] A common subscriber line is a voice-grade or equivalent working (i.e., revenue producing) loop or channel that connects the retail service customer's premises to the serving wire center's switch. It is used jointly for access to local exchange services, extended area services, and interexchange long distance services. It excludes point-to-point and point-to-multipoint private lines, closed-end WATS lines, wideband data lines, feature group carrier access lines, and unbundled network element (UNE) access lines leased to another telecommunications provider. It excludes idle non-working lines or channels that are used for spare capacity or maintenance purposes. It also excludes station lines (inside wire) on the line-side of a key system or PBX. *See* 47 CFR 36.154, Separations Category 1.3; and 47 CFR 36.126, Separations Category 4.13. **(Issue 4(a))**

[6] A simple average for the calendar year is assumed. However, LECs with seasonal variations may use a more complex calculation of the average of monthly averages, but must provide work papers.

**OUSF Support Per Line Calculation**

**10.** The OUSF support per line per month will equal the embedded cost of basic local exchange service (per paragraph 7 above), LESS the federal loop compensation amount (per paragraph 11), LESS the federal Universal Service Fund (USF) support amount (per paragraph 12), LESS the benchmark as set by the Commission (per paragraph 13). *See* ORS 759.425(3)(a). The OUSF support will not be less than zero. **(Issue 6)**

**11.** The federal loop compensation amount per line per month will be estimated as the greater of (a) or (b) below:

(a) Twenty-five (25) percent of the common line loop cost computed per paragraph 7 above, OR

(b) The residential Subscriber Line Charge (SLC), PLUS the Long Term Support (LTS), PLUS the applicable portion of Interstate Access Support (IAS), PLUS the applicable portion of Interstate Common Line Support (ICLS). To prevent double counting, the IAS and ICLS will be reduced by an amount reflecting the interstate portion of the switch port cost and the residual interstate portion of the transport interconnection cost as allocated to the interstate common line revenue requirement. The resultant LTS, IAS, and ICLS will be computed as an average amount per line per month based on the associated line counts shown on the Universal Service Administrative Company (USAC) database.[7] **(Issue 14)**

**12.** The federal USF support amount will be the SUM of (a) the federal high cost loop (HCL) support, AND (b) the local exchange portion of the federal local switching support (LSS) below:[8]

(a) The full amount of the HCL support will be computed as an average amount per line per month based on the associated line counts shown on the USAC database.

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[7] The LTS, IAS, and the ICLS are interstate funds used to reduce interstate common line carrier access charges. For a description of LTS, *see* FCC Order 01-304, paragraphs 22, 139-140, and footnote 55. For IAS, *see* FCC Order 00-193, paragraphs 185-188, 195, and 47 CFR 54.807. For ICLS, *see* FCC Order 01-304, paragraphs 120, 128, 130, 142, and 47 CFR 54.901.

[8] Both the HCL and LSS funds represent intrastate costs shifted to the interstate jurisdiction as a form of federal USF support for intrastate services. *See* FCC Order 01-304, paragraphs 22, 102, and footnote 56.

(b) The LSS will be computed as an average amount per line per month based on the associated line counts shown on the USAC database. The local exchange portion of the LSS will equal the LSS amount DIVIDED BY the associated dial equipment minute (DEM) factor additive,[9] TIMES the difference between the weighted and unweighted DEM factors for local exchange operations.

**13.** The Commission establishes and periodically reviews the benchmark pursuant to ORS 759.425(3). Currently the benchmark is set at $21.00 per line per month. *See* PUC Order No. 00-312, Issue 8. The $21.00 per line per month benchmark will be used in this proceeding. **(Issue 15)**

### OUSF Support Disaggregation

**14.** Rural ILECs may petition the Commission to disaggregate the OUSF support per line below the study area level.[10] Support disaggregation shall not be set at a level lower than the exchange or wire center area. Petitions for disaggregation must be received by November 15 of the year preceding January 1 of the year in which the planned change in disaggregation is requested to take place. *See* paragraph 5. The Commission has full authority to require a company to file to modify its existing disaggregation election; however, nothing in this paragraph shall be construed to require a company to file to modify its existing disaggregation election. **(Issue 2)**

**15.** The sum of the disaggregated support must equal the total study area OUSF support without disaggregation.

**16.** OUSF support disaggregation will be based on the estimated differential *net* cost of service between high and low cost support areas so that higher cost areas receive greater support per line than lower cost areas. The net cost of service includes federal USF support. **(Issue 3)**

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[9] The DEM factor additive is the difference between interstate weighted and unweighted DEM factors for 1996. It provides additional high-cost support to the intrastate jurisdiction for companies having less than 50,000 lines. As the number of access lines in a study area increases over certain thresholds (e.g., 10,000 lines) in future years, the additive is reduced by federal rule. *See* 47 CFR 36.125(f), (i), and (j); and 47 CFR 54.301.

[10] A support area is the geographic level at which cost-of-service data is disaggregated and universal service support is calculated.

17. Petitions to disaggregate OUSF support must include work papers showing the following details: **(Issue 3)**

(a) The number of common subscriber lines (federal USF) and basic common subscriber lines (state OUSF) by support area,

(b) The estimated or proxy cost amount per line per month by support area, and an explanation of the method used to develop the disaggregated cost,

(c) The federal USF support amounts per line per month by support area by federal program, and

(d) The proposed OUSF support amount per line per month by support area and an explanation of the method used to disaggregate the support.

**18.** Until an eligible CLEC is certified in the ILEC's study area, OUSF will be distributed on a study area basis. Because of the possibility of differential line growth rates in high and low-cost areas, the Commission may periodically adjust pro rata the disaggregated support per line in the instance where a rural ILEC has chosen to disaggregate so that the study area OUSF support per line remains constant until the next cost review.

**OUSF Support Distribution**

**19.** OUSF support disbursements to eligible LECs will be monthly and will be based on the OUSF support per line per month times the number of basic common subscriber lines.

**20.** A basic common subscriber line is a working common line used for the provision of basic telephone service as defined by OAR 860-032-190. *See* ORS 759.400. A basic subscriber line is a subset of the common subscriber line defined in footnote 5. **(Issue 4)**

**21.** The number of basic common subscriber lines as of the end of the month (referred to as the recording month) will be recorded on the OUS 3 worksheet by wire center or exchange. The OUS 3 worksheet will be due to the OUS Administrator 40 days after the recording month (i.e., the tenth day of the second month following the recording month). Monthly distributions will be made on the 30th day of the second month following the recording month. **(Issue 16)**

22. Because of the need to (a) process new cost studies for 2001 (paragraphs 4 and 6), (b) collect additional OUSF surcharge revenues to support the expansion of the OUSF (paragraph 27),[11] (c) evaluate and approve revenue neutral filings to be effective coincident with the first support disbursements (paragraph 29), and (d) approve modifications to the Oregon Customer Access Plan (paragraph 35), there will be an initial delay in the first OUSF support distribution to rural ILECs. The Commission will set the date for first support disbursements to rural ILECs in a public meeting.

**OUSF Support Portability & Eligibility**

**23.** OUSF support will be portable, on a per line basis for basic telephone service, to competitive LECs (CLECs) that have been designated as eligible by the Commission in a specific geographic service area.[12]

**24.** The amount of support that is portable (i.e., division of payments) will be determined consistent with the provisions of PUC Order No. 00-312, Issue 6.

**25.** The criteria for designating a CLEC as eligible for OUSF support is set forth in PUC Order No. 00-312, Issue 14. For service areas of rural incumbent telephone companies, an additional criterion for designating CLEC eligibility will be a Commission finding of public interest. *See* Section 214(e)(2) of the federal Telecommunication Act. The Commission may establish additional criteria, as well.

**26.** To expedite the expansion of the OUSF for rural ILECs, the issue of service area designation below the study area level and the criterion for public interest will be deferred to a future rulemaking proceeding. **(Issue 11)**

**OUSF Contributions**

**27.** Contributions to the OUSF will continue to be based on a percentage surcharge applied to intrastate retail telecommunications services sold in Oregon consistent with

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[11] The delay between approving the new OUSF surcharge rate based on the new cost studies and collecting moneys for the OUSF will be about seven months. The delay is due to (a) a 45-day advanced notification of the surcharge so that telecommunications providers can adjust their customer billing systems, (b) end user billing of the surcharge for a quarter in advance of the collection, and (c) the collection of OUS funds from the telecommunications providers two months after the end-user billing quarter.

[12] For federal USF purposes, a service area is defined in Section 214(e)(5) of the federal Telecommunications Act of 1996.

ORS 759.425(4). The process remains as set by the Commission in PUC Order No. 99-197, Issues 2, 3, and 4. **(Issue 9)**

**28.** Because of the jurisdictional confusion in end user billing of the OUSF surcharge for certain services and rate elements (e.g., prepaid calling cards and flat rate long distance toll service packages), the billing issue will be deferred to a future rulemaking proceeding. Contributions to the OUSF, however, will still be required based on total retail intrastate revenues regardless of a carrier's ability to assess the OUSF surcharge.[13] Oregon revenues are subject to PUC audit and verification. **(Issues 9 and 20)**

**Rate Rebalancing**

**29.** To offset the OUSF support, rural ILECs will file revenue neutral filings to be effective coincident with the first OUSF distribution. **(Issue 8)**

**30.** The first priority in the revenue neutral filing will be carrier access charges. Specifically, the rural ILECs will reduce the carrier common line charge (CCLC) by reducing the toll/access common line revenue requirement up to an amount not to exceed the estimated OUSF support distribution for the access filing test year. The estimated OUSF support distribution will be computed by multiplying the OUSF support per line per month (per paragraphs 10 or 18) TIMES the estimated average number of basic common subscriber lines for the access filing test year TIMES 12 months. **(Issue 21)**

**31.** For rural ILECs that participate in the Oregon Customer Access Fund (OCAF), the common line revenue requirement reduction will be submitted to the Oregon Exchange Carrier Association (OECA) along with work papers for inclusion in the OECA access rate filing.

**32.** For rural ILECs that do not participate in the OCAF, the common line revenue requirement reduction and associated work papers will be incorporated into the ILEC's access charge filing.

**33.** If there is a residual balance of estimated OUSF support distribution remaining after the toll/access common line revenue requirement reduction, the rural ILECs, as a second

[13] End user billing of the OUSF surcharge is optional. If imposed, however, it must be at a rate set by the Commission. *See* PUC Order No. 00-312, Issue 11, and Amending Order No. 01-1063.

priority, will either reduce prices of other services that provide implicit subsidies (i.e., that are currently priced above economic cost); OR reduce its estimated OUSF support to maintain revenue neutrality. **(Issue 21)**

(a) If the rural ILEC proposes price reductions for other services (hereafter "Affected Services"), and if the Affected Services are not under direct Commission regulatory authority, the rural ILEC must submit an affidavit signed by a company officer. The Commission, in consultation with the rural ILECs, will develop a form affidavit to be used for this purpose. In the affidavit, the company officer will promise that the rural ILEC will not change the price reductions for the Affected Services for eighteen (18) months after the effective date of the price reductions. Further, if the rural ILEC intends to increase the prices for the Affected Services within the eighteen-month period, the rural ILEC will first petition the Commission forty-five
intended effective date of the price increase, and request a waiver of its eighteen-month commitment. The rural ILEC understands that the Commission may investigate the price increase proposed in the petition. The rural ILEC further understands that the Commission may decide, after its review of the petition, to reduce the rural ILEC's other rates that are directly under its regulatory authority in an amount necessary to offset the proposed price increases to the Affected Services. Nothing in such petition or the Commission review of the petition under this paragraph shall be construed to constitute a waiver of any rights by the rural ILEC (except to the extent of the petition itself). The petition shall not be considered to be a petition for regulation under ORS 759.040. **(Issue 17)**

(b) The rural ILEC may elect to reduce its OUSF support it is otherwise eligible to receive in order to maintain revenue neutrality. This reduction will not affect the amount of OUSF support that is portable to CLECs that have been designated as eligible by the Commission in the ILEC's service area.

## Oregon Customer Access Plan (OCAP) Modifications (UM 384)[14]

34. Within 45 days after the Commission approves this Stipulation, OECA will file a petition with the Commission in PUC Docket UM 384, served on all parties, to modify the OCAP. Commission approval of the modifications must precede the first OUSF distribution to the rural ILECs. *See* paragraphs 22 and 29. The modifications to the OCAP will include the following:

(a) Add to Part IV of the OCAP that the rural ILECs, in developing their intrastate switched access revenue requirement, will estimate the portion of the OUSF support to be credited to the common line revenue requirement. The estimate will be computed by multiplying the OUSF support per line per month TIMES the estimated average number of basic common subscriber lines for the access filing test year TIMES 12 months; OR the toll/access common line revenue requirement, whichever is less. If there is a residual balance of OUSF support that the ILEC designates for switched access, this will be credited to the appropriate access element revenue requirement.

(b) Eliminate the OCAF 5 cent rate cap and the OCAF revenue requirement computation in Part V, subparts A and C.3, of the OCAP. Currently, the OCAF revenue requirement equals the difference between the switched access revenue requirements determined in Part IV of the OCAP and revenues at the 5-cent rate cap. The computation is no longer needed.

(c) Eliminate the OCAF surcharge in Part V, subpart D, of the OCAP.

(d) Eliminate Part VI of the OCAP. The universal service requirement part of the OCAP is replaced by the processes, methodologies and funding of the OUSF.

(e) Eliminate the OCAF cost controls and access rate additives in Part VII of the OCAP.

(f) Eliminate the waiver process in Part VIII, subparts A through F, of the OCAP. The waiver process for transitional cost separation factors and cost control additives is no

[14] The OCAP was adopted by the Commission in Order No. 93-1133, in Docket UM 384. It was later amended slightly in Order No. 95-295. The order allowed LECs to extend the due date for participation notification from January 1 to February 15. The OCAP was originally to terminate on December 31, 1997. However, it was extended a number of times, and is currently still operating. *See* Order Nos. 97-484, 98-533, 99-781, 00-787.

longer needed. The transitional cost separation factors of switching and subscriber plant were completed in 1997. *See* Appendix A to the OCAP.[15] With the elimination of access rate additives, cost control waivers are no longer needed.

(g) Eliminate the access minute forecasts and reporting requirements in Part IX, subpart D, of the OCAP, for LECs that do not participate in the OCAF.

**Closing**

**35.** Should the Commission fail to adopt the Stipulation, or should the Commission materially modify the Stipulation, any party hereto shall have the right to withdraw from the Stipulation and proceed with a resolution of all issues in this proceeding through hearings.

**36.** This Stipulation sets forth the entire agreement between the parties hereto and supersedes any and all prior communications, understandings, or agreements, oral or written, between the parties hereto pertaining to the subject matter thereof.

**37.** This Stipulation may not be modified or amended except by written agreement between all parties hereto.

**38.** This Stipulation may be executed in counterparts, all of which when taken together shall constitute one agreement binding on the parties, notwithstanding that all parties are not signatories to the same counterpart. The parties further agree that any facsimile copy of a party's signature is valid and binding to the same extent as an original signature.

[15] In Appendix A to the OCAP, the transitional weighting factors and references to the transitional waiver process would be deleted. The overall 85 percent cap for the allocation of switching and subscriber plant to interstate and intrastate toll/access would be retained. The unweighted relative use factors for intrastate toll/access would be adjusted to reflect the fact that interstate factors were frozen based on calendar year 2000.

ORDER NO. 03-082

**Adopted Issues List**
**UM 1017, Phase I**
(ALJ Ruling Dated January 25, 2002)

1. **OCAF:** Prior to investigating a cost methodology for rural incumbent LECs for the Oregon Universal Service Fund (OUSF), are any changes necessary to the Oregon Customer Access Fund (OCAF) to make it consistent with Section 254 of the Telecommunications Act? (The OCAF was established under PUC Order 93-1133 in Docket UM 384.) If so, what changes should the Commission adopt? **(Stip. @ ¶ 35)**

2. **Support Area:** At what geographic level should OUSF support be targeted? Should OUSF support areas follow the disaggregation rules adopted by the FCC in 47 CFR 54.315? If not, what changes should the Commission adopt? **(Stip. @ ¶ 14)**

3. **Support Allocation:** What allocation methodology is appropriate for determining the level of OUSF support by study area and support area? **(Stip. @ ¶ 16, 17)**

4. **Line Counts:** (a) What is the definition of a subscriber access line? **(Stip. @ fn 3, and ¶ 35)**

   (b) How should access lines be categorized?

   (c) What is the current line count by category for each rural incumbent LEC by support area?

5. **Support Per Line Results:** Based on the amount of OCAF requirement being transferred to the OUSF, what is the average support per line per month for each rural incumbent LEC by study area and support area?

6. **OUSF Parameters:** Under ORS 759.425(3), the OUSF support shall equal the difference between the cost of providing basic telephone service and the benchmark, LESS any explicit compensation received by the carrier from federal sources specifically targeted to recovery of local loop costs and LESS any explicit support received by the carrier from federal USF programs. In regard to the above formula: **(Stip. @ ¶ 10)**

   (a) How does your proposed expansion of the OUSF comport with this statutory requirement?

   (b) Should any changes be made to the benchmark for rural LECs?

(c) What is the current and anticipated total and per-line per month amount of federal loop recovery and federal high-cost support for each rural incumbent LEC by support area?

7. **OUSF Size:** Based on your position regarding the above issues, what is the estimated size of the rural LEC OUSF in annual dollars? **(Stip. @ ¶ 4)**

8. **Rate Rebalancing:** Should the rural incumbent LECs perform rate rebalancing either to make OUSF support revenue neutral or to offset the need for OUSF support? **(Stip. @ ¶ 29)**

9. **OUSF Contributions:** (a) Is the current contribution mechanism for the OUSF competitively neutral, non-discriminatory, and compliant with ORS 759.425(4)? **(Stip. @ ¶ 27, 28)**

(b) Do rural end users face a greater burden in paying OUSF surcharges than urban end users?

(c) What is the effect on the end user's monthly bill from changes in the OUSF, the MAG (Multi-Association Group) plan, and other mandated telecommunications funding requirements?

(d) How do flat rate long distance toll service packages affect OUSF contributions?

(e) How do prepaid long distance toll calling cards affect OUSF contributions?

10. **Basic Telephone Service:** What is the impact of the current definition and scope of basic telephone service on OCAF and OUSF support (*see* ORS 759.400(1), ORS 759.425, and OAR 860-032-0190)?

11. **Designation of Additional Eligible Telecommunications Service Providers:** (a) Section 214(e)(2) of the Telecommunications Act requires that a State commission find that the designation of an additional eligible telecommunications service provider in a service area currently served by rural incumbent LEC is in the public interest. What constitutes a "public interest" finding? **(Stip. @ ¶ 26)**

(b) To whom and on what criteria should OUSF support be portable?

12. **Federal High Cost USF:** Is there a need for consistency between the federal USF and the OUSF (*see* FCC RTF Order 01-158)?

13. **Federal MAG Plan:** What is the effect, if any, of the FCC's MAG plan on the OCAF and the OUSF?

ORDER NO. 03-082

**Nine Additional Issues Proposed by the Parties at the Third Workshop**
(The issues are re-numbered as 14 to 22.)

14. Under Commission Staff's proposal, is it appropriate to include amounts received under the federal ICLS or IAS components in the calculation of OUSF funding amounts? **(Stip. @ ¶ 11)**

15. Is the benchmark of $21.00 per month established for non-rural companies appropriate to use for rural companies? **(Stip. @ ¶ 13)**

16. Should the OUSF distribution mechanism for rural company service areas in which there is no competitive ETC be established as one-twelfth of the annual OUSF support amount? **(Stip. @ ¶ 21)**

17. Does there need to be an explicit assurance provided that if a company makes a "revenue neutral" offset of funds received from the OUSF to a rate that is not directly subject to commission jurisdiction, the company will not reverse the offset without substantial justification to do so? If so, what is that "assurance", what constitutes "substantial justification," and who decides whether "substantial justification" has been shown to exist? **(Stip. @ ¶ 34)**

18. Should the stipulation extended in this phase of UM 1017 state that the parties reserve all rights to propose and pursue offering incentives, interim or permanent, for universal service funding for rural areas in future phases of UM 1017 or another appropriate proceeding? **(Stip. @ ¶ 1)**

19. Should the final Settlement Agreement entered in this matter exclude reference to the parties agreeing with the Rural Task Force that current economic models do not appear to adequately reflect the variety of conditions encountered by Rural ILECs as that statement is currently contained in footnote 1 of the Commission Staff Proposal issued July 1, 2002? **(Stip. @ ¶ 2)**

20. Under what circumstances is the proposed 50/50 jurisdictional split for flat rate long distance toll service packages appropriate or not appropriate? **(Stip. @ ¶ 28)**

21. What should be the progression of the offsets to the receipt of OUSF funds? Is the goal of this docket access reform? If so, does the proposed settlement go far enough in addressing access reform? **(Stip. @ ¶ 30, 33)**

22. Is the 11.1% rate of return consistent with economic conditions in Oregon today and, if not, should there be a mechanism for adjustments to the rate of return during the life of the settlement? **(Stip. @ ¶ 7(d))**

**UM 1017 Universal Service--Embedded Cost Method**
(Based on the Annual Form I Report)

| | Embedded Cost | Total (Form I) | Loop (NTS) | Local (TS) | EAS (TS) | Exch. Acc. (TS) | Spec. Access, IX Plant, & Other |
|---|---|---|---|---|---|---|---|
| | | | Exchange Plant Operations | | | | |
| | | (Note 1) | (Note 2) | (Note 3) | (Note 4) | (Note 5) | (Note 6) |
| A. | **Rate Base--Plant In Service** | | | | | | |
| 1 | 21XX General Support Facilities | Secondary allocation on 'Big 3 Expense' (Class A ILECs) or 'Big 3 Plant' (Class B ILECS)--CFR 36.112. | | | | | |
| 2 | | | | | | | |
| 3 | 22XX Central Office Equipment: | Primary allocation: | | | | | |
| 4 | CAT 1-Operator Systems | | To TS operations on operator standard work seconds factor--CFR 36.123 | | | | |
| 5 | CAT 2-Tandem Switching (Alloc.) | | To TS operations on tandem switching minutes factor--CFR 36.124. | | | | |
| 6 | CAT 2-Tandem Switching (Assign.) | | To TS operations on dedicated use direct assignment. | | | | |
| 7 | CAT 3-Local Switching | | To TS operations on unweighted dial equipment minutes factor--CFR 36.125 | | | | |
| 8 | CAT 4.12 -Exch. Trunk (Joint Use) | | To TS operations on exchange trunk joint minutes of use factor--CFR 36.126 | | | | |
| 9 | CAT 4.12 -Exch. Trunk (Ded. Use) | | Direct assignment of private line and special access to Special Access/PLS. | | | | |
| 10 | CAT 4.13 -Subscr. Line (Joint Use) | | CAT 4.13 Joint Use is common line only (Form I, Footnote 8). Direct assignment to Loop (NTS). | | | | |
| 11 | CAT 4.13 -Subscr. Line (Ded. Use) | | Direct assignment of private line and special access to Special Access/PLS. | | | | |
| 12 | CAT 4.23 -IX Trunk (Joint Use) | | To TS operations on interexchange conversation minutes factor--CFR 36.126 | | | | |
| 13 | CAT 4.23 -IX Trunk Ckt. (Ded. Use) | | Direct assignment of private line and special access to Special Access/PLS. | | | | |
| 14 | CAT 4.3 -Host/Remote Trunk Ckt. | | To TS operations on host/remote minute-kilometers factor--CFR 36.126. | | | | |
| 15 | Other COE - Wideband Ckt | | Direct assignment of wideband to Special Access/PLS/Other (Form I, Footnote 9). | | | | |
| 16 | Total COE | | | | | | |
| 17 | | | | | | | |
| 18 | 23XX Information Orig./Term. Equipment: | Primary allocation: | | | | | |
| 19 | CAT 1-Regulated CPE | | Direct assignment to Loop (NTS) or Special Access/PLS depending on use--CFR 36.142 | | | | |
| 20 | Other IOT | | Direct assignment to Loop (NTS) or Special Access/PLS depending on use--CFR 36.142 | | | | |
| 21 | Total IOT | | | | | | |
| 22 | | | | | | | |
| 23 | 24XX Cable & Wire Facilities: | Primary allocation: | | | | | |
| 24 | CAT 1.3-Subscriber Line (Common) | | CAT 1.3-Common is common line only (Form I, Footnote 8). Direct assignment to Loop (NTS). | | | | |
| 25 | CAT 1.1,2-Subscriber Line (Ded.) | | Direct assignment of private line and special access to Special Access/PLS. | | | | |
| 26 | CAT 2-Exch. Trunk (Joint Use) | | To TS operations on exchange trunk joint minutes of use factor--CFR 36.155 | | | | |
| 27 | CAT 2-Exch. Trunk (Ded. Use) | | Direct assignment of private line and special access to Special Access/PLS. | | | | |
| 28 | CAT 3-IX Trunk (Joint Use) | | To TS operations on interexchange conversation minute-kilometers factor--CFR 36.156 | | | | |
| 29 | CAT 3-IX Trunk (Ded. Use) | | Direct assignment of private line and special access to Special Access/PLS. | | | | |
| 30 | CAT 4-Host/Remote Trunk | | To TS operations on host/remote minute-kilometers factor--CFR 36.157. | | | | |
| 31 | Other C&WF - Wideband | | Direct assignment of wideband to Special Access/PLS/Other (Form I, Footnote 9). | | | | |
| 32 | Total C&WF | | | | | | |

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**UM 1017 Universal Service--Embedded Cost Method**
(Based on the Annual Form I Report)

| | Embedded Cost | Total (Form I) | Loop (NTS) | Local (TS) | EAS (TS) | Exch. Acc. (TS) | Spec. Access, IX Plant, & Other |
|---|---|---|---|---|---|---|---|
| | | Exchange Plant Operations | | | | | |
| | | (Note 1) | (Note 2) | (Note 3) | (Note 4) | (Note 5) | (Note 6) |
| A. | Rate Base--Plant In Service (Cont'd) | | | | | | |
| 1 | 26XX Other Assets: | | | | | | |
| 2 | Capital Leases | Secondary allocation on General Support Facilities--CFR 36.161. | | | | | |
| 3 | Leasehold Improvements | Secondary allocation on General Support Facilities--CFR 36.161. | | | | | |
| 4 | Intangibles | Secondary allocation on Total Plant in Service less Intangibles--CFR 36.162. | | | | | |
| 5 | Total Other Assets | | | | | | |
| 6 | | | | | | | |
| 7 | **Total Telecom. Plant in Service** | Total of the above. | | | | | |
| 8 | | | | | | | |
| 9 | Accumulated Depreciation & Amortz.:(-) | | | | | | |
| 10 | 311X General Support Facilities | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 11 | 312X Central Office Switching | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 12 | 312X Operator Systems | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 13 | 312X Central Office Transmission | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 14 | 313X Information Orig./Term. Equip. | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 15 | 314X Cable & Wire Facilities | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 16 | 3410 Capital Leases | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 17 | 3420 Leasehold Improvements | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 18 | 3500 Intangibles | Secondary allocation on the associated plant account--CFR 36.503. | | | | | |
| 19 | 3600 Acquisition Adjustment | Secondary allocation on total Plant in Service--CFR 36.503. | | | | | |
| 20 | **Total Accum. Depr. & Amortz.** | | | | | | |
| 21 | | | | | | | |
| 22 | Other Rate Base: | | | | | | |
| 23 | 4100-4340 Accum. Deferred Tax (-) | Secondary allocation on total Plant in Service--CFR 36.506. | | | | | |
| 24 | 1220 Materials and Supplies | Secondary allocation on Cable & Wire Facilities--CFR 36.181. | | | | | |
| 25 | 2005 Plant Acquisition Adjustment | Secondary allocation on total Plant in Service--CFR 36.171 | | | | | |
| 26 | ---- Other Rate Base | Direct assignment depending on nature of the asset. | | | | | |
| 27 | **Total Other Rate Base** | | | | | | |
| 28 | | | | | | | |
| 29 | **Total Rate Base** | Plant in Service - Accumulated Depreciation - Accumulated Deferred Taxes + Other Rate Base | | | | | |

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Attachment 4
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**UM 1017 Universal Service--Embedded Cost Method**
(Based on the Annual Form I Report)

| | Embedded Cost | Total (Form I) | Loop (NTS) | Local (TS) | EAS (TS) | Exch. Acc. (TS) | Spec. Access, IX Plant, & Other |
|---|---|---|---|---|---|---|---|
| | | | Exchange Plant Operations | | | | |
| | | *(Note 1)* | *(Note 2)* | *(Note 3)* | *(Note 4)* | *(Note 5)* | *(Note 6)* |
| B. | **Revenue Requirement** | | | | | | |
| 1 | **Calculated NOI** | Total Rate Base * Rate of Return (11.1 %) | | | | | |
| 2 | | | | | | | |
| 3 | Calculated Income Tax Expense: | | | | | | |
| 4 | - Fixed Charges | Weighted cost of debt * Rate Base | | | | | |
| 5 | +/- FIT Add/Deducts | Allocated on total Plant in Service | | | | | |
| 6 | - ITC Amortized | Allocated on total Plant in Service | | | | | |
| 7 | +/- Net Deferred Income Tax | Allocated on total Plant in Service | | | | | |
| 8 | FIT Tax Base | Line 1 - line 4 +- line 5 - line 6 +- line 7 | | | | | |
| 9 | Gross Current FIT | FIT rate/(1 - FIT rate) * FIT Tax Base | | | | | |
| 10 | - ITC Claimed | Allocated on total Plant in Service | | | | | |
| 11 | Net Current FIT | Line 9 - line 10. | | | | | |
| 12 | +ITC Net (=ITC Amortized) | Allocated on total Plant in Service | | | | | |
| 13 | +/- SIT Add/Deducts | Allocated on total Plant in Service | | | | | |
| 14 | SIT Tax Base | Line 1 - line 4 +- line 7 + lines 11...13 | | | | | |
| 15 | Current SIT | SIT rate/(1 - SIT rate) * FIT Tax Base | | | | | |
| 16 | +/- Net Deferred Income Tax | Allocated on total Plant in Service | | | | | |
| 17 | **Net Income Tax Expense** | Line 11 + line 12 + line 15 + line 16 | | | | | |
| 18 | | | | | | | |
| 19 | Operating Expenses: | | | | | | |
| 20 | 61XX-64XX Plant Specific Operations: | | | | | | |
| 21 | 6110-20 General Support Facilities | Secondary allocation on the associated plant account--CFR 36.311. | | | | | |
| 22 | 621X Central Office Switching | Secondary allocation on the associated plant account (Total COE)--CFR 36.321. | | | | | |
| 23 | 6220 Operator Systems | Secondary allocation on the associated plant account (Total COE)--CFR 36.321. | | | | | |
| 24 | 623X Central Office Transmission | Secondary allocation on the associated plant account (Total COE)--CFR 36.321. | | | | | |
| 25 | 63XX Information Orig./Term. Equip. | Secondary allocation on the associated plant account--CFR 36.331. | | | | | |
| 26 | 64XX Cable & Wire Facilities | Secondary allocation on the associated plant account--CFR 36.354. | | | | | |
| 27 | Total Plant Specific | | | | | | |
| 28 | | | | | | | |
| 29 | 65XX Plant Nonspecific Operations: | | | | | | |
| 30 | 6512 Provisioning | Secondary allocation on total Plant in Service--CFR 36.352. | | | | | |
| 31 | 653X Network Operations | Secondary allocation on 'Big 3 Plant'--CFR 36.353. | | | | | |
| 32 | 6540 Acc. Paid to LECs/USF Support | Directly assigned to IX Plant/Other | | | | | |
| 33 | 65xx Federal USF Contributions | Directly assigned to IX Plant/Other | | | | | |
| 34 | 65xx State USF Contributions | Directly assigned to IX Plant/Other | | | | | |
| 35 | Total Plant Nonspecific | | | | | | |

**UM 1017 Universal Service--Embedded Cost Method**
(Based on the Annual Form I Report)

| | | Embedded Cost | Total (Form I) (Note 1) | Loop (NTS) (Note 2) | Local (TS) (Note 3) | EAS (TS) (Note 4) | Exch. Acc. (TS) (Note 5) | Spec. Access, IX Plant, & Other (Note 6) |
|---|---|---|---|---|---|---|---|---|
| | | | Exchange Plant Operations | | | | | |
| B. | | Revenue Requirement (Cont'd) | | | | | | |
| 1 | 656X | Depreciation & Amortization: | | | | | | |
| 2 | 6561 | General Support Facilities | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 3 | 6561 | Central Office Switching | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 4 | 6561 | Operator Systems | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 5 | 6561 | Central Office Transmission | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 6 | 6561 | Information Orig./Term. Equip. | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 7 | 6561 | Cable & Wire Facilities | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 8 | 6563 | Capital Leases | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 9 | 6563 | Leasehold Improvements | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 10 | 6564 | Intangibles | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 11 | 6565 | Acquisition Adjustment | Secondary allocation on the associated plant account--CFR 36.361. | | | | | |
| 12 | | Total Depr. & Amort. | | | | | | |
| 13 | | | | | | | | |
| 14 | 66XX | Customer Operations: | Primary allocation: | | | | | |
| 15 | 661X | Marketing | Based on current billing--CFR 36.372. Loop (NTS) to Local (TS) based on respective direct plant ratio. | | | | | |
| 16 | 662X | Operator Services | To TS operations based on operator service expense factor | | | | | |
| 17 | 662X | Directory Publishing-Alpha. | Direct assignment to Other. See PUC Order 98-430 in UM 731. | | | | | |
| 18 | 662X | Directory Publishing-Classified | Direct assignment to Other. | | | | | |
| 19 | 662X | Directory Publishing-Foreign | Direct assignment to Other. | | | | | |
| 20 | 6623 | Service Order Proc.-End User | Based on EU S.O. factor--CFR 36.377. Loop (NTS) to Local (TS) based on respective direct plant ratio. | | | | | |
| 21 | 6623 | Payment & Collection-End User | Based on EU P&C factor--CFR 36.377. Loop (NTS) to Local (TS) based on respective direct plant ratio. | | | | | |
| 22 | 6623 | Billing Inquiry-End User | Based on EU B.I. factor--CFR 36.377. Loop (NTS) to Local (TS) based on respective direct plant ratio. | | | | | |
| 23 | 6623 | Service Order Proc.-CXR | Direct assignment to Exchange Access (TS) | | | | | |
| 24 | 6623 | Payment & Collection-CXR | Direct assignment to Exchange Access (TS) | | | | | |
| 25 | 6623 | Billing Inquiry-CXR | Direct assignment to Exchange Access (TS) | | | | | |
| 26 | 6623 | Coin Administration | Direct assignment to Other. | | | | | |
| 27 | 6623 | Rev. Acctg.-Toll Ticket Proc. | Direct assignment to IX Plant/Other | | | | | |
| 28 | 6623 | Rev. Acctg.-Local Mess. Proc. | Allocated to Local (TS) and EAS (TS) based on message processing factor. | | | | | |
| 29 | 6623 | Rev. Acctg.-Other Bill & Coll. | Combined with SLC Billing, then allocated 1/3 Interstate, State, Local--CFR 36.380. Loop (NTS) to Local (TS) based on direct plant ratio. | | | | | |
| 30 | 6623 | Rev. Acctg.-SLC Billing | Direct assignment to Loop (NTS) | | | | | |
| 31 | 6623 | Rev. Acctg.-CXR B & C | Direct assignment to Exchange Access (TS)--CFR 36.381. | | | | | |
| 32 | 6623 | B & C Amts Paid to LECs | Direct assignment to IX Plant/Other | | | | | |
| 33 | 6623 | Other Customer Service | Allocated on Business Ofc. and Rev. Accounting--CFR 36.382. May be direct assigned based on identity. | | | | | |
| 34 | | Total Customer Oper. | | | | | | |

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## UM 1017 Universal Service--Embedded Cost Method
(Based on the Annual Form I Report)

| | Embedded Cost | Total (Form I) (Note 1) | Exchange Plant Operations: Loop (NTS) (Note 2) | Local (TS) (Note 3) | EAS (TS) (Note 4) | Exch. Acc. (TS) (Note 5) | Spec. Access, IX Plant, & Other (Note 6) |
|---|---|---|---|---|---|---|---|
| B. | **Revenue Requirement (Cont'd)** | | | | | | |
| 1 | 67XX Corporate Operations: | | | | | | |
| 2 | 671X Executive & Planning | Secondary allocation on 'Big 3 Expense'--CFR 36.392. | | | | | |
| 3 | 672X General & Administrative | Secondary allocation on 'Big 3 Expense'--CFR 36.392. | | | | | |
| 5 | Total Corporate Operations | | | | | | |
| 6 | | | | | | | |
| 7 | --- Other Operating Expenses: | | | | | | |
| 8 | --- Federal High-Cost Fund * (Excl.) | Direct assignment--credit Loop (NTS), debit Other--CFR 36.601. | | | | | |
| 9 | --- Lifeline Connection Assist.*(Excl.) | Direct assignment--credit Loop (NTS), debit Other--CFR 36.701. | | | | | |
| 10 | Total Other (Before USF) | Total Other Expenses excludes USF amounts because they are considered separately. | | | | | |
| 11 | | | | | | | |
| 12 | **Total Operating Expenses** | Total of the above operating expenses. | | | | | |
| 13 | | | | | | | |
| 14 | **7240 General Taxes** | | | | | | |
| 15 | Property | Secondary allocation on total Plant in Service--CFR 36.412. | | | | | |
| 16 | Other | Secondary allocation on return, income taxes, expenses and property taxes. | | | | | |
| 17 | Total General Taxes | | | | | | |
| 18 | | | | | | | |
| 19 | **Revenue Requirement** | Sum of return, income taxes, operating expenses, and general taxes. | | | | | |
| 20 | **Per line per month:** | | Loop (NTS) Cost | Local (TS) Cost | | | |
| 21 | | | Total> | NTS + TS | | | |

**C. Notes:**

1 *Total Form I: Total costs are Oregon study area costs 'subject to separations', and identified by separations category. Separation categories are defined in CFR Part 36, and are listed down the left had column of this worksheet. 'Subject to separations' means the same as defined in the Form I, Footnote 1.*

2 *Loop (NTS): Loop cost is the unseparated cost of switched common subscriber lines. It is assigned to local exchange operations to be consistent with the OUS support calculation as set forth in ORS 759.425(3)(a).*

3 *Local (TS): Local TS cost is the traffic sensitive cost of local exchange plant operations as allocated to local exchange services by relative use factors.*

4 *EAS (TS): EAS TS is the traffic sensitive cost of exchange plant and transport operations as allocated to extended area service by relative use factors.*

5 *Exchange Access (TS): This is the traffic sensitive cost of exchange plant operations allocated to interexchange carrier switched access service. It includes both interstate and intrastate switched access. For LEC toll operations, it assumes switched access for the LEC's own toll.*

6 *Special Access, Interexchange Plant, and Other: This classification includes exchange and interexchange plant associated with dedicated private line, special access, and wideband facilities and services. It also includes interexchange plant allocated to switched access and long distance toll services. Finally, it includes other services such as end user billing in behalf of another carrier, carrier access billing, and directory publishing.*



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