

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1017

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON,

Expansion of the Oregon Universal Service
Fund to Include the Service Areas of Rural
Telecommunications Carriers.

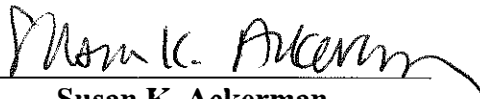
ERRATA ORDER

DISPOSITION: ORDER NO. 12-204 CORRECTED

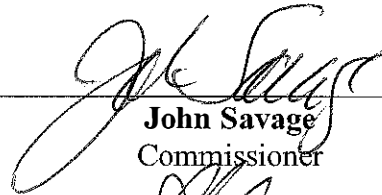
At our Public Meeting on June 5, 2012, we adopted, in part, Staff's recommendation to approve a Memorandum of Understanding (MOU) between Staff, the Oregon Exchange Carrier Association, and the Oregon Telecommunications Association.¹ We codified that decision in Order No. 12-204, which included a copy of the MOU as an appendix.²

We have discovered that the copy of the MOU attached to Order No. 12-204 is missing the even numbered pages. We correct Order No. 12-204 by attaching a complete copy of the MOU to this order. The remainder of Order No. 12-204 is unchanged.


Made, entered, and effective AUG 14 2012.



Susan K. Ackerman
Chair



John Savage
Commissioner



Stephen M. Bloom
Commissioner

¹ We modified Staff's recommendation and limited the term of the MOU to one year.

² In Order No. 12-206, we corrected a citation error contained in Order No. 12-204.

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1017

In the Matter of the Investigation into
Expansion of the Oregon Universal Service
Fund to Include the Service Areas of Rural
Telecommunications Carriers.

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is entered into by and between the Public Utility Commission of Oregon Staff ("Staff"), the Oregon Exchange Carrier Association ("OECA") and the Oregon Telecommunications Association ("OTA") on behalf of its members.¹

BACKGROUND

Under the terms and conditions set out by the Commission in its Order No. 03-082 in this Docket ("Commission Order"), the Commission is to conduct a triennial review of the costs of those companies drawing from the rural company portion of the Oregon Universal Service Fund

¹ For purposes of this Memorandum of Understanding, OTA's members are as follows: Asotin Telephone Company d/b/a TDS Telecom, Beaver Creek Cooperative Telephone Company, Canby Telephone Association d/b/a Canby Telcom, Cascade Utilities, Inc. d/b/a Reliance Connects, CenturyTel of Eastern Oregon, Inc. d/b/a CenturyLink, CenturyTel of Oregon, Inc. d/b/a CenturyLink, Citizens Telecommunications Company of Oregon d/b/a Frontier, Clear Creek Mutual Telephone Company d/b/a Clear Creek Communications, Colton Telephone Company d/b/a ColtonTel, Eagle Telephone System, Inc., Gervais Telephone Company, Helix Telephone Company, Home Telephone Company d/b/a TDS Telecom, Molalla Telephone Company d/b/a Molalla Communications, Monitor Cooperative Telephone Company, Monroe Telephone Company, Mt. Angel Telephone Company, Nehalem Telecommunications, Inc. d/b/a RTI Nehalem Telecom, North-State Telephone Company, Oregon-Idaho Utilities, Inc., Oregon Telephone Corporation, People's Telephone Company, Pine Telephone System, Inc., Pioneer Telephone Cooperative, Roome Telecommunications Inc., St. Paul Cooperative Telephone Association, Scio Mutual Telephone Association, United Telephone Company of the Northwest d/b/a CenturyLink, Stayton Cooperative Telephone Company and Trans-Cascades Telephone Company d/b/a Reliance Connects.

MEMORANDUM
OF UNDERSTANDING - 1

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1 ("OUSF"). Under the standards set forth in the Commission Order, that review is to be conducted
2 in 2012, with a target effective date of July 1, 2012. The review is based on the 2010 Form I
3 submitted by each company to the Commission in the fall of 2011.

4 Under the Commission Order, initial support for the rural companies was predicated upon
5 the formula adopted in the Commission Order, which was based upon a review of each company's
6 costs as set out on the 2001 Form I for each company. Because of concerns about the effect on the
7 OUSF surcharge, and, thus, customers, the triennial reviews in 2006 and 2009 resulted in
8 memorandums of understanding that in 2006 capped the OUSF surcharge for that triennium and in
9 2009 froze the support amounts for the rural companies for that triennium.

10 Commission Staff reviewed the 2010 Form I as submitted by each of the rural incumbent
11 local exchange carriers ("rural ILECs"). Based upon that review, Commission Staff found that if all
12 aspects of the Commission Order were applied on a step-by-step basis, there would be a
13 substantially larger increase in the size of the OUSF than anticipated. The theoretical draw which
14 was calculated based upon the review of each individual company's 2010 Form I would increase the
15 draw from the current level of \$6.8 million to more than \$30 million. This would require
16 substantially increasing the OUSF surcharge rate or taking action to possibly modify the formula
17 that is contained in the Commission Order.

18 A workshop was held to discuss the possible increases to the size of the draw from the
19 OUSF by rural ILECs and steps that might be taken to mitigate that draw. The industry held several
20 meetings among the rural ILECs and presented a proposal to Commission Staff. Commission Staff
21 provided its feedback. Based on that feedback, the rural ILECs and Commission Staff developed a
22 compromise proposal.

23 The compromise proposal is premised upon the idea that for purposes of the initiation of this
24 triennial review, the OUSF surcharge should not exceed 8.5%. This compromise proposal
25

26 MEMORANDUM
OF UNDERSTANDING - 2

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1 represents a substantial amount of negotiation and compromise both (a) among the rural ILECs and
 2 (b) between the rural ILECs and Commission Staff. As a result of limiting the OUSF surcharge for
 3 the initiation of this triennial review to 8.5%,² it is anticipated that the OUSF surcharge will
 4 generate \$15,650,000 in total for the rural company portion of the OUSF rather than \$30,000,000 in
 5 total for the rural company portion of the OUSF.

6 On the basis of the foregoing, Staff, OTA and OECA offer the following:

7 MEMORANDUM OF UNDERSTANDING

8 A. OUSF Support Amounts.

9 This triennium will begin with an OUSF surcharge of 8.5%. This 8.5% surcharge is
 10 expected to generate \$15,650,000 in total distributions for the rural company portion of the OUSF.
 11 To achieve that level of distribution, all rural ILECs have agreed to accept less than the full amount
 12 that they would otherwise be entitled to under the current UM 1017 mechanism. The estimated
 13 distributions are set out in Attachment 1, which is incorporated herein as if fully set forth.

14 The support will be calculated on a per line amount. The per line amount will be initially
 15 based on the January, 2012, line counts. The per line amount will be adjusted every six months
 16 based upon a six month trailing line count. For example, since the July, 2012, distributions are
 17 based on a January, 2012, line count, the distributions beginning in January of 2013 will be based
 18 upon July, 2012, line counts. The per line amount will be adjusted every six months in this fashion.

19 B. OUSF Reserve.

20 The rural ILECs and Commission Staff agree that the OUSF needs to have a reserve fund
 21 that ideally has an average balance for any quarter staying above 3.5 equivalent months of cash
 22 reserve. To accommodate this requirement and to allow new draws to begin July 1, 2012, eligible
 23

24 _____
 25 ² It should be kept in mind that the OUSF surcharge also funds the non-rural portion of the OUSF.

26 MEMORANDUM
 OF UNDERSTANDING - 3

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1 rural ILECs will take 75% of their eligible distribution between July 1, 2012, and January 31, 2013.
2 Beginning with February, 2013, the draws will reflect 100% of the eligible draws for each eligible
3 rural ILEC. This means that the OUSF average balance will drop to 3.2 equivalent months and stay
4 between 3.2 and 3.3 equivalent months until the next required support review at the beginning of
5 2015.

6 C. Use of OUSF Distributions.

7 Consistent with the provisions of the Stipulation adopted in Order No. 03-082, distributions
8 received under the OUSF shall first be applied by a rural ILEC to reduce its carrier common line
9 charge to the extent not reduced by actions required to be taken by the rural ILEC pursuant to the
10 Federal Communications Commission's ("FCC") Order No. 11-161 ("FCC 11-161"). OUSF
11 support is to be viewed as complementary to support that the rural ILEC may receive from federal
12 universal service funds under the implementation of FCC 11-161, not a substitute of such support or
13 duplication of such support. After reducing the carrier common line charge, a rural ILEC may
14 apply OUSF distributions for the purpose of keeping local service rates lower than they might
15 otherwise be required to be in light of the rural ILECs' local service revenue requirement. This
16 includes, but is not limited to, recovery of amounts lost under the FCC's intercarrier compensation
17 reform rules that are not replaced with federal support under the FCC's rules adopted in FCC 11-
18 161.³

19 D. Duration of Memorandum of Understanding - Exceptions.

20 The parties to this Memorandum of Understanding intend that the limitations set forth in this
21 Memorandum of Understanding will be in effect for one year but may terminate earlier upon the
22 Commission's issuing an order revising the Oregon Universal Service Fund: provided, that, this
23 _____

24 ³ Reference to FCC 11-161 is meant to include subsequent FCC orders in the same dockets, such as orders of
25 clarification or reconsideration.

26 MEMORANDUM
OF UNDERSTANDING - 4

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1 Memorandum of Understanding shall renew for no more than two successive one-year periods,
2 subject to the right of any party to file an objection to the renewal with the Commission. If a party
3 desires to file an objection to renewal, it shall do so by March 1 of the year preceding the July 1
4 renewal. Any renewal shall be subject to early termination upon the Commission issuing an order
5 revising the Oregon Universal Service Fund. However, the rural ILECs and Staff agree that any
6 party may file a petition to seek Commission review of the limitations on this Memorandum of
7 Understanding upon either: a) an increase to the contribution base; b) a decrease in the number of
8 eligible telecommunications carriers receiving support from the OUSF; c) there is a material,
9 overall increase in federal universal service support for the rural ILECs; or d) other good cause.
10 The parties further agree that the interim limitations will not automatically terminate merely
11 because a party has filed a petition as described above, but will continue until the Commission
12 issues a final order which grants, denies or takes other appropriate final action upon the petition.
13 Finally, each party reserves the right to make whatever arguments they deem appropriate in any
14 docket resulting from the filing of the aforementioned petition. For purposes of filing an objection
15 or petition, "party" refers to a party in UM 1017.

16 E. Request for Opening of Generic Docket to Consider Reform to the OUSF.

17 The parties to this Memorandum of Understanding agree that they will, at the Commission
18 Public Meeting at which the Commission considers whether to approve this Memorandum of
19 Understanding, jointly recommend to the Commission that it open as soon as possible a generic
20 docket to investigate reform of the Oregon Universal Service Fund,

21 F. Waiver of Stipulation and Reservation of Positions.

22 To the extent inconsistent with this Memorandum of Understanding, the provisions of the
23 Stipulation adopted in Order No. 03-082 are deemed waived for this triennium to accommodate this
24 Memorandum of Understanding.

25
26 MEMORANDUM
OF UNDERSTANDING - 5

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1 This Memorandum of Understanding constitutes an interim proposal and should not be
2 interpreted as incorporating any agreement as to the theoretical basis to adjust any aspect of the
3 Commission Order other than an agreed limitation on the OUSF support as set forth in this
4 Memorandum of Understanding.

5 G. Advantages of this Memorandum of Understanding.

6 An advantage of the proposal set forth in this Memorandum of Understanding is that the
7 increase in the OUSF surcharge is much lower than if the UM 1017 mechanism had been fully
8 implemented.

9 A further advantage to the agreed limitations in this Memorandum of Understanding is that
10 it can be implemented effective July 1, 2012.

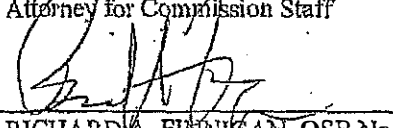
11 Another advantage of the interim limitation as set forth in this Memorandum of
12 Understanding is that all parties avoid the significant transactional costs that the reopening of
13 Docket No. UM 1017 would entail.

14 CONCLUSION

15 For the reasons set forth above, Staff, OTA and OECA respectfully submit the
16 Memorandum of Understanding for Commission consideration.

17 Respectfully submitted this 22nd day of May, 2012.

18
19 By: 
20 MICHAEL T. WEIRICH, OSB No. 82425
21 Attorney for Commission Staff

22 By: 
23 RICHARD A. FINNIGAN, OSB No. 965357
24 Attorney for the Oregon Telecommunications
25 Association and the Oregon Exchange Carrier
26 Association

MEMORANDUM
OF UNDERSTANDING - 6

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ATTACHMENT 1

Attachment 2
Page 1

2012 PROPOSED OUS DISTRIBUTIONS

Company	Agreed OUS Draw	January, 2012 Line Count	Initial Per Line Per Month Amount
Asotin	\$38,737	124	\$26.03
Beaver Creek	\$308,666	3,155	\$8.10
Canby	\$658,938	9,024	\$6.09
Cascade	\$481,424	7,088	\$5.66
CenturyLink*	\$3,594,000	48,860	\$6.13
Clear Creek	\$233,025	2,684	\$7.24
Colton	\$43,771	1,032	\$3.53
Eagle	\$294,825	431	\$57.00
Frontier	\$593,200	10,140	\$4.88
Gervais	\$121,935	693	\$14.66
Helix	\$213,341	229	\$77.64
Home	\$94,352	67	\$11.61
Midvale	\$29,479	244	\$10.07
Molalla	\$715,108	4,398	\$13.55
Monitor	\$413,042	478	\$72.01
Monroe	\$290,481	820	\$29.52
NEHELEM			
Nehalem	\$467,374	2,604	\$14.96
North-State	\$39,014	408	\$7.97
Oregon Tel	\$0	1,621	\$0.00
Oregon-Idaho	\$354,869	532	\$55.59
People's	\$247,003	1,084	\$18.99
Pine	\$1,075,358	943	\$95.03
Pioneer	\$1,764,942	11,854	\$12.41
RTI	\$75,127	460	\$13.61
Scio	\$300,967	1,628	\$15.41
Stayton	\$683,287	5,226	\$10.90
St. Paul	\$142,024	548	\$21.60
Trans-Cascades	\$54,687	214	\$21.30
United Telephone	\$1,975,000	39,209	\$4.20
TOTAL	\$15,650,933	157,824	

*Includes CenturyTel of Eastern Oregon and CenturyTel of Oregon