Law Office of
Richard A. Finnigan
2112 Black Lake Blvd. SW
Olympia, Washington 98512
Fax (360) 753-6862

Richard A. Finnigan
(360) 956-7001
rickfinn@localaccess.com

Kathy McCrary, Paralegal
(360) 753-7012
kathym@localaccess.com

December 13, 2005

VIA ELECTRONIC MAIL AND FEDERAL EXPRESS

Filing Center
Oregon Public Utility Commission
550 Capitol Street NE, Ste 215
Salem, OR 97301-2551

Re: UM 1217 – Direct Testimony of Brant Wolf

Dear Sir/Madam:

Enclosed are the original and five copies of the Direct Testimony of Brant Wolf and Certificate of Service.

Sincerely,

RICHARD A. FINNIGAN

RAF/km
Enclosures

cc: Service List (w/encl., via e-mail and U.S. mail)
ALJ Michael Grant (w/encl., via e-mail and U.S. mail)
Brant Wolf (w/encl., via e-mail)

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

In the Matter of	)	
	)	
PUBLIC UTILITY COMMISSION	)	Docket No. UM 1217
OF OREGON	)	
	)	
Staff Investigation to Establish	)	
Requirements for Initial Designation	)	
And Recertification of Telecommunications	)	
Carriers Eligible to Receive Federal	)	
Universal Service Support.	)	

DIRECT TESTIMONY OF

BRANT WOLF

ON BEHALF OF

OREGON TELECOMMUNICATIONS ASSOCIATION

December 13, 2005

Q. PLEASE STATE YOUR NAME AND GIVE US YOUR BUSINESS ADDRESS.

A. My name is Brant Wolf and my business address is 707 13th Street SE, Suite 280, Salem, OR 97301-4036.

Q. WHAT IS YOUR POSITION WITH THE OREGON TELECOMMUNICATIONS ASSOCIATION?

A. I am the Executive Vice-President of OTA.

Q. WHAT ARE YOUR RESPONSIBILITIES AS EXECUTIVE VICE-PRESIDENT OF OTA?

A. In brief form, it is my responsibility to represent the interests of the members of OTA in legislative and regulatory settings.

Q. HAVE YOU EVER TESTIFIED BEFORE THE COMMISSION?

A. While I have attended open meetings, rulemaking proceedings and workshops, and have been involved in those types of discussions, I have never submitted formal testimony to the Commission prior to this occasion.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to explain the position of OTA on the issues identified for resolution in this docket. I will provide OTA's perspective on the issues identified in the Issue List.

Q. PLEASE DESCRIBE OTA.

A. OTA is a trade organization representing the interests of its members, which are telecommunications companies operating in the State of Oregon. Its members consist of Asotin Telephone Company, Beaver Creek Cooperative Telephone Company, Canby Telephone Association, Cascade Utilities, Inc., CenturyTel, Citizens Telecommunications Company of Oregon, Clear Creek Mutual Telephone Company, Colton Telephone Company, Eagle Telephone System, Inc., Eastern Oregon Telecom, LLC, Gervais Telephone Company, Helix Telephone Co., Home Telephone Company, Malheur Home Telephone Company, Midvale Telephone Exchange, Molalla Communications Company, Monitor Cooperative Telephone Company, Monroe Telephone Company, Mount Angel Telephone Company, Nehalem Telecommunications, Inc., North-State Telephone Co., Oregon-Idaho Utilities, Inc., Oregon Telephone Corporation, People's Telephone Co., Pine Telephone System, Inc., Pioneer Telephone Cooperative, Roome Telecommunications Inc., Sprint, St. Paul Cooperative Telephone Association, Scio Mutual Telephone Association, Stayton Cooperative Telephone Company, Trans-Cascades Telephone Company and Verizon Northwest.

SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. In this testimony, I recommend that the Commission adopt the requirements of the Federal Communications Commission set forth for review of applications for designation as ETC. This includes adoption of the FCC's public interest test with its focus on the potential for creamskimming. I also recommend that the Commission adopt a requirement that the smallest geographical area for which an applicant can be designated as an ETC is an incumbent carrier's wire center.

On the issue of the form of annual recertification, I recommend that the Commission adopt requirements very similar to the requirements established by the FCC when it comes to competitive ETCs. Given that incumbent ETCs receive their high-cost funding on a two year lag and are already subject to extensive reporting and audit requirements, I suggest that those differences between incumbent ETCs and competitive ETCs be taken into account with incumbent ETCs following a process very similar to the process that is in place today for those companies.

ISSUES LIST

I. OVERALL

Q. TO ADDRESS ISSUE I.A., WHAT POLICY OBJECTIVES SHOULD THE COMMISSION ATTEMPT TO ACHIEVE THROUGH THIS DOCKET?

A. In the initial designation of eligible telecommunications carriers or ETCs, the policy objective of the Commission should be to ensure that its process for review of applications becomes thorough, rigorous and supports the accomplishment of the policy objectives contained in Section 254 of the Telecommunications Act of 1996. As to the annual certification process, the Commission's policy objectives should be to develop a process that is cost efficient, yet provides for accountability in the use of federal high-cost funds taking into account differences in the way different carriers are funded and the existing accountability mechanisms that are in place for incumbent ETCs.

Q. WHAT IS YOUR VIEW OF THE POLICY OBJECTIVES IN SECTION 254 OF THE TELECOMMUNICATIONS ACT OF 1996?

A. Among the principles that Congress established for universal service set forth in Section 254 is that quality services should be made available at just, reasonable, and affordable rates. Another principle is that there should be access to advanced telecommunications and information services in all regions of the nation. A third relevant principle is that consumers in all regions of the nation, including low income consumers and those in rural, insular, and high cost areas should have access to telecommunications and information services, including interexchange services and advanced telecommunications services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

The principle of Universal Service is straightforward—to ensure that "all Americans have access to affordable, quality telecommunications services." This quote is found in *In re Federal-State Joint Board on Universal Services, Multi-Association Group Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Fourteenth Report and Order*, CC Docket Nos. 96-45, 00-256, FCC 01-157, ¶ 2 (rel'd May 23, 2001). In furtherance of this goal, incumbent rural companies have constructed throughout their service areas the infrastructure that provides ubiquitous, high-quality local service to remote and difficult to serve areas. Universal Service support has been an important factor in allowing rural companies to provide service in high cost areas, and as such Universal Service support is a precious resource.

Q. WHY ARE THESE ISSUES IMPORTANT TO RURAL TELEPHONE COMPANIES?

A. Issues related to the designation of ETCs are of critical importance to rural companies. Rural companies face substantial economic challenges. These challenges stem from the relatively sparse population density in rural areas, and small proportion of large business customers. Additionally, on average, rural consumers have lower income than non-rural consumers and can least afford to pay higher telephone bills. Therefore, the continued existence of Universal Service support is of critical importance to the rural companies that serve rural areas.

The continued availability of affordable, high-quality service to rural consumers is at risk because of the substantial and ever-increasing demands on the Universal Service fund from new carriers, particularly from wireless carriers. Wireless carriers have been particularly aggressive in seeking ETC status nationwide. This has been true in Oregon.

Also of concern is the fact that this Commission generally does not regulate wireless carriers. Consequently, wireless carriers that become ETCs are able to obtain funding without regard to their actual cost to provide service, and without having to comply with, or bear the economic burden of, the Commission's consumer protection regulations. Thus, wireless carriers are able to compete with the rural companies and receive funding without having to prove their costs.

II. INITIAL DESIGNATION OF ETCS

Q. PLEASE DESCRIBE THE PROCESS FOR PROVIDING SUPPORT FOR INCUMBENT ETCS COMPARED TO HOW COMPETITIVE ETCS RECEIVE THEIR SUPPORT.

A. Each of OTA's members have constructed telecommunications networks throughout their individual service areas that for the most part are ready to serve any customer that requests service. These networks have been built over time. Today, those networks have the capability of providing advanced telecommunication services as well as basic telecommunication services.

Under the Federal Universal Service Fund (FUSF) procedures, incumbent rural companies must build their network before they can receive reimbursement. Once the network is built, rural companies file cost studies reflecting the actual cost to build the networks. Based on these cost studies, the rural companies receive high-cost funds on generally a two-year lag basis. The cost studies that are filed are subject to outside audit.

This process for the rural companies, of having first put the facilities in the ground, then justifying the costs of the facilities through cost studies which are subject to outside audit, contrasts with how competitive ETCs (CETCs) receive support. A CETC receives support based upon the incumbent ETC's costs. The CETC does not have to prove that the supported facilities have already been constructed. The CETC does not provide a cost study. Since the CETC does not provide cost studies, there is no outside audit of the CETC's costs.

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE ETC DESIGNATION ORDER, FCC ORDER 05-46.

A. The *ETC Designation Order* adopted new requirements for carriers seeking designation as an ETC. Additionally, the FCC added new requirements for those ETCs that have received their designation from the FCC, obligating them to provide certain information as part of their annual certifications. Although the FCC's new requirements do not directly apply to state commission proceedings, the FCC has encouraged state commissions to consider adopting its new requirements for the state's own ETC proceedings.

OTA supports this Commission's adoption of new requirements for carriers that seek ETC designation from the Commission. These new requirements are essential to ensure that only fully qualified and committed carriers receive Universal Service support.

OTA has given a great deal of thought to the ETC designation process. The basic premise should be one of equivalency. Incumbent and competitive ETCs alike should be accountable in the ETC process and the use of FUSF monies. However, differences in funding rules (incumbents must first build networks and then file cost studies which are subject to outside audits) and technology (wireless and wireline) dictate that different approaches are needed. However, the end result should be "equivalent" standards of ETC service and oversight in the use of FUSF support.

Q. SHOULD THE COMMISISON ADOPT ANY, OR ALL OF, THE REQUIREMENTS PROPOSED BY THE FCC IN ORDER 05-46 (ISSUE II.A.1)?

A. The requirements proposed by the FCC should be the minimum set of requirements adopted by the Commission. In its *ETC Designation Order*, the FCC determined that an applicant seeking ETC designation from the FCC must demonstrate:

> (1) a commitment and ability to provide services, including providing service to all customers within its proposed service area;
>
> (2) how it will remain functional in emergency situations;
>
> (3) that it will satisfy consumer protection and service quality standards;
>
> (4) that it offers local usage comparable to that offered by the incumbent LEC; and
>
> (5) an understanding that it may be required to provide equal access if all other ETCs in the designated service area relinquish their designations pursuant to section 214(e)(4) of the Act.

The FCC "encourage[d] state commissions to apply these requirements to all ETC applicants over which they exercise jurisdiction."

Q. WHAT DID THE FCC HAVE TO SAY ABOUT THE REQUIREMENT TO DEMONSTRATE A COMMITMENT TO SERVE CUSTOMERS?

A. The FCC stated that an ETC applicant will satisfy this requirement by providing services to all requesting customers within its requested service area. The FCC elaborated that if the ETC's network already passes or covers a potential customer's premises, it should provide service immediately. Otherwise, the ETC must undertake additional measures to provide service to the requesting customer within a reasonable period if it can do so at a reasonable cost. The FCC suggested that the ETC could do so by: "(1) modifying or replacing the requesting customer's equipment; (2) deploying a roof-mounted antenna or other equipment; (3) adjusting the nearest cell tower; (4) adjusting network or customer facilities; (5) reselling services from another carrier's facilities to provide service; or (6) employing, leasing, or constructing an additional cell site, cell extender, repeater, or other similar equipment." If an ETC applicant determines that it cannot serve the customer using one or more of these methods, then it must report the unfulfilled request to the FCC within 30 days of the determination. One way this standard could be met on an equivalency basis is to require the ETC applicant to meet the same held order and service installation standards as rural companies.

Q. WHAT DID THE FCC SET FORTH AS THE REQUIREMENT FOR AN ETC APPLICANT TO DEMONSTRATE ITS COMMITMENT ON THE USE OF FUNDS?

A. The FCC determined that an ETC applicant should submit a formal network improvement plan that demonstrates how Universal Service funds will be used to improve coverage, signal strength, or capacity, that would not otherwise occur absent the receipt of high-cost support. The FCC adopted the requirement that an ETC applicant must submit a five-year plan describing with specificity its proposed network improvements or upgrades throughout its proposed designated service area. The five-year plan must demonstrate in detail how high-cost support will be used for service improvements that would not occur absent receipt of such support, including:

> (1) how signal quality, coverage, or capacity will improve due to the receipt of high-cost support throughout the area for which the ETC seeks designation;
>
> (2) the projected start date and completion date for each improvement and the estimated amount of investment for each project that is funded by high-cost support;

(3) the specific geographic areas where the improvements will be made; and

(4) the estimated population that will be served as a result of the improvements.

Applicants must either provide this information for each wire center in each service area for which they expect to receive Universal Service support, or explain why service improvements in a particular wire center are not needed and how funding will otherwise be used to further the provision of supported services.

Q. DOES OTA SUPPORT THE ADOPTION OF THIS REQUIREMENT?

A. OTA views these newly-adopted requirements as very important, and it strongly urges this Commission to adopt them for future ETC applicants. If a carrier seeks ETC designation, it must show that it is willing to provide services throughout its designated service area and to use USF monies to improve its network.

Q. WHY DOES OTA SUPPORT ADOPTION OF THIS REQUIREMENT?

A. When consideration is given to how incumbent ETCs (the rural companies) receive FUSF support, particularly high-cost support, based upon past, actual investment on a two year lag supported by cost studies subject to outside audit, requiring CETC applicants to provide a five year build-out plan of how they will use the FUSF that they receive, which is based upon the incumbent ETC's level of support per line, makes sense. If the FUSF system evolves to where CETCs receive support based upon their own historical costs for networks that they have constructed in the rural service areas for which they seek designation, those costs are supported by adequate support, and the support is subject to outside audit, then a five year build-out plan would not be needed. Under the second scenario, when it evolves, CETCs would be treated on the same basis as incumbent ETCs. Until then, the five year build-out plan provides the equivalent accountability to what the incumbent ETCs provide through their actual investment and cost study process.

Typically, a wireless carrier seeks ETC designation from the Commission after it has already constructed its network and begun providing service. Thus, the wireless carrier is already providing service to the public without relying on Universal Service funding. If the wireless carrier subsequently attains ETC status from the Commission, it can boost its revenues without doing anything to further the goals of Universal Service—it may obtain funding for its entire service area upon certification as an ETC, regardless of whether it has captured any new customers or expanded its service into new areas. This happens because the ETC is entitled to the same level of Universal Service support as the ILEC.

Therefore, granting an ETC designation to a CETC without requiring the applicant to commit to serve customers and undertake network improvement, is likely to result in an unearned windfall, without any benefit to Oregon consumers. Simply put, if a prospective ETC cannot explain with specificity how it would use the Universal Service support it receives, the Commission should not approve its application. Therefore, the Commission should mandate that ETC applicants provide service to requesting customers and submit network improvement plans as specified by the FCC.

Q. DOES OTA HAVE A POSITION ON LIFELINE AND LINKUP RESPONSIBILITIES?

A. Yes. OTA notes that ETCs are required to offer Lifeline and Link Up programs to qualifying low-income customers under 47 CFR 54.405 and 54.411. Also, under 47 CFR 54.201(d)(2), ETCs receiving federal universal service support must publicize the availability of the supported services and Lifeline/Link Up and the corresponding charges, using media of general distribution throughout the service areas for which designation is requested. The Commission should require ETC applicants to acknowledge these obligations.

Q. WHAT DID THE FCC STATE IS THE REQUIREMENT FOR AN APPLICANT FOR ETC STATUS TO DEMONSTRATE ITS ABILITY TO REMAIN FUNCTIONAL IN EMERGENCY SITUATIONS?

A. The FCC now requires ETC applicants to demonstrate that they have a reasonable amount of back-up power to ensure functionality without an external power source, that they can reroute traffic around damaged facilities, and that they are capable of managing traffic spikes resulting from emergency situations. OTA agrees with the FCC that functionality during emergency situations is an important consideration for the public interest. The Commission should require ETC applicants to explain how they will remain functional in emergency situations.

Q. WHAT DID THE FCC SAY ABOUT CONSUMER PROTECTION REQUIREMENTS?

A. The FCC found that applicants for an ETC designation must make specific commitments to objective measures to protect consumers. To satisfy this requirement, the FCC determined that a wireless carrier could commit, at a minimum, to comply with the Cellular Telecommunications and Internet Association's (CTIA) Consumer Code for Wireless Service. The FCC further stated that state commissions may impose other requirements consistent with federal law to ensure that the supported services are offered in a manner that protects consumers.

OTA urges this Commission to require wireless ETC applicants commit to consumer protection measures. At minimum, the Commission should require wireless carriers to commit to comply with the CTIA Consumer Code for Wireless Service. The Commission should consider whether other consumer protection standards are appropriate.

Q. WHAT DID THE FCC SAY ABOUT THE PROVISION OF LOCAL USAGE IN ITS ETC DESIGNATION ORDER?

A. The FCC's Order encouraged state commissions to consider whether the applicant for ETC status offers a local usage plan comparable to those offered by the ILEC. The FCC noted that "there is nothing in the Act, Commission's rules, or orders that would limit state commissions from prescribing some amount of local usage as a condition of ETC status."

The Commission should consider whether the prospective ETC's local usage plan is comparable to the ILEC's. The Commission should at minimum review wireless carriers' calling plans for whether they make available sufficient minutes to allow a level of local calling that is practical for consumers' everyday needs.

Q. DID THE FCC ADDRESS EQUAL ACCESS REQUIREMENTS?

A. In a way, it did. The FCC declined to impose a general equal access requirement on ETC applicants. However, it concluded that it should require ETC applicants to "acknowledge that we may require them to provide equal access to long distance carriers in their designated service area in the event that no other ETC is providing equal access within the service area."

OTA's view is that the Commission should require ETC applicants to acknowledge that they may be required to provide equal access to long distance carriers in their designated service area in the event that no other ETC is providing equal access within the service area. Under 47 U.S.C. §214(e)(4), if a provider relinquishes its ETC designation, this Commission must examine whether it should require the remaining ETC(s) to provide equal access, and it may, under 47 U.S.C. §251(h)(2), treat another carrier as an ILEC. Thus, requiring ETC applicants to acknowledge that they may be required to provide equal access is consistent with statutory requirements, and is advisable. If other ETCs relinquish their designation, Oregon consumers may need to rely on the applicant's ability to route long distance calls so that they may have a choice of long distance providers.

Q. SHOULD THE COMMISSION ADOPT OTHER BASIC ELIGIBILITY REQUIREMENTS (ISSUE II.A.2)?

A. Yes. The Commission should adopt quality of service standards. The quality of service standards set out in OAR 860-034-0390 can be applied as appropriate for the type of technology. For example, the provisioning and held order requirements of OAR 860-034-0390(4) could be applied to a competitive ETC. There are some requirements in the rule that would not make sense if the ETC is a wireless company. For example, Subsections (9) and (10). Wireless equivalents could be put into place.

OTA recognizes that the Commission is prohibited by Oregon law from applying these standards to cooperatives. However, in the case of a cooperative that is an ETC, its customers exercise effective control over service quality issues since those customers can change the management of the company by a vote. That is a remedy that is not available with other forms of entities.

OTA also recognizes that many of the small commercial companies may be exempted from all or some portions of the reporting requirement aspects of the rule. Given the Commission's long experience with these companies and the established base of evidence that the service quality provided by the small commercial companies is excellent, such exemption is warranted. Once competitive ETCs can provide the Commission with the historical basis to allow a judgment upon whether an exemption from the reporting requirements is appropriate, then those competitive ETCs could apply for the same treatment as the small telecommunications companies may receive.

Q. SHOULD THE SAME REQUIREMENTS APPLY TO APPLICATIONS FOR DESIGNATIONS IN RURAL AND NON-RURAL ILEC SERVICE AREAS (ISSUE II.A.3)?

A. If high-cost support, or other portable funds, such as IAS, are available, then the same requirements should apply in the non-rural ILEC service areas as in the rural ILEC service areas.

Q. SHOULD THE SAME REQUIREMENTS APPLY REGARDLESS OF THE TYPE OF SUPPORT THAT THE ETC WILL RECEIVE (ISSUE II.A.4)?

A. I don't think the same sort of rigorous and detailed application needs to be provided if all the applicant is seeking is the ability to participate in the Lifeline/Link Up program. It is OTA's position that a shorter application related to service to low-income customers should be developed if an applicant applies and limits their application solely to Lifeline/Link Up and, thus, OTAP, support for low-income customers.

III. <u>PUBLIC INTEREST TEST</u>

Q. SHOULD THE COMMISSION ADOPT THE CRITERIA ADOPTED BY THE FCC IN ORDER 05-46 FOR THE PUBLIC INTEREST TEST (ISSUE II.B.1)?

A. Yes. In the *ETC Designation Order*, the FCC provided clarification that a public interest showing is required in all ETC proceedings, both rural and non-rural. In Paragraph 61, the Order is clear in this regard:

> Section 214(e)(2) of the Act gives states the primary responsibility to designate ETCs and prescribes that all state designation decisions must be consistent with the public interest, convenience, and necessity.

The statute on point is equally clear. The language in 47 U.S.C. §214(e)(2) is as follows:

> Upon request and consistent with the public interest, convenience, and necessity, the State commission may, in the case of an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated by the State commission.

In the case of all ETC applications, if the applicant is unable to show that granting it ETC status will further the public interest, the Commission must deny the application.

Q. WHY IS A PUBLIC INTEREST TEST IMPORTANT?

A. For one reason, the "public interest" requirement properly reflects the fact that in some rural areas the benefit of supporting multiple carriers will exceed the cost of supporting multiple networks. ILECs serving rural customers use relatively long loops, and tend to have far higher common line and per-customer central office costs than carriers serving in non-rural areas. At the same time, lower disposable income levels mean increases in local rates are more likely to adversely impact customers in rural areas than in urban areas. Moreover, relatively attractive multi-line business customers are rare in most rural areas.

Q. WHAT DID THE FCC ADOPT AS ITS PUBLIC INTEREST TEST?

A. In the *ETC Designation Order*, the FCC adopted a public interest analysis, and encouraged state commissions to apply its analysis in determining whether an ETC designation would be in the "public interest." In making its "public interest" determination, the FCC primarily considers:

(1) the benefits of increased consumer choice;

(2) the impact of the designation on the Universal Service fund;

(3) the unique advantages and disadvantages of the competitor's service offering.

Additionally, where the ETC applicant requests designation below the study area level of the rural ILEC, the FCC conducts a creamskimming analysis. The burden of proof is on the ETC applicant to show that its application meets the public interest requirement.

Q. WHAT DID THE FCC SAY ABOUT INCREASED CONSUMER CHOICE?

A. The FCC noted that, in regard to factor (1) above, the benefits of increased consumer choice, the value of increased competition alone is unlikely to satisfy the public interest test. Therefore, this Commission should require that the ETC applicant show that it will provide some benefit beyond mere competition.

Q. HOW CAN THE COMMISSION TAKE INTO ACCOUNT THE IMPACT OF DESIGNATION ON THE FUSF?

A. In reviewing factor (2), the impact of the designation on the Universal Service fund, Oregon must recognize that additional ETC designations do materially increase the size of the universal service fund. The *ETC Designation Order* notes that collectively, state decisions regarding ETC status "have national implications that affect the dynamics of competition, the national strategies of new entrants, and the overall size of the federal universal service fund." FCC Chairman Martin recently repeated this concern, noting the rapid growth in the size of the fund due to growing support of CETCs. Chairman Martin's comments are attached as OTA/2.

The continued reliance on the concept that any one designation does not materially burden the fund ignores the collective effects of "just one more" designation.

When does it become the proverbial straw that breaks the camel's back? OTA's advocacy has been and continues to be that there are some areas where the densities are so low and the support per line so high, that it does not make good sense to designate more than one ETC. And, in any event, it is OTA's position that no more than one wireless CETC should be designated for any rural company's service area.

Q. HOW ARE THE ADVANTAGES AND DISADVANTAGES OF THE APPLICANT'S SERVICE OFFERING MEASURED?

A. In reviewing factor (3), the competitor's service offering, the FCC has noted that a disadvantage of a service offering would include dropped calls and poor coverage. Thus, if the applicant's service offering has the disadvantages of dropped calls and poor coverage, these deficiencies discount the value of the applicant's service.

Q. PLEASE SUMMARIZE OTA'S RECOMMENDATION.

A. In order to prevent the burdens on the Universal Service Fund (and ultimately the Oregon consumer through a higher USF contribution factor), OTA supports the Commission's adoption of these standards in making its own public interest determination, and that it thoroughly review any application for whether granting it would be in the "public interest." Not only should the Commission require ETC applicants to meet their burden of proof to show the benefits of increased consumer choice (factor (1) above), and the unique advantages and disadvantages of the competitor's service offering (factor (3) above), it must also pay particular attention to the potential creamskimming effect of granting the application, as well as the impact of the designation on the Universal Service fund (factor (2) above).

Q. WHY SHOULD THE POTENTIAL FOR CREAMSKIMMING BE PART OF THE PUBLIC INTEREST ANALYSIS?

A. The FCC paid particular attention to the issue of creamskimming with respect to applications for ETC status that affect a rural carrier. In Paragraph 49 of the ETC Designation Order, the FCC stated:

> In order to avoid disproportionately burdening the Universal Service fund and ensure that incumbent LECs are not harmed by the effects of creamskimming, the Commission strongly encourages states to examine the potential for creamskimming in wire centers served by rural incumbent LECs. This would include examining the degree of population density disparities among wire centers within rural service areas, the extent to which an ETC applicant would be serving only the most densely concentrated areas within a rural service area, and whether the incumbent LEC has disaggregated its support at a smaller level than the service area (*e.g.*, at the wire center level).

In addition, the FCC found that for rural company service areas, an ETC applicant could not apply to serve less than an entire wire center. The purpose for this limitation is to address creamskimming.

The FCC urged state commissions to use its creamskimming analysis in determining whether to designate an ETC in a rural service area. The FCC took care to note that "the public interest analysis for ETC applications for areas served by <u>rural carriers</u> should be <u>more rigorous</u> than the analysis of applications for areas served by non-rural carriers." This language is found in Paragraph 59 of the Order.

Q. WHY IS IT IMPORTANT TO INCLUDE AN ANALYSIS OF THE POTENTIAL FOR CREAMSKIMMING?

A. The scope of an ETC's service area, and potential creamskimming effect, is very important because Universal Service support is related to the average costs of specific areas, and different areas need different levels of support. Any time a second ETC does not provide service to the entire service area over which an incumbent's costs and rates are averaged, the opportunity exists for the second ETC to creamskim—in other words—to provide service to the lowest cost customers and thereby receive the same level of Universal Service support as it would for serving a high cost customer, but without the attendant higher cost. Consequently, ILEC service areas, and particularly rural ILECs, are vulnerable to cream-skimming of the lower cost customers. The second ETC, however, can serve only the below average cost customers, yet receive the average per line support. Thus, the second ETC, if it engages in cream skimming, receives a windfall at others' expense, and burdens the Universal Service fund and ultimately the Oregon consumer.

In addition, as the FCC has pointed out in Paragraph 50 of its Order, "[e]ven if a carrier seeks to serve both high and low density wire centers, the potential for creamskimming still exists if the vast majority of customers that the carrier is proposing to serve are located in the low-cost, high-density wire centers."

Therefore, the Commission must closely review all ETC applications, and allow affected ILECs the opportunity to comment and participate in any proceeding involving ETC designation.

Q. PLEASE SUMMARIZE OTA'S POSITION ON THIS ISSUE?

A. The Commission must carefully consider whether granting ETC designation to a competitive ETC would serve the public interest. Only the strongest applications—those that meet the burden of showing the benefit of increased customer choice (something beyond mere competition) and that do not involve a service offering with disadvantages (such as poor signal coverage), should be considered. The applicant must likewise meet its burden to show that the granting of its application would not result in creamskimming. If the applicant cannot do so, its request for ETC status is not in the public interest, and should be denied.

Q. SHOULD THE CRITERIA DIFFER BETWEEN DESIGNATIONS IN RURAL AND NON-RURAL ILEC SERVICE AREAS (ISSUE II.B.2)?

A. The criteria can be the same. However, as the FCC emphasized, the examination of the public interest test should be more rigorous when it comes to rural service areas.

Q. SHOULD THE COMMISSION REQUIRE AN ETC TO INCLUDE ENTIRE ILEC WIRE CENTERS IN ITS SERVICE AREA, REGARDLESS OF THE BOUNDARIES OF ITS LICENSED AREA (ISSUE II.B.3)?

A. Yes. The FCC found that for rural companies, the smallest geographic unit that should be considered is the wire center. This is not an artificial limit on wireless carriers. They can, as currently required by the Commission, serve the remainder of the wire center through resale agreements of one type or another.

The Commission should reject a carrier's representation that it seeks ETC designation in only part of a rural ILEC's wire center because it is not licensed to provide service in the areas it seeks to exclude. Such ETC applicants must bear the burden of demonstrating why they cannot obtain a license or service agreement with another wireless carrier to serve a rural, or even non-rural LEC's entire wire center. If the applicant cannot do so, the Commission should require it to expand its facilities to cover the rural ILECs' entire wire center in true furtherance of the goal of Universal Service—

to ensure that consumers in high-cost and rural areas have access to the services supported by Universal Service.

Q. WHETHER AND TO WHAT EXTENT SHOULD THE COMMISSION REQUIRE INCUMBENT LOCAL EXCHANGE CARRIERS TO DISAGGREGATE AND TARGET SUPPORT IN A DIFFERENT MANNER, AS PERMITTED BY 47 C.F.R. §54.315(C)(5) (ISSUE II.B.4)?

A. OTA notes that this issue was included in the Issues List over some objection. After giving the matter careful thought, OTA's position is that this issue exceeds the scope of this docket. The question of whether disaggregation should or should not occur is not a question for the ETC designation process.

In addition, what the FCC found is that disaggregation was an inadequate tool to address concerns about creamskimming. Specifically, the FCC pointed out "Although disaggregation may alleviate some concerns regarding creamskimming by ETCs, because an incumbent's service area may include wire centers with widely disparate population densities, and therefore highly disparate cost characteristics, disaggregation may be a less viable alternative for reducing creamskimming opportunities…." This is the *ETC Designation Order* at ¶51.

As a less than adequate remedy for creamskimming, disaggregation should be considered only where it can be shown that the benefits outweigh the costs. Working through a disaggregation model can be a relatively expensive situation. Clearly, this is an issue for another docket.

Q. SHOULD THE COMMISSION ADOPT AN UPPER LIMIT ON THE NUMBER OF ETCS THAT CAN BE DESIGNATED IN A GIVEN AREA (ISSUE II.B.5)?

A. The Commission should give careful consideration to this concept. The FCC indicated in its *ETC Designation Order* that consideration of the level of support in an area may well mean that there should be a limit on the number of ETCs, including limiting the number of ETCs to a single ETC. Specifically, the FCC stated "Thus, one relevant factor in considering whether or not it is in the public interest to have additional ETCs designated in any area may be the level of per-line support provided to the area. If the per-line support level is high enough, the state may be justified in limiting the number of ETCs in that study area, because funding multiple ETCs in such areas could impose strains on the universal service fund." ETC Designation Order at ¶55.

There have been a number of proposals discussed at the federal level on limiting the number of ETCs. For example, Billy Jack Gregg, who is a Joint Board member and a member of the National Association of State Utility Consumer Advocates has recommended a limitation. His limitation was that if support per line exceeds $30.00 per month in an area, then only the incumbent should be designated as the ETC. If the support was greater than $20.00 and less than $30.00, then one additional ETC should be designated.

If one of the purposes of designating wireless ETCs is to be sure that the wireless technology is available in rural areas at comparable rates to that available in urban areas, does it make any sense to designate, for example, five wireless ETCs in a service area and one wireline incumbent ETC? Can the customers of the nation afford to support five wireless networks in a particular area?

In addition, the designation of perhaps just the incumbent or the incumbent and one wireless ETC in an area is supported by the language in Section 214(e), itself. Since this is primarily a legal issue, I will not comment any further other than to point out that the standard says that the Commission <u>may</u> appoint more than one common carrier as an ETC for a service area served by a rural telephone company. There is no requirement to designate even the second ETC, let alone a third, fourth or fifth.

IV. <u>ANNUAL CERTIFICATION OF ETCS</u>

Q. SHOULD THE COMMISSION ADOPT ANY, OR ALL, OF THE FCC REPORTING REQUIREMENTS PROPOSED IN ORDER 05-46 (ISSUE III.A.1)?

A. The FCC adopted new standards for existing ETCs as part of their annual certifications for continued receipt of Universal Service support. The FCC's new annual certification rules require that an FCC-designated ETC file the following with the FCC:

> (1) progress reports on the ETC's five-year service quality improvement plan, including maps detailing progress towards meeting its plan targets, an explanation of how much Universal Service support was received and how the support was used to improve signal quality, coverage, or capacity; and an explanation regarding any network improvement targets that have not been fulfilled. The information should be submitted at the wire center level;
>
> (2) detailed information on any outage lasting at least 30 minutes, for any service area in which an ETC is designated for any facilities it owns, operates, leases, or otherwise utilizes that potentially affect at least ten percent of the end users served in a designated service area, or that potentially affect a 911 special facility;
>
> (3) the number of requests for service from potential customers within its service areas that were unfulfilled for the past year, including how the ETC attempted to provide service to those potential customers;
>
> (4) the number of complaints per 1,000 handsets or lines;
>
> (5) certification that the ETC is complying with applicable service quality standards and consumer protection rules;

(6) certification that the ETC is able to function in emergency situations;

(7) certification that the ETC is offering a local usage plan comparable to that offered by the incumbent LEC in the relevant service areas; and

(8) certification that the carrier acknowledges that the Commission may require it to provide equal access to long distance carriers in the event that no other eligible telecommunications carrier is providing equal access within the service area.

As discussed below, the Commission should apply these requirements to competitive ETCs. However, for some of these requirements there are already "equivalent" levels of accountability in place and they are not needed for the incumbent.

Q. WHY DOES OTA RECOMMEND ADOPTING SOME OF THESE REQUIREMENTS FOR COMPETITIVE ETCS, BUT NOT FOR INCUMBENT ETCS?

A. Perhaps an analogy will be helpful in understanding the differences in accountability and why some requirements are appropriate for incumbent ETCs and other requirements are appropriate for competitive ETCs. Assume that there are two employees that work for a company. Both employees are charged with ensuring quality control in the company's Oregon marketplace. The first of these employees (Employee I) goes out, does the inspections and pays for any needed repairs to the company's products out of his or her own pocket. The employee then comes back to the office and submits a written request for reimbursement providing documentation for the miles traveled, the invoices for the out-of-pocket expenditures and other invoices as necessary to support the request for reimbursement. On the other hand, the second employee (Employee C) does not want to make the service trip without first receiving an advance for the expenses

Employee C expects to be incurred on that trip. The company cannot be expected to hand Employee C a blank check. Employee C should be expected to provide a reasonably supported estimate of the miles to be traveled and expected expenditures needed to repair the company's products.

This analogy explains what happens with the process under which incumbent ETCs receive support. The support is reimbursement for past expenditures, just as Employee I receives reimbursement for the past expenditures the employee made. This then is compared to what is required of Employee C, the competitive ETCs, who are asking for the money before the expenditure is made. An explanation is needed as to how the funds will be used before the travel advance is made. It would not make sense to require Employee I to provide a justification for future expenditures when Employee I is reimbursed <u>after</u> those expenditures are made, not provided funds in advance.

Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSE OF FILING PROGRESS REPORTS AS SET FORTH BY THE FCC?

A. A progress report shows how the high-cost funds have been expended. Requiring progress reports on the ETC's five-year service quality improvement plan would serve no purpose for ILECs. ILECs receive support based on their past expenditures, i.e., their investment in facilities and expenses made that they already used to provide service. ILECs generally receive their high-cost support on a two-year lag basis, which is based on annual cost studies filed with the National Exchange Carriers Association (NECA), which are subject to audit. These NECA cost studies include investment and expenditure information, and are used to determine the amount of loop support ILECs receive.

Competitive ETCs, on the other hand, receive Universal Service support independent of their past investment in a rural service area. The level of Universal Service support they receive is based on the ILEC's costs, not their own costs. Therefore, given that competitive ETCs, particularly wireless ETCs, receive Universal Service support that is not based on their costs, logically, it is appropriate to require competitive ETCs to explain how they are using their support.

Q. IS THERE ANY OTHER REASON TO DISTINGUISH BETWEEN INCUMBENTS AND COMPETITIVE ETCS?

A. The emphasis of the *ETC Designation Order* appears to be on wireless ETCs, which are the most numerous type of competitive ETCs. For example, in discussing the 5-year plan that must accompany ETC applications filed with the FCC, the FCC stated at Paragraph 22:

> [T]he ETC applicant should provide service within a reasonable period of time if service can be provided at reasonable cost by: (1) modifying or replacing the existing customer's equipment [NB: different wireless CPE have different reception capabilities]; (2) deploying a <u>roof-mounted antennae</u> or other equipment; (3) adjusting the nearest <u>cell tower</u>; (4) adjusting network or customer facilities; (5) reselling services from another carrier's facilities to provide service; or (6) employing, leasing, or constructing an additional <u>cell site, cell extender, repeater, or other similar equipment</u>.

These requirements appear to be directed mainly at wireless carriers, rather than wireline carriers. At Paragraph 23, the FCC also discussed the five-year building plan requirements in terms of how "signal quality, coverage, or capacity will improve due to receipt of high-cost support for the areas for which the ETC seeks designation." This statement also appears to be aimed at wireless carriers. It is logical that the focus was on wireless carriers, given that most of the ETC applications the FCC receives are from wireless carriers.

Q. HOW DOES THE FCC'S LANGUAGE RELATED TO REVIEW OF APPLICATIONS APPLY TO RECERTIFICATION REVIEWS?

A. In light of the fact that ILECs' Universal Service support is largely based on past expenditures and is supported by cost analysis, whereas a competitive ETC's support is not, it is appropriate for this Commission to not only scrutinize a competitive ETC's network improvement plans, but also to review how they are progressing on their plans. Therefore, the requirement that an ETC file progress reports on its five-year service quality improvement plan is properly directed to competitive ETCs, particularly to wireless ETCs. The Commission must have information on how the competitive ETC is progressing on its network improvement plan, and if the carrier is not making satisfactory progress, the Commission may revoke the ETC designation.

This approach provides the needed equivalency of accountability between incumbent ETCs and CETCs. If the ETC process evolves to a point where CETCs are receiving support based on their own costs for past investment and those costs are supported by appropriate cost support subject to outside audit, then the requirement for a progress report on a five year plan would no longer be needed. At that point, CETCs and incumbent ETCs would be on the same basis. The progress report on the five year plan provides, for the interim, an equivalency basis for accountability similar to what the incumbent ETCs provide.

Q. SHOULD THE COMMISSION ADOPT OTHER REPORTING REQUIREMENTS (ISSUE III.A.2)?

A. Not directly. The Commission has available to it for incumbent ETCs a number of reports. Form O and Form I are primary examples. In addition, there is the annual access filing that the Commission reviews. If the Commission believes that further information is needed from incumbent ILECs, then OTA recommends that it require the companies to submit their NECA -1 report for the appropriate year. For example, the NECA 2005-1 is filed on or before July 31, 2005. This lists expenditures by account. A sample form is attached as OTA/3. An alternative would be the development of a summary sheet. An example of such a summary sheet is attached as OTA/4.

Q. SHOULD THE SAME REPORTING REQUIREMENTS APPLY TO ALL TYPES OF ETCS – ILEC ETCS AND COMPETITIVE ETCS (ISSUE III.A.3)?

A. No. As I have stated earlier, the way in which ILECs receive high-cost support is markedly different from the way in which CETCs receive high-cost support. The ILEC must have made the investment and incurred the expense. This is generally on a two year lag basis. The customers have been receiving benefit of those expenditures for those two years. On the other hand, competitive ETCs receive support based upon the incumbent's costs on a forward-looking basis. That is, the support does not have to be based upon past investment, but is received to be used on a forward-looking basis. This suggests that there should be two separate types of reporting requirements to address the differences in accountability.

I do want to be clear that it is OTA's recommendation that two of the certification statements recommended by the FCC should apply to both ILEC and CLEC ETCs. These are items (5) and (6) listed in my testimony on Pages Wolf/25 and 26.

Q. SHOULD THE SAME REPORTING REQUIREMENTS APPLY REGARDLESS OF TYPE OF SUPPORT RECEIVED BY THE ETC (ISSUE III.A.4)?

A. No. If a carrier is receiving only Lifeline/Link Up/OTAP support, then the report should look much different. It does not make sense that there would be a five year plan for investment if support is limited to low-income types of support.

In addition, the Commission needs to recognize that the certification process it undertakes at the state level does not relate to Interstate Common Line Support. There is a different certification process set out in the FCC rules for this type of support, which is essentially an access replacement mechanism. That certification is made directly at the federal level and is not made first to the state.

Q. DOES THAT CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes.

Remarks of FCC Chairman Kevin J. Martin
TELECOM 05 Conference
United States Telecom Association
Las Vegas, NV
October 26, 2005

Delivered via Satellite from Washington, DC

(As Prepared for Delivery)

Thank you very much, Walter. First, let me apologize for not being able to join you in person in Las Vegas. I do, however, appreciate the opportunity to participate virtually - and perhaps this is an even more appropriate way to appear before a conference that is "exploring the full potential of the integrated communications industry."

Let me start out by saying a few words about the industry's response to the recent hurricane, as you all just saw in a video. Restoration of communications after hurricane Katrina was as challenging a communication mission as we have ever confronted. We commend the rapid response we have witnessed from all segments of the communications industry. And, our deepest gratitude goes out to the thousands of communications company employees who, at great sacrifice, worked nonstop to repair the communications infrastructure that is relied upon by the entire country.

As you have no doubt been discussing the past couple of days, the communications marketplace is becoming increasingly competitive. We are seeing different technologies compete against each other to an unprecedented degree. Telephone companies and cable companies have been competing for broadband customers for several years.

But we are also seeing cable companies providing voice service, telephone companies beginning to provide video services, and wireless companies providing Internet access services. In fact, just yesterday I read that a consortium of cable operators are close to an agreement with a wireless provider to add cellular services to their bundle of consumer offerings. It seems that nearly every day customers are being offered new innovative services from their wireless, telephone, cable, and Internet providers.

What is the key to ensuring a bright future for these integrated service offerings? From a regulatory perspective, I believe that it is technological and competitive neutrality. As I have said on several occasions, all providers of the same service must be treated in a similar manner regardless of the technology that they employ.

Let me provide some concrete examples of what I am talking about. In the Triennial Review proceeding, the Commission voted to ensure that incumbent LECs that deploy new fiber infrastructure are treated in the same manner as cable companies and competitive carriers that deploy new network facilities.

More recently, in August, the Commission adopted an order ending the regulatory disparities between DSL and cable modem services. By these actions the Commission leveled the competitive playing field between different types of providers. We thereby encouraged all providers to invest in their networks to make them capable of delivering new 21st Century services. And, we did so in a way that recognized the unique challenges faced in rural areas.

There is still, however, work that needs to be done. For example, many of you have been trying to roll out video services to your customers. And, we are beginning to hear complaints from incumbent LECs that some local authorities may be making the process of getting franchises unreasonably difficult.

I believe that new video entrants, regardless of the technology employed, should be encouraged -- not impeded from entry. Indeed, in passing the 1992 Cable Act, Congress recognized that competition between multiple cable systems would be beneficial. So Congress specifically encouraged local franchising authorities to award competitive franchises. Thus, Congress recognized that it is important to have multiple competitors in the video market.

Now, Congress also recognized that local franchising authorities have played, and would continue to play, an important role in the cable franchising process. But Congress restricted their authority in this area in order to promote cable competition. Specifically, Section 621 of the statute prohibits local authorities from granting exclusive franchises and from unreasonably refusing to award a second franchise.

So what should the Commission do? I recently presented my colleagues with a Notice of Proposed Rulemaking that asks how the local franchising process is working and what actions, if any, the Commission should take to fulfill Congress's directive that franchising authorities not grant exclusive franchises or unreasonably refuse to award additional competitive franchises.

I plan on the Commission considering this item at our November meeting which is just a few days away.

I believe that it is the Commission's responsibility to help ensure technological and competitive neutrality in communications markets. And, I believe that we should always be looking to remove unreasonable roadblocks to competition.

So far, I have been discussing the importance of doing everything we can to foster innovation and infrastructure investment. But Congress has also instructed the Commission to make sure that rural America does not get left behind by this technological revolution.

Specifically, the Commission is charged under the Communications Act with ensuring that rural areas have access to "reasonably comparable" services as those in urban areas and at "reasonably comparable" rates. To do this, the Commission must establish a "specific, predictable, and sufficient" mechanism to preserve and advance universal service.

I believe the Commission needs to revise the way in which it collects universal service monies. The current interstate revenue-based method is outdated. It simply does not reflect the competitive and dynamic communications market that exists today.

For example, it doesn't account for the increase in bundled service offerings, the increasing migration to wireless and VoIP services or the shrinking long distance market. Whatever we do to ensure the sufficiency and sustainability of the universal fund, it is critical that people who live in rural and high cost areas continue to receive service at affordable rates.

How can we accomplish this? As I have said on numerous occasions, the means of assessing universal service contributions must change. For some time now, I have advocated a mechanism based on telephone numbers. This methodology has many advantages - it is easy to administer, it would be readily understandable by consumers, and it promotes telephone number conservation.

Equally important, this method would be competitively and technology neutral. Any phone service that uses a telephone number would be required to contribute to universal service.

Critics of this approach argue that a telephone number-based approach would disproportionately increase the costs of telecommunications services to low volume users. Some argue instead for a hybrid approach that retains a revenue-based collection system in certain circumstances but uses a numbers-based collection approach in others.

Other ideas have been to raise the wireless safe harbor percentage to reflect the fact that wireless phones are increasingly being used for long distance calling. Still others have advocated expanding the contribution base by assessing additional providers, such as VoIP and IP-enabled service providers.

These questions have been debated by various segments of the industry for a long time now and I haven't heard of any recent breakthroughs. I am not sure, at this point, that there will ever be consensus.

Although I am open to other approaches that would serve to increase the contributions into the fund, we cannot wait much longer before taking action. The industry needs certainty and the fund needs fixing. I look forward to working with my colleagues to figure out a solution in the near future.

Though I cannot promise you a perfect fix, I will do my best to ensure that whatever solution is adopted, it will be technology neutral. That is, whatever rules the Commission ultimately adopts, these rules must impact all technologies – both new and old – equally. Regulation must not have the effect, unintended or otherwise, of favoring the adoption of certain technologies over others. In addition, it is also imperative that the solution be faithful to Congress's directive to "preserve and advance" universal service.

I have spent some time talking about the problems facing the contribution side of the universal service fund. I should also point out that the manner in which the funds are distributed is also facing increasing challenges.

The current fund totals nearly $7 billion dollars and a lot the fund's growth in recent years is attributable to new competitive eligible telecommunications carriers (or CETCs), particularly wireless CETCs, that have begun to receive funding.

The number of CETCs is increasing dramatically and is one of the primary drivers of fund growth. Since 2000, CETC high cost payments have grown from about $1.5 million annually to about $333 million annually.

Over the past few years, I have repeatedly expressed my concerns with the Commission's policies of using universal service support as a means of creating competition in high cost areas.

I do not believe it is viable in the long term to continue subsidizing multiple competitors to serve areas in which costs are prohibitively expensive for even one carrier. I have also expressed concern about how CETC support is calculated. For example, even if their costs are lower, they receive support based on your higher costs.

I have also expressed my concerns with the fact that CETCs are not required to meet all of the same obligations as the incumbents. For example, I believe that CETCs seeking universal service support should have the same "carrier of last resort" obligations as incumbent providers for the same geographic area. Placing this same obligation on all ETCs would be fully consistent with a policy of competitive and technological neutrality among all service providers.

I note that some of these issues, such as how support for CETCs is calculated, are currently before the Commission as well as before the federal-state Joint Board on Universal Service. I hope that we will be able to address these issues soon.

There are still a lot of other challenges facing the Commission – for example, I haven't even mentioned intercarrier compensation. Though sorting through these very complex issues makes my job challenging, I can't say that there are any easy answers.

I look forward to continue hearing from the membership of the U.S. Telecom Association as the Commission tackles these thorny issues and I welcome your input.

Thank you for inviting me to participate today.

- FCC -

NATIONAL EXCHANGE CARRIER ASSOCIATION
UNIVERSAL SERVICE FUND
2005 DATA COLLECTION FORM

STUDY AREA:
CONTACT:
PHONE:

Name:
REGION:
COLLECTION PERIOD:

	Description	Latest View 2004-1 Amount	Pending View 2005-1 Amount
II.	**WORKING LOOPS**		
	060 Total Loops (Cat 1.1, 1.2 and 1.3)	____________	____________
	070 Category 1.3 loops (excluding Cat 1.3 TWX Loops)	____________	____________
III.	**INVESTMENT, EXPENSE AND TAXES**		
	NET PLANT INVESTMENT		
	160 Acct 2001 – Telephone Plant in Service	____________	____________
	170 Acct 1220 – Material and Supplies	____________	____________
	190 Acct 3100 – Accumulated Depreciation	____________	____________
	195 Acct 3400 – Accumulated Amortization - Tangible	____________	____________
	210 Acct 4340 – Net Noncurrent Deferred Operating Income Taxes	____________	____________
	220 Net Plant Investment	____________	____________
	SELECTED PLANT ACCOUNTS		
	230 Acct 2210 – Central Office Switching Equipment	____________	____________
	235 Acct 2220 – Operator System Equipment	____________	____________
	240 Acct 2230 – Central Office Transmission Equipment	____________	____________
	245 Total Central Office Equipment	____________	____________
	250 Circuit Equipment - Category 4.13	____________	____________

STUDY AREA:
CONTACT:
PHONE:

Name:
REGION:
COLLECTION PERIOD:

	Description	Latest View 2004-1 Amount	Pending View 2005-1 Amount
255	Acct 2410 – Cable and Wire Facilities - Total	______	______
260	Acct 3100 (2210) – Accumulated Depreciation - Central Office Switching Equipment	______	______
265	Acct 3100 (2220) – Accumulated Depreciation - Operator System Equipment	______	______
270	Acct 3100 (2230) – Accumulated Depreciation - Central Office Transmission Equipment	______	______
275	Acct 3100 (2210 thru 2230) – Total Accumulated Depreciation - Central Office Equipment	______	______
280	Acct 3100 (2410) – Accumulated Depreciation - Cable and Wire Facilities	______	______
310	Acct 4340 (2210) – Net Noncurrent Deferred Operating Income Taxes – Central Office Switching Equipment	______	______
315	Acct 4340 (2220) – Net Noncurrent Deferred Operating Income taxes – Operator System Equipment	______	______
320	Acct 4340 (2230) – Net Noncurrent Deferred Operating Income Taxes – Central Office Transmission Equipment	______	______
325	Acct 4340 (2210 thru 2230) – Net Noncurrent Deferred Operating Income Taxes – Central Office Equipment (Sum of 4340 (2210) through (2230))	______	______
330	Acct 4340 (2410) – Net Noncurrent Deferred Operating Income Taxes – Cable and Wire Facilities	______	______

NATIONAL EXCHANGE CARRIER ASSOCIATION
UNIVERSAL SERVICE FUND
2005 DATA COLLECTION FORM

OTA/3
Wolf/3

STUDY AREA:
CONTACT:
PHONE:

Name:
REGION:
COLLECTION PERIOD:

	Description	Latest View 2004-1 Amount	Pending View 2005-1 Amount
	PLANT SPECIFIC OPERATION EXPENSE		
335	Acct 6110 – Network Support Expense Total	______	______
340	Acct 6110 – Benefits Portion of Network Support Expense	______	______
345	Acct 6110 – Rents Portion of Network Support Expense	______	______
350	Acct 6120 – General Support Expense Total	______	______
355	Acct 6120 – Benefits Portion of General support Expense	______	______
360	Acct 6120 – Rents Portion of General support Expense	______	______
365	Acct 6210 – Central Office Switching Expense –Total	______	______
370	Acct 6210 – Benefits Portion of Central Office Switching Expense	______	______
375	Acct 6210 – Rents Portion of Central Office Switching Expense	______	______
380	Acct 6220 – Operator System Expense – Total	______	______
385	Acct 6220 – Benefits Portion of Operator System Expense	______	______
390	Acct 6220 – Rents Portion of Operator System Expense	______	______
395	Acct 6230 – Central Office Transmission Expense – Total	______	______
400	Acct 6230 – Benefits Portion of Central Office Transmission Expense	______	______
405	Acct 6230 – Rents Portion of Central Office Transmission Expense	______	______

STUDY AREA:
CONTACT:
PHONE:

Name:
REGION:
COLLECTION PERIOD:

	Description	Latest View 2004-1 Amount	Pending View 2005-1 Amount
410	Acct 6210 – 6230 – Central Office Expense - Total	__________	__________
430	Acct 6410 – Cable and Wire Facilities Expense – Total	__________	__________
435	Acct 6410 – Benefits Portion of Cable and Wire Facilities Expense	__________	__________
440	Acct 6410 – Rents Portion of Cable and Wire Facilities Expense	__________	__________
445	Total Plant Specific Expense	__________	__________
	PLANT NON-SPECIFIC EXPENSE		
450	Acct 6530 – Network Operations Expense – Total	__________	__________
455	Acct 6530 – Benefits Portion of Network Operations Expense	__________	__________
	DEPRECIATION & AMORTIZATION EXPENSE		
510	Acct 6560 (2210) – Depreciation and Amortization Expense – Central Office Switching Equipment	__________	__________
515	Acct 6560 (2220) – Depreciation and Amortization Expense – Operator System Equipment	__________	__________
520	Acct 6560 (2230) – Depreciation and Amortization Expense – Central Office Transmission Equipment	__________	__________
525	Acct 6560 (2210 thru 2230) – Depreciation and Amortization Central Office Equipment	__________	__________
530	Acct 6560 (2410) – Depreciation and Amortization Expense – Cable and Wire Facilities	__________	__________

NATIONAL EXCHANGE CARRIER ASSOCIATION
UNIVERSAL SERVICE FUND
2005 DATA COLLECTION FORM

STUDY AREA:
CONTACT:
PHONE:

Name:
REGION:
COLLECTION PERIOD:

	Description	Latest View 2004-1 Amount	Pending View 2005-1 Amount
	CORPORATE OPERATIONS EXPENSE		
535	Acct 6710 – Executive and Planning Expense – Total	______	______
540	Acct 6710 – Benefits Portion of Executive and Planning Expense	______	______
550	Acct 6720 – General Administrative Expense – Total	______	______
555	Acct 6720 – Benefits Portion of General Administrative Expense	______	______
565	Total Corporate Operations Expense	______	______
	OTHER EXPENSE		
600	Benefits Portion of All Operating Expenses – Total	______	______
610	Rents Portion of Plant Specific Operating Expenses – Total	______	______
	TAXES		
650	Acct 7200 – Operating taxes	______	______
IV.	**PART 36 – COST STUDY DATA**		
700	Cost Study Average Cable And Wire Facilities - Acct 2410	______	______
710	Cost Study Average Cable and Wire Facilities Cat 1 – Total Exchange Line C&WF Excluding Wideband	______	______
V.	**AMORTIZABLE TANGIBLE ASSETS** (REFER TO INSTRUCTIONS PRIOR TO COMPLETING THIS SECTION)		
800	Acct 2680 –Amortizable Tangible Assets	______	______

NATIONAL EXCHANGE CARRIER ASSOCIATION
UNIVERSAL SERVICE FUND
2005 DATA COLLECTION FORM

OTA/3
Wolf/6

STUDY AREA:
CONTACT:
PHONE:

Name:
REGION:
COLLECTION PERIOD:

	Description	Latest View 2004-1 Amount	Pending View 2005-1 Amount
805	2680 (2230) – Amortizable Tangible Assets – Central Office Transmission Equipment	________	________
810	Acct 2680 (2230) – Amortizable Tangible Assets – Central Office Transmission Equipment Assigned To Category 4.13	________	________
815	Acct 2680 (2410) – Amortizable Tangible Assets – Cable and Wire Facilities	________	________
820	Acct 2680 (2410) – Amortizable Tangible Assets – Cable and Wire Facilities Assigned to Category 1	________	________
830	Acct 6560 (2680) – Depreciation and Amortization Expense – Amortizable Tangible Assets	________	________

VI. COMMENTS/SIGNIFICANT CHANGE EXPLANATIONS:

OTA/3
Wolf/7

VII. CERTIFICATION FORM

I AM ______________________________. I HEREBY CERTIFY THAT I HAVE OVERALL
(TITLE OF CERTIFYING OFFICER OR EMPLOYEE)

RESPONSIBILITY FOR THE PREPARATION OF ALL DATA IN THE ATTACHED

2005-1 DATA SUBMISSION FOR ______________________________
(TITLE OF DATA SUBMISSION) (NAME OF CARRIER)

AND THAT I AM AUTHORIZED TO EXECUTE THIS CERTIFICATION. BASED ON INFORMATION KNOWN TO ME OR PROVIDED TO ME BY EMPLOYEES RESPONSIBLE FOR THE PREPARATION OF THE DATA IN THIS SUBMISSION, I HEREBY CERTIFY THAT THE DATA HAVE BEEN EXAMINED AND REVIEWED AND ARE COMPLETE, ACCURATE, AND CONSISTENT WITH THE RULES OF THE FEDERAL COMMUNICATIONS COMMISSION.

DATE: ______________________________

CERTIFYING SIGNATURE: ______________________________

NAME: ______________________________

TITLE: ______________________________

PERIOD COVERED: January 1, 2004 to December 31, 2004

VII.A. RURAL STATUS: The rural status of this company during calendar year 2006 will be: (Check One)

__________ RURAL __________ NON-RURAL

VII.B. ACQUISITION CERTIFICATION (Check One)

	MY COMPANY HAS NOT ACQUIRED AN EXCHANGE DURING THE PERIOD COVERED.
	MY COMPANY HAS ACQUIRED THE FOLLOWING EXCHANGE(S) DURING THE PERIOD COVERED

Exchange Name	Selling Company	No. Of Loops

PURSUANT TO FCC RULES, SECTION 69.601(C), EXCHANGE CARRIERS ARE REQUIRED TO CERTIFY UNIVERSAL SERVICE FUND DATA SUBMITTED TO NECA.

(FCC RULES STATE THAT PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS DATA SUBMISSION CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S CODE, TITLE 18 SECTION 1001).

OTA/3
Wolf/8

VII.C. CERTIFICATION FOR MULTIPLE STUDY AREAS

STUDY AREA CODE	STUDY AREA NAME	RURAL STATUS	TITLE OF CERTIFYING OFFICER OR EMPLOYEE

FINAL DATA

DATA NECA PROVIDED TO USAC ON 9/30/2005

FOR 2006 LOCAL SWITCHING SUPPORT PROJECTION

Study Area Code ______________________

Study Area Name ______________________

Tax Status (Y = Taxable, N = NonTaxable)	Y
WORKING LOOPS & DIAL EQUIPMENT MINUTE FACTOR	2006 Data
Category 1.3 Loops: Enter the count of Category 1.3 Loops excluding Category 1.3 TWX (Teletypewriter Exchange service) loops.	
1996 Interstate Unweighted Dial Equipment Minute (DEM) Factor used in 1996 Cost Study (n.nnnnnn)	
1996 DEM Weighting Factor (n.n)	

	2006 Total Account	2006 Local Switching PROVIDED FOR INFORMATION PURPOSES ONLY. TO BE CALCULATED BY USAC
INVESTMENT, PLANT OPERATIONS EXPENSE AND TAXES		
Account 2001 - Telecommunication Plant in Service		
Account 2210 - Central Office Switching Equipment		
Account 2210 Cat. 3 - COE Category 3 (local switching)		
Account 2220 - Operator System Equipment		
Account 2230 - Central Office Transmission Equipment		
Total Central Office Equipment		
Account 2310 - Information Origination/Termination		
Account 2410 - Cable and Wire Facilities		
Account 2110 - General Support Facilities		
Account 2680 - Amortizable Tangible Assets		
Account 2690 - Intangibles		
Account 2002 - Property Held for Future Telecommunications Use		
Account 2003 - Telecommunications Plant Under Construction		
Account 2005 - Telecommunications Plant Adjustment		
Account 1402 - Investments in non-Affiliated Companies (Rural Telephone Bank Stock)		
Account 1220 - Materials and Supplies		
Cash Working Capital		
Account 3100 - Accumulated Depreciation-Switching		
Account 3100 - Accumulated Depreciation-Support Assets		
Account 4100 - Net Deferred Operating Income Taxes		
Account 4340 - Net Noncurrent Operating Income Taxes		
Account 3400 - Accumulated Amortization - Tangible		
Account 3500 - Accumulated Amortization - Intangible		
Account 3600 - Accumulated Amortization - Other		
Account 6110 - Network Support Expense		

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FINAL DATA

DATA NECA PROVIDED TO USAC ON 9/30/2005

FOR 2006 LOCAL SWITCHING SUPPORT PROJECTION

	2006 Total Account	2006 Local Switching PROVIDED FOR INFORMATION PURPOSES ONLY. TO BE CALCULATED BY USAC
Study Area Code	522446	
Account 6120 - General Support Expense		[redacted]
Account 6210 - Central Office Switching Expense		[redacted]
Account 6220 - Operator Systems Expense		[redacted]
Account 6230 - Central Office Transmission Expense		[redacted]
Account 6310 - Information Origination/Termination Expense		[redacted]
Account 6410 - Cable and Wire Facilities Expense		[redacted]
Account 6510 - Other Property Plant and Equipment Expense		[redacted]
Account 6530 - Network Operations Expense		[redacted]
Account 6540 - Access Expense		[redacted]
Account 6610 - Customer Services Marketing Expense		[redacted]
Account 6620 - Customer Operations Services Expense		[redacted]
Account 6710 - Executive and Planning Expense		[redacted]
Account 6720 - Corporate Operations Expense		[redacted]
Account 7230 - Operating State and Local Income Taxes		[redacted]
Account 7240 - Operating Other Taxes		[redacted]
Account 7210 - Operating Investment Tax Credits - net		[redacted]
Account 7250 - Provision for Deferred Operating Income Taxes -net		[redacted]
Account 6560 - Depreciation and Amortization Expense-Switching		[redacted]
Account 6560 - Depreciation and Amortization Expense-Support		[redacted]
Account 7370 - Charitable Contributions only		[redacted]
Account 7500 - Interest and Related Items		[redacted]
Account 7340 - Allowance for Funds Used During Construction		[redacted]
Account 1410 - Other Non-current Assets		[redacted]
Account 1500 - Other Jurisdictional Assets - net		[redacted]
Account 4370 - Other Jurisdictional Liabilities and Deferred Credits - net		[redacted]
Account 4040 - Customer Deposits		[redacted]
Account 4310 - Other Long-Term Liabilities		[redacted]
Account 1438 - Deferred Maintenance and Retirements		

A Factor	((COE Category 3)/(COE+CWF+IOT))	[redacted]
B Factor	(COE Category 3/Total Plant In Service)	[redacted]
C Factor	(COE Category 3/Total COE)	[redacted]
D Factor	(COE 3 Expense/Big 3 Expense)	[redacted]
E Factor	(COE 3/COE Switching)	[redacted]

10/11/2005

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FINAL DATA

DATA NECA PROVIDED TO USAC ON 9/30/2005

FOR 2006 LOCAL SWITCHING SUPPORT PROJECTION

		2006 Total Account	2006 Local Switching PROVIDED FOR INFORMATION PURPOSES ONLY. TO BE CALCULATED BY USAC
Study Area Code			
	Current Period Net Investment		[illegible]
	Prior Period Net Investment		[illegible]
	Average Net Investment		[illegible]
	Return on Investment		[illegible]
	Federal Taxable Income		[illegible]
	Federal Income Tax Requirement		[illegible]
	Expenses and Other Taxes		[illegible]
	Local Switching Revenue Requirement		[illegible]
	Local Switching Support		[illegible]

Notes:

Projection data based upon data supplied for 2005 Annual Tariff Filing.

FOR EC REVIEW

OTA/3
Wolf/12

DATA NECA INTENDS TO PROVIDE TO USAC

FOR 2003 LOCAL SWITCHING SUPPORT TRUE-UP

Study Area Code

Study Area Name

	2003 Data	2002 Data
Tax Status (Y = Taxable, N = NonTaxable)	Y	Y
WORKING LOOPS & DIAL EQUIPMENT MINUTE FACTOR		
Category 1.3 Loops: Enter the count of Category 1.3 Loops excluding Category 1.3 TWX (Teletypewriter Exchange service) loops.		
1996 Interstate Unweighted Dial Equipment Minute (DEM) Factor used in 1996 Cost Study (n.nnnnnn)		
1996 DEM Weighting Factor (n.n)		

	2003 Total Account Original	2003 Total Account Revised	2003 Local Switching PROVIDED FOR INFORMATION PURPOSES ONLY. TO BE CALCULATED BY USAC	INFORMATION PURPOSES ONLY: 2002 Total Account	INFORMATION PURPOSES ONLY: 2002 Local Switching
INVESTMENT, PLANT OPERATIONS EXPENSE AND TAXES					
Account 2001 - Telecommunication Plant in Service					
Account 2210 - Central Office Switching Equipment					
Account 2210 Cat. 3 - COE Category 3 (local switching)					
Account 2220 - Operator System Equipment					
Account 2230 - Central Office Transmission Equipment					
Total Central Office Equipment					
Account 2310 - Information Origination/Termination					
Account 2410 - Cable and Wire Facilities					
Account 2110 - General Support Facilities					
Account 2680 - Amortizable Tangible Assets					
Account 2690 - Intangibles					
Account 2002 - Property Held for Future Telecommunications Use					
Account 2003 - Telecommunications Plant Under Construction					
Account 2005 - Telecommunications Plant Adjustment					
Account 1402 - Investments in non-Affiliated Companies (Rural Telephone Bank Stock)					
Account 1220 - Materials and Supplies					
Cash Working Capital					
Account 3100 - Accumulated Depreciation-Switching					
Account 3100 - Accumulated Depreciation-Support Assets					
Account 4100 - Net Deferred Operating Income Taxes					
Account 4340 - Net Noncurrent Operating Income Taxes					
Account 3400 - Accumulated Amortization - Tangible					
Account 3500 - Accumulated Amortization - Intangible					
Account 3600 - Accumulated Amortization - Other					

12/16/2004

FOR EC REVIEW

DATA NECA INTENDS TO PROVIDE TO USAC

FOR 2003 LOCAL SWITCHING SUPPORT TRUE-UP

	2003 Total Account Original	2003 Total Account Revised	2003 Local Switching PROVIDED FOR INFORMATION PURPOSES ONLY. TO BE CALCULATED BY USAC	INFORMATION PURPOSES ONLY 2002 Total Account	2002 Local Switching
Account 6110 - Network Support Expense					
Study Area Code					
Account 6120 - General Support Expense					
Account 6210 - Central Office Switching Expense					
Account 6220 - Operator Systems Expense					
Account 6230 - Central Office Transmission Expense					
Account 6310 - Information Origination/Termination Expense					
Account 6410 - Cable and Wire Facilities Expense					
Account 6510 - Other Property Plant and Equipment Expense					
Account 6530 - Network Operations Expense					
Account 6540 - Access Expense					
Account 6610 - Customer Services Marketing Expense					
Account 6620 - Customer Operations Services Expense					
Account 6710 - Executive and Planning Expense					
Account 6720 - Corporate Operations Expense					
Account 7230 - Operating State and Local Income Taxes					
Account 7240 - Operating Other Taxes					
Account 7210 - Operating Investment Tax Credits - net					
Account 7250 - Provision for Deferred Operating Income Taxes -net					
Account 6560 - Depreciation and Amortization Expense-Switching					
Account 6560 - Depreciation and Amortization Expense-Support					
Account 7370 - Charitable Contributions only					
Account 7500 - Interest and Related Items					
Account 7340 - Allowance for Funds Used During Construction					
Account 1410 - Other Non-current Assets					
Account 1500 - Other Jurisdictional Assets - net					
Account 4370 - Other Jurisdictional Liabilities and Deferred Credits -n					
Account 4040 - Customer Deposits					
Account 4310 - Other Long-Term Liabilities					
Account 1438 - Deferred Maintenance and Retirements					

A Factor	((COE Category 3)/(COE+CWF+IOT))		
B Factor	(COE Category 3/Total Plant In Service)		
C Factor	(COE Category 3/Total COE)		
D Factor	(COE 3 Expense/Big 3 Expense)		
E Factor	(COE 3/COE Switching)		

FOR EC REVIEW

DATA NECA INTENDS TO PROVIDE TO USAC

FOR 2003 LOCAL SWITCHING SUPPORT TRUE-UP

Study Area Code

	2003 Total Account Original	2003 Total Account Revised	2003 Local Switching PROVIDED FOR INFORMATION PURPOSES ONLY. TO BE CALCULATED BY USAC	INFORMATION PURPOSES ONLY 2002 Total Account	2002 Local Switching
Current Period Net Investment					
Prior Period Net Investment					
Average Net Investment					
Return on Investment					
Federal Taxable Income					
Federal Income Tax Requirement					
Expenses and Other Taxes					
Local Switching Revenue Requirement					
Local Switching Support					

USF Certification Report
Study Area : Company Name

WORKING LOOPS

1. Total Loops	________
2. Category 1.3 Loops	________

INVESTMENT

1. Plant Accounts	
a. Acct 2001	________
b. Net Plant Investment	________
2. Selected Plant Accounts	
a. Acct 2210	________
b. Acct 2220	________
c. Acct 2230	________
d. Total Central Office Equip	________
e. Local Switching Cat 3.0	________
f. Circuit Equip Cat 4.13	________
g. Acct 2410	________

AMORTIZABLE TANGIBLE ASSETS

Acct. 2680 Tot Assets	________
Acct. 2680 (2210) COE Switching	________
Acct. 2680 (Cat. 3.0) COE Local Switching	________
Acct. 2680 (2230) COE Trans	________
Acct. 2680 (Cat. 4.13) COE Trans	________
Acct. 2680 (2410) Total CWF	________
Acct. 2680 (2410) CWF-Cat 1	________
Acct. 6560 (2680) Dep & Amort	________

For the Following Lines, Use Gross Additions for Plant and Annual Amounts for Expenses for the Test Year

INVESTMENT, EXPENSE AND TAXES	LINE	
1. Selected Plant Accounts		
a. Acct 2230	(240)	______
b. Total Central Office Equip	(245)	______
c. Acct 2410 (Total)	(255)	______
2. Expenses - Plant Specific Exp		
a. Acct 6110	(335)	______
b. Acct 6110 (benefits)	(340)	______
c. Acct 6110 (rents)	(345)	______
d. Acct 6120	(350)	______
e. Acct 6120 (benefits)	(355)	______
f. Acct 6120 (rents)	(360)	______
g. Acct 6210	(365)	______
h. Acct 6210 (benefits)	(370)	______
i. Acct 6210 (rents)	(375)	______
j. Acct 6220	(380)	______
k. Acct 6220 (benefits)	(385)	______
l. Acct 6220 (rents)	(390)	______
m. Acct 6230	(395)	______
n. Acct 6230 (benefits)	(400)	______
o. Acct 6230 (rents)	(405)	______
p. (sum of lines 365+380+395)	(410)	______
q. Acct 6410	(430)	______
r. Acct 6410 (benefits)	(435)	______
s. Acct 6410 (rents)	(440)	______
t. Total 6110 - 6410	(445)	______
3. Expenses - Plant Non Specific Exp		
a. Acct 6530	(450)	______
b. Acct 6530 (benefits)	(455)	______
4. Depreciation & Amortization Exp		
a. Acct 6560(2210)	(510)	______
b. Acct 6560(2220)	(515)	______
c. Acct 6560(2230)	(520)	______
d. Acct 6560(2210-2230)	(525)	______
e. Acct 6560(2410)	(530)	______
5. Corporate Operating Expenses		
a. Acct 6710	(535)	______
b. Acct 6710 (benefits)	(540)	______
c. Acct 6720	(550)	______
d. Acct 6720 (benefits)	(555)	______
e. (sum of lines 535+550)	(565)	______

6. Other Expenses and Revenues		
a. Benefits Portion	(600)	____________
b. Rents Portion	(610)	____________
7. Taxes		
a. Acct 7200	(650)	____________

Sum of Expenses

CERTIFICATE OF SERVICE
UM 1217

I certify that I have this day served the foregoing Direct Testimony of Brant Wolf by electronic mail and U.S. mail to the following:

FILING CENTER
PUBLIC UTILITY COMMISSION OF OREGON
550 CAPITOL STREET NE, SUITE 215
SALEM, OR 97301-2551
puc.filingcenter@state.or.us

I further certify that I have this day served the foregoing Direct Testimony of Brant Wolf upon all parties of record in this proceeding by mailing a copy properly addressed with first class postage prepaid, and by electronic mail pursuant to OAR 860-013-0070, to the following parties or attorneys of parties:

CHARLES L. BEST
FRONTIER
PO BOX 8905
VANCOUVER, WA 98668-8905
cbest@eli.net

JEFF BISSONNETTE
CITIZENS' UTILITY BOARD OF OREGON
610 SW BROADWAY STE 308
PORTLAND, OR 97205-3404
jeff@oregoncub.org

ALEX M. DUARTE
QWEST CORPORATION
421 SW OAK ST STE 810
PORTLAND OR 97204
alex.duarte@qwest.com

JASON EISDORFER
CITIZENS' UTILITY BOARD OF OREGON
610 SW BROADWAY STE 308
PORTLAND, OR 97205
jason@oregoncub.org

BROOKS HARLOW
MILLER NASH LLP
601 UNION ST STE 4400
SEATTLE, WA 98101-2352
brooks.harlow@millernash.com

SHEILA HARRIS
QWEST CORPORATION
421 SW OAK RM 810
PORTLAND, OR 97204
sheila.harris@qwest.com

WILLIAM E. HENDRICKS
SPRINT/UNITED TELEPHONE CO. OF THE NORTHWEST
902 WASCO ST A0412
HOOD RIVER, OR 97031
tre.e.hendricks.iii@sprint.com

INGO HENNINGSEN
FRONTIER COMMUNICATIONS OF AMERICA INC.
3 TRIAD CTR STE 160
SALT LAKE CITY, UT 84180
ingo.henningsen@czn.com

Law Office of
Richard A. Finnigan
2112 Black Lake Blvd. SW
Olympia, WA 98512
(360) 956-7001

SCHELLY JENSEN
VERIZON
PO BOX 1100
BEAVERTON, OR 97075-1100
schelly.jensen@verizon.com

KEVIN KEILLOR
EDGE WIRELESS, LLC
650 SW COLUMBIA – STE 7200
BEND, OR 97702
kjkeillor@edgewireless.com

STACEY A. KLINZMAN
VCI COMPANY
3875 STEILACOOM BLVD SW #A
LAKEWOOD, WA 98499
staceyk@vcicompany.com

CINDY MANHEIM
AT&T WIRELESS SERVICES
16331 NE 72ND WAY RTC1
REDMOND, WA 98052
cindy.manheim@cingular.com

KAY MARINOS
PUBLIC UTILITY COMMISSION OF OREGON
550 CAPITOL STREET NE, SUITE 215
SALEM, OR 97301-2551
kay.marinos@state.or.us

TIMOTHY J. O'CONNELL
STOEL RIVES LLP
ONE UNION SQUARE
600 UNIVERSITY ST STE 3600
SEATTLE, WA 98101-3197
tjoconnell@stoel.com

MARTY PATROVSKY
WANTEL INC
1016 SE OAK AVE
ROSEBURG, OR 97470
marty.patrovsky@comspanusa.net

DAVID PAULSON
SPRINT/UNITED TELEPHONE CO OF THE NORTHWEST
902 WASCO ST
HOOD RIVER, OR 97031
david.paulson@mail.sprint.com

JEFFRY H. SMITH
GVNW CONSULTING INC
PO BOX 2330
TUALATIN, OR 97062
jsmith@gvnw.com

JAMES TODD
MALHEUR HOME TELEPHONE CO
PO BOX 249
ONTARIO, OR 97914
jimmy.todd@qwest.com

MARK P. TRINCHERO
DAVIS WRIGHT TREMAINE LLP
1300 SW FIFTH AVE STE 2300
PORTLAND, OR 97201-5682
marktrinchero@dwt.com

MICHAEL T. WEIRICH
DEPARTMENT OF JUSTICE
REGULATED UTILITY & BUSINESS SECTION
1162 COURT ST NE
SALEM, OR 97301-4096
michael.weirich@state.or.us

Law Office of
Richard A. Finnigan
2112 Black Lake Blvd. SW
Olympia, WA 98512
(360) 956-7001

Dated at Olympia, Washington, this 13th day of December, 2005.

Richard A. Finnigan, OSB #96535
Attorney for Oregon Telecommunications Association

Law Office of
Richard A. Finnigan
2112 Black Lake Blvd. SW
Olympia, WA 98512
(360) 956-7001