OREGON PUBLIC UTILITY COMMISSION
(INTEROFFICE CORRESPONDENCE)

DATE: May 4, 2016

TO: File through Bryan Conway and Bruce Hellebuyck

FROM: Stephanie Yamada

SUBJECT: FRONTIER COMMUNICATIONS NORTHWEST INC.: (Docket No. ADV 237/Advice No. SC16-04) Establishes a Special Contract submitted pursuant to ORS 759.250(5).

BACKGROUND

This filing will appear on the Commission's May 17, 2016, public meeting agenda.

Frontier Communications Northwest Inc. (Frontier) proposes to establish a 36 month special contract with a confidential customer for Frontier OneVoice and Frontier OneVoice plus FiOS. The contract went into effect on February 25, 2016, and it was filed on March 1, 2016. Frontier has asked staff not to divulge the contract customer's name. Pursuant to ORS 759.250, the Commission has 90 days from the date of filing to terminate the effectiveness of a special contract. For this filing, the end of the 90-day statutory period is May 30, 2016.

Description of Contract

The contract is a 36 month, discount arrangement between Frontier and a confidential customer for the above listed contract services. The services are being provided under the contract at the following monthly unit rates (compared to the tariffed rates):

	Contract Rate	Tariff Rate	Discount
Frontier OneVoice	$24.99	$29.99	16.7%
Frontier OneVoice + FiOS 150	$194.98	Not Tariffed	NA

The filing states that the company will give the discounted prices to any similarly situated customer requesting it.

The company also considers the contract services to be competitive. If Frontier does not provide the contract services, then a number of competitors would be able to provide the services.

Shortfall and termination liability language in the contract adequately protects other customers in case the confidential customer should seek early termination of the special contract.

Description of Services

Frontier OneVoice includes one flat rate business access line, a group of standard custom calling features, and flat rate Extended Area Service (EAS).[1] The standard monthly rate for Frontier OneVoice is $44.99, or $29.99 when subscribed to under a term agreement of one, two, or three years. Customers may also purchase a group of additional add-on features for a standard monthly rate of $9.99.

This contract also provides FiOS, which is a bundled internet, telephone, and television service that operates over a fiber-optic communications network. FiOS is a *fiber to the home* service in which the fiber optic facility takes the place of the copper or coaxial facility in the network. FiOS is not a regulated service.

STAFF ANALYSIS

Review Procedures

Although the form of regulation that applies to Frontier changed August 18, 2014, pursuant to ORS 759.255 and the regulatory plan allowed by the Commission under Order No. 14-290 (UM 1677), its services offered through special contracts remain fully regulated. Thus, Frontier special contracts for its regulated services are still subject to ORS 759.250.

Telecommunications utilities are allowed under ORS 759.250 to enter into special contracts with customers without being subject to standard tariff filing procedures under ORS 759.175. In addition, special contracts are not subject to hearings (ORS 759.180) or suspension (ORS 759.185).

ORS 759.250 outlines the requirements for approval of telecommunications special contracts, which are as follows:

1. The contract service must be a new service with limited availability, respond to a unique customer requirement, or be subject to competition.

2. Prices must exceed the long-run incremental cost of providing the service.

[1] The monthly business flat rate EAS charges range from $1.90 to $8.60.

3. Telecommunications utilities are required to file special contracts no later than 90 days following the effective date of the contract. Contracts must not exceed five years, and ORS 759.250 does not permit automatic contract renewals.

4. The Commission shall issue an order on the filed contract within 90 days of the filing. If the Commission does not act within 90 days of the filing, the contract is deemed approved. Staff understands that if a telecommunications utility does not provide sufficient evidence to support the contract under ORS 759.250, staff may recommend that the Commission reject the contract.

Classification and Unjust Discrimination Criteria

PUC Order No. 92-651 (Docket UM 254), issued May 1, 1992, adopted procedures and guidelines for telecommunications special contract filings. The order specifies that in assessing special contracts the Commission must consider the reasonableness of the contract rates and whether the rates result in unjust discrimination. The statutes that underlie these areas of concern are ORS 759.210 (classification of service and rates) and ORS 759.260 (unjust discrimination).

Staff's analysis regarding conformance with ORS 759.210 is twofold. First, staff determines if a special contract rate class is developed by the telecommunications utility for one or more of the following reasons: a) the quantity of the contract service used; b) the purpose for which the contract service is used; c) whether price competition or a service alternative exists; d) the contract service being provided; e) the conditions of contract service; or f) other reasonable considerations. Second, staff determines if the special contract results in revenue sufficient to ensure just and reasonable rates for remaining customers (i.e., a "prudency review").

To determine conformance with ORS 759.260, staff determines if the special contract avoids unjust discrimination and is dependent upon the outcome of the analyses outlined above. The statute does not restrict the Commission from subsequent scrutiny of the reasonableness of special contracts for ratemaking purposes.

Staff has reviewed the company's estimated long-run, incremental cost of service (LRIC) and estimated net margin or contribution from the proposed sales under this contract. Staff's analysis indicates Frontier would receive revenues that would exceed LRIC and provide an adequate contribution for its services under the proposed contract. In other words, the special contract appears to be prudent in terms of revenue sufficiency.

Conclusions

Staff has investigated the filing and finds that it complies with Order No. 92-651 (UM 254), the contracted services are subject to competition, the contract price(s) is above the company's cost of service, and the company would offer the discounted contract price(s) to any similarly situated customer requesting it.

Frontier.SC16-04.OneVoice.3Yr.File