

MEMO



DATE: July 27, 2021

TO: UM2040 Stakeholders

FROM: OPUC Staff

SUBJECT: **UM 2040 Straw Proposal**

Introduction

Statute 759.425 clearly directs the Commission to calculate disbursements for the Oregon Universal Service Fund (OUSF), and provides details on how this calculation is to be made. Staff proposes that we adhere to the statute, working with stakeholders and CostQuest. As Docket No. UM 2040 is unlikely to be completed prior to the end of 2021, Staff would like to put forward a temporary rule by the year end that would result in disbursement amounts for 2022 that would be in line with the current payments as per UM1481, including the year on year decline also included in that docket.

Background

The Commission opened an investigation into the OUSF on November 19, 2019. The investigation was separated into Phases, with Phase I addressing the calculation of disbursements and Phase II addressing operating and accounting.

Phase I began with an initial list of questions, which were then discussed in detail at three workshops. Early on in Phase I, the subject of unsubsidized competition and the implications to the fund was identified as requiring additional discussions and this subject was designated a separate workshop/timeline Phase 1a.

At the final workshop on November 30, 2019, Staff and stakeholders were asked to consolidate their inputs and comments over the past months into a comprehensive proposal for the calculation of distributions from the OUSF.

Following input from stakeholders, and, hopefully, consensus, Staff would like to transfer to a rulemaking the proposed method of calculating disbursements. This would solidify the progress made in this docket, and then Staff and stakeholders could continue with the details of the calculation (identifying inputs etc.) to produce meaningful support amounts.

Staffs Proposal

Summary

Oregon Revised Statute 759.425 provides a high-level description of the calculations to be used to determine support amounts. Staff would like to start with that general structure and use it to create a set of Oregon Administrative rules that provide more detailed guidance for implementing the support calculations. The goal of the rules is to provide a structure for determining support and a process under which the detailed calculations are carried out. Under ORS 759.425, the primary goal of the OUSF is to ensure that basic telephone service is available at reasonable and affordable rates.

Proposal details

As stated above, at the final workshop on November 30, 2019, Staff and stakeholders were to consolidate their inputs and comments over the past months into a comprehensive proposal for the calculation of distributions from the OUSF. Staff asked that any proposals include answers to the following questions:

How would you determine the cost of basic telephone service? What model/s should be used?
Staff recommends using the CostQuest Model for all companies.

In order to be equitable and non-discriminatory in providing support, Staff believes the way to do this is to treat all companies or census blocks in a similar manner. Using the same model for all companies would ensure that all census blocks would be subject to the same rules/methodology, standards, and assumptions.

Over the years, the number of small rural companies claiming the Alternative Connect America Cost Model (ACAM), and therefore relying on the CostQuest model for federal support, has increased and is now just under fifty percent. Staff believes this will continue to increase over the next several years, meaning the use of the CostQuest model will become more widespread as we move forward into the 2020s.

The CostQuest model is used by the FCC to provide federal support. Mirroring the OUSF with the federal universal service fund support model would enable the PUC to identify which census blocks are receiving Federal support and for which service. Census block data on competition information is also available if the Commission determines it can and wishes to uncouple support in areas with an unsubsidized competitor.

The CostQuest Model is a forward-looking model that assumes a network all companies should be aspiring to and therefore this would support the statutory directive of “encouraging broadband”. Staff is aware of the non-representative nature of the model for some rural companies and therefore would be open to proposing language for adjusting inputs on a case-by-case basis.

If more than one cost model is to be used, do you foresee any issues ensuring comparable costs basis’s or cost allocations? How would these issues be resolved?

Staff is recommending the use of one cost model.

What services would these costs support?

As statute ORS 759.425 states, these costs should support basic telephone service.

What does this cost represent in terms of network elements?

Staff would like to rely upon the Cost Quest model and consult with its technical staff and stakeholders to discuss and determine what aspects of the network would be allocated to a voice service.

If these network elements support more than voice services, would costs be allocated? If so, on what basis?

CostQuest stated that the voice element of the local loop could be identified by usage or traffic plus any costs that are voice specific. Staff agrees with this method.

What would the benchmark reflect? How would you calculate the benchmark? Would there be more than one benchmark?

Staff recommends using the average cost of the loop to establish the benchmark. Staff recommends the benchmark should at the minimum be set at the weighted average cost for all companies calculated at the census block level. The need for a benchmark above the weighted average cost will be considered and calculated, if required. The timing and decision criteria for such a calculation will need to be discussed.

What federal compensation used to recover local loop costs should be deducted? What federal support should be deducted?

With regards to federal support deductions, Staff's opinion is that the funds to be deducted would be dependent on the calculation and the steps within that calculation to isolate a net intrastate voice cost.

Staff believes it is important to isolate an intrastate-voice-only portion of the network costs, net of support amounts. If the jurisdictional and service allocation takes place after support amounts are deducted, then all federal support amounts will be considered. If the jurisdictional and service allocation takes place prior to support reduction, then voice only federal support would be used to reduce the cost for voice only lines.

If any of the federal support funds should be allocated between services or jurisdictions, how would you achieve this?

Using the CostQuest model, we should be able to identify the number of voice-only lines, broadband-only lines, and both voice/broadband lines in a census block, and the federal support allocated to each. Per the Universal Service Administration Companies (USAC) website, ACAM, High Cost Loop (HCL), Connect America Fund (CAF) and CAF – Broadband Loop Support (BLS) can all be used to support both voice and broadband services/networks; therefore, Staff would recommend these funds should be allocated and deducted. For dual usage lines, OTA suggested in its initial comments the possibility of using previous HCL support amounts as an indication of an appropriate deduction amount and Staff is in agreement with this idea. For other funds, Staff would like to hear further stakeholder suggestions before recommending a specific deduction.