

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1017

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

DISPOSITION: OUS PROGRAM SUPPORT EXPANDED

At its public meeting on September 23, 2003, the Public Utility Commission of Oregon (Commission) adopted Staff's recommendation to expand the Oregon Universal Service (OUS) program to include support for basic telephone services of rural incumbent local exchange carriers (LECs) pursuant to Order No. 03-082.¹ A description of case procedural history and details of the expansion plan are contained in the Staff Report, attached as Appendix A, and incorporated by reference.

ORDER

IT IS HEREBY ORDERED AND AUTHORIZED that:

1. The OUS fund will distribute monthly support amounts to the rural incumbent LECs, as identified and itemized on pages 4 and 5 of the Appendix, effective beginning November 1, 2003.

¹ A typographical error in Staff's September 15, 2003 Public Meeting Report should be corrected as follows:

On page 1, on the last line under the Subject heading, an erroneous reference to Order 93-082 is changed to accurately refer to Order 03-082.

2. OUS support calculations for Beaver Creek Cooperative Telephone Company will be dealt with in a separate investigation, Docket UM 1112.

Made, entered and effective _____.

BY THE COMMISSION:

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 23, 2003**

REGULAR CONSENT EFFECTIVE DATE November 1, 2003

DATE: September 15, 2003

TO: Lee Sparling

FROM: John Wright through Dave Booth through Phil Nyegaard

SUBJECT: OREGON UNIVERSAL SERVICE EXPANSION: (Docket No. UM 1017)
Expands the Oregon Universal Service (OUS) program to include support for basic telephone services of rural incumbent local exchange carriers pursuant to Order 93-082.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve the monthly OUS support amounts per basic telephone service line as identified in Exhibit A to this report. The support amounts are effective November 30, 2003. Staff also recommends a separate docketed investigation into the OUS support calculations for Beaver Creek Cooperative Telephone Company (Beaver Creek).

DISCUSSION:

A. Background:

The 1999 Oregon Legislative Assembly enacted SB 622 (codified as ORS 759.425), which required the Commission to establish and implement a universal service fund in Oregon. In compliance with that statute, the Commission adopted policies for the OUS fund and implemented the program for Oregon's two non-rural local exchange carriers (LECs), Qwest and Verizon, on September 1, 2000. See Order 00-312 in UM 731. To determine the cost of basic telephone service for the two non-rural carriers, the Commission adopted a forward-looking economic cost methodology developed by the Federal Communication Commission (FCC). For the rural LECs, ORS 759.425(1) allowed the Commission to delay expansion of the OUS fund until such time that the FCC adopts a cost methodology for rural carriers.

On May 23, 2001, the FCC adopted interim modifications to its embedded cost methodology for federal high-cost universal service support for rural LECs. The modifications became effective July 1, 2001, under an interim five-year plan while the FCC continued to study economic cost methods for rural LECs. In response, the

Commission determined the FCC's order did not trigger the immediate expansion of the OUS fund to include rural LECs as required by ORS 759.425(1). Nevertheless, the Commission instructed parties to continue working to find resolution of the cost methodology issues associated with expanding the OUS fund to include rural LECs. See Order 01-576 in UM 1017, dated July 13, 2001.

On February 2, 2003, the Commission adopted policies to expand the OUS fund to include the rural LECs pursuant to a stipulation by UM 1017 participants. The stipulation agreed to use an interim embedded cost methodology until the FCC makes a final determination of how to calculate rural carrier costs. See Order 03-082 in UM 1017. Importantly, the stipulation agreed that the original cost data for the year 2000 should be updated to 2001 information before expanding the OUS fund (Stipulation Provision 4). That update and the resultant OUS support amounts are the subjects of this public meeting staff report.

With the exception of the embedded cost methodology, the Commission adopted for rural LECs the same formula for computing the OUS support that it had already adopted for non-rural LECs. Under the formula, OUS support equals the cost of providing basic telephone service less federal loop compensation, federal universal service support, and a benchmark set by the Commission (Stipulation Provisions 10-13). The Commission set the benchmark at \$21.00 per line per month in Order 00-312 in UM 731. The formula conforms to ORS 759.425(3). The support per line amount available to an incumbent LEC is portable to competitive LECs certified as eligible by the Commission in the specific incumbent service area (Stipulation Provision 23).

B. OUS Support Per Basic Telephone Service Line:

Exhibit A to this report identifies the monthly per-line amounts that the OUS fund would pay out to each of the rural LECs. Column (1) is the amount computed by staff that would be available to eligible carriers based on the OUS formula discussed above. Column (2) is the amount that, under the rate rebalancing provisions of the stipulation, LECs have elected to forgo.¹ This election is allowed under the Stipulation at Provision 33(b), which permits rural ILECs to forgo a portion of the OUS support after eliminating the carrier common line access charge rather than reduce other service prices. Column (3) is the net amount payable to the incumbent rural LECs. While the incumbent LEC may elect to forgo part of its OUS support, this reduction does not affect the amount of

¹ Rate rebalancing refers to a filing by an OUS participant that reduces customer rates in an amount equal to the amount to be drawn from the OUS Fund. As a first priority, OUS participants use OUS funds to eliminate the carrier common line toll/access charge.

OUS support that is portable to competitive eligible LECs, which is the amount shown in Column (1).

As shown in Exhibit A, Cascade Utilities has elected to forgo part of its OUS support rather than reduce other rates. Beaver Creek disputes staff's OUS support calculation and requests a separate docketed investigation for Beaver Creek. Based on the available OUS support per line requirements times the forecasted basic telephone service line counts for 2003, staff estimates the additional cost to the OUS fund would be **\$9.65 million**. However, **after** recognizing forgone support by Cascade Utilities, the OUS fund expansion is expected to be **\$9.38 million**. Because the Beaver Creek dispute may be resolved in the next few months, the budget includes an estimate for the resolution of the Beaver Creek dispute. The impact of this expansion on the OUS surcharge rate is addressed in the companion OREGON UNIVERSAL SERVICE SURCHARGE (UM 731) Public Meeting Staff Report.

Staff recommends that the Commission approve the OUS support amounts identified on Exhibit A with the exception of Beaver Creek Cooperative. Beaver Creek disputes staff's calculation of the OUS support amount and in particular the federal loop compensation and universal service amounts. Beaver Creek requests a separate investigation. The other 30 rural LECs have accepted staff's calculations.

C. Implementation:

The timing of the first OUS distribution should be coincident with the effects of rate rebalancing so that revenue gaps or overlaps are minimized. The effective date of the OUS support is November 1, 2003. The first rural distribution will be November 30, 2003, based on LEC basic service line counts as of September 30, 2003. The September 30th line count report (submitted on the OUS 3 worksheet which is available on the PUC's web site) is due to the OUS Administrator by November 10, 2003. Line count reporting and distributions will take place monthly after that. This process is the same as that currently employed for the non-rural LECs. Because access charges are billed in arrears (i.e., October's billing at the old access rates gives November's revenue) this implementation process should be approximately revenue neutral. Only those LECs receiving OUS support need to submit the OUS 3 worksheets.

PROPOSED COMMISSION MOTION:

1. An order be prepared in Docket UM 1017 authorizing the OUS fund to distribute monthly support amounts to the rural incumbent LECs as identified in Exhibit A, Column C, effective beginning November 1, 2003.
2. A docket be opened to investigate the OUS support calculation for Beaver Creek.

Exhibit A

**Oregon Universal Service Expansion
 Monthly OUS Support per Basic Telephone Service Line**

<u>Rural Incumbent Exchange Carrier</u>	<u>Column (1) Available Support</u>	<u>Column (2) Forgone Support²</u>	<u>Column (3) Net Support</u>
Over 50,000 lines			
1. Sprint/United Telephone of the NW	\$1.87		\$1.87
2. CenturyTel	\$4.90		\$4.90
Between 10,000 and 20,000 lines			
3. Pioneer Telephone Cooperative	\$0.36		\$0.36
4. Citizens Telecom of Oregon	\$2.69		\$2.69
5. Malheur Home Telephone Co.	\$2.58		\$2.58
6. Canby Telephone Assoc.	\$1.10		\$1.10
Between 1,000 and 10,000 lines			
7. Cascade Utilities	\$6.48	\$2.38	\$4.10
8. Stayton Cooperative	\$3.59		\$3.59
9. Molalla Communications	\$6.86		\$6.86
10. Beaver Creek Cooperative ³	\$5.47	\$5.47	\$0.00
11. Clear Creek Mutual	\$0.00		\$0.00
12. Nehalem Tel. & Tel.	\$0.95		\$0.95
13. Mt. Angel Telephone Co.	\$0.49		\$0.49
14. Scio Mutual Telephone Assoc.	\$0.00		\$0.00
15. Oregon Telephone Corp.	\$2.28		\$2.28
16. People's Telephone Co.	\$0.00		\$0.00
17. Colton Telephone Co.	\$0.00		\$0.00
18. Gervais Telephone Co.	\$5.51		\$5.51

² Forgone support: Once the incumbent LEC has, as a first priority, eliminated the carrier common line toll/access charge, it may elect to forgo the remaining available OUS support rather than reduce other service rates. See Order 03-082, Stipulation Provision 33(b). Cascade Utilities has elected this option.

³ Beaver Creek disputes staff's OUS calculation. It requests a separate investigation. Until the support amount is resolved, the \$5.47 would not be available to eligible competitive LECs in the Beaver Creek service area.

Exhibit A

Oregon Universal Service Expansion (Continued)
Monthly OUS Support per Basic Telephone Service Line

	Column (1)	Column (2)	Column (3)
<u>Rural Incumbent Exchange Carrier</u>	<u>Available Support</u>	<u>Forgone Support</u>	<u>Net Support</u>
Between 100 and 1,000 Lines			
19. Monroe Telephone Co.	\$4.06		\$4.06
20. Pine Telephone system	\$0.00		\$0.00
21. Roome Telecom.	\$24.02		\$24.02
22. Home Telephone Co.	\$2.16		\$2.16
23. Monitor Cooperative	\$8.46		\$8.46
24. Oregon-Idaho Utilities	\$8.77		\$8.77
25. St. Paul Cooperative	\$0.00		\$0.00
26. North-State Telephone Co.	\$0.00		\$0.00
27. Eagle Telephone system	\$8.22		\$8.22
28. Helix Telephone Co.	\$14.40		\$14.40
29. Midvale Telephone Exchange	\$0.00		\$0.00
30. Trans-Cascades Telephone Co.	\$0.00		\$0.00
31. Asotin Telephone Co.	\$0.00		\$0.00
<u>Total OUS Rural LEC Distributions:⁴</u>	<u>Available Support</u>	<u>Foregone Support</u>	<u>Net Support</u>
Total Annual Support (\$ Millions)	\$9.65	\$0.27	\$9.38
Total Disputed Amount (\$ Millions)	\$0.28		\$9.11

OUSF Expansion

⁴ The estimated annual support is computed based on the LEC's forecasted line count for 2003 times the support per line times 12 months.