ORDER NO. 06-297

ENTERED 06/14/06

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1017(2)

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

DISPOSITION: MEMORANDUM OF UNDERSTANDING ACCEPTED

At the June 13, 2006, Public Meeting, Utility Staff (Staff) presented to the Public Utility Commission of Oregon (Commission) a Memorandum of Understanding (MOU) among Staff, the Oregon Exchange Carrier Association (OECA), and the Oregon Telecommunications Association (OTA) establishing an interim limit on the rural incumbent telecommunications companies' (rural companies) support per line from the Oregon Universal Service Fund (OUSF). Staff's Report and the MOU are attached as Appendix A, and incorporated by reference.

In Order No. 03-082, the Commission expanded the OUSF to include the rural companies. The order also adopted a stipulation between the parties that, among other things, established a triennial embedded cost review to update the rural companies' support per line. In October 2005, the Commission approved an increase in the contribution and surcharge rates which included an estimated 15 percent increase in the rural companies' disbursement from the OUSF. After Staff's cost review, the actual increase was an 81 percent increase in the disbursement. Given this significant increase, the OUSF could not implement the increase disbursement until July 2007.

As a result of Staff's concerns regarding this substantial increase and in order to avoid the costs associated with a contested docket, the parties negotiated an MOU to limit the increase in support per line to 15 percent through 2009, as incorporated in the current contribution and surcharge rates. Staff's attorney and the attorney for OTA and OECA signed the MOU on May 15, 2006.

The MOU represents a compromise between the rural companies and Staff and, in addition, will allow the OUSF to begin distributions in July 2006 based on the interim limitation. Staff recommends the Commission adopt the MOU and enter an order approving the revised support per line amounts shown, as presented in Appendix A, effective with the July 2006 OUSF distributions.

ORDER

IT IS ORDERED that:

1. The Memorandum of Understanding among the Oregon Exchange Carrier Association, the Oregon Telecommunications Association, and the Utility Staff of the Public Utility Commission of Oregon, as presented in Appendix A, is accepted.

2. Revised per-line support amounts for the rural companies, as presented in Appendix A, are approved, to be effective with the July 2006 OUSF distributions.

3. Oregon Exchange Carrier Association, and the rural companies shall apply the projected annual OUSF support, based on the revised support per line, as an offset first to the rural companies' intrastate carrier common line revenue requirement, contained in Oregon Exchange Carrier Association's pending 2006 annual access charge filing, and then to other services that provide implicit subsidies.

Made, entered and effective JUN 14 2006.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 13, 2006

REGULAR X CONSENT ____ EFFECTIVE DATE July 1, 2006

DATE: June 6, 2006

TO: Public Utility Commission

FROM: Cynthia Van Landuyt cv

THROUGH: Lee Sparling and Phil Nyegaard lm PN

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: (Docket No. UM 1017) Expansion of the Oregon Universal Service Fund to Include the Service Areas of Rural Telecommunications Carriers, Memorandum of Understanding.

STAFF RECOMMENDATION:

Staff recommends the Commission adopt the UM 1017 Memorandum of Understanding between the Public Utility Commission of Oregon Staff (Staff), the Oregon Exchange Carrier Association (OECA) and the Oregon Telecommunications Association (OTA) contained in Attachment 4. Staff also recommends the Commission approve the revised support per line amounts for the rural companies contained in Attachment 3.

DISCUSSION:

Background:
The Commission, in docket UM 1017, issued Order No. 03-082 (February 3, 2003) which expanded the Oregon Universal Service Fund (OUSF) to include the incumbent rural telecommunications companies (rural companies). The order adopted a stipulation signed by the parties in the docket. Generally, the stipulation outlined methods for computing the cost of basic service, the federal support offsets, the support per line and how the revenue offsets would be applied to achieve revenue neutrality.[1] It also contained the method for the distributions from the OUSF.

[1] Paragraphs 29 through 33 of the stipulation address rate rebalancing. Rate rebalancing is how revenue neutrality was achieved. The first priority is for the rural carriers to reduce access charges, specifically the Carrier Common Line Charge. The rural carriers were to reduce their Carrier Common Line revenue requirement by the annual amount of their distribution from the OUSF. If there was any

Paragraph 5 of the stipulation states,

> The interval for reviewing and updating the embedded cost calculations will not be longer than three years, unless extended by the Commission. Companies may request, or the Commission may initiate, a more frequent review, but not more frequently than once a calendar year. A company requesting a more frequent review will do so by November 15 for the previous calendar year. The OUSF study area support per line per month amount will remain unchanged until the next embedded cost review.

Staff first made the basic service[2] cost calculations in 2003[3] to develop the initial OUSF support per line per month for the rural carriers. The rural companies have received support based on those per line amounts since November 2003. The maximum three-year review interval ends in 2006. Staff conducted the review of the rural companies' embedded cost calculations based on the 2004 Form I. Staff's findings regarding the changes from the 2001 embedded costs to the 2004 embedded costs are:

- Common Lines[4] decreased 5.90 percent
- Plant in Service increased 14.75 percent overall with 14 of the 31 companies above that percentage increase. Sixty percent of the increase was in subscriber line and wideband investment mainly for deploying Digital Subscriber Loop (DSL). The OUSF does not directly support DSL because DSL is not a basic

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residual balance, the rural carriers were to reduce prices for other services that provide implicit subsidies or elect to forego some of their OUSF support.

[2] The definition of basic service is found at ORS 860-032-0190(2) which states "basic telephone service" means retail telecommunications service that is single party, has voice grade or equivalent transmission parameters and tone-dialing capability, provides local exchange calling, and gives customer access to, but does not include extended area service (EAS), long distance service, relay service for the hearing and speech impaired, operator service such as call completion assistance, special billing arrangements, service and trouble assistance, and billing inquiry, directory assistance and emergency 9-1-1 services including E-9-1-1 where available.

[3] The embedded costs were based on the 2001 Form I. The Form I includes an Incumbent Local Exchange Carrier's (ILEC's) revenues, expenses, taxes, plant and depreciation separated between the federal and state jurisdictions and within the state jurisdiction between Toll, EAS and Local. The Form I for a particular calendar year is due the following October 31st. In addition, the Federal support offsets used in calculating the OUSF support per line in 2003 were also based on the rural carriers' 2001 embedded costs.

[4] A common subscriber line is a voice-grade or equivalent working (i.e., revenue producing) loop or channel that connects the retail service customer's premises to the serving wire center's switch. It is used jointly for access to local exchange services, extended area services, and interexchange long distance services. It excludes point-to-point and point-to-multipoint private lines, closed-end WATS lines, wideband data lines, feature group carrier access lines, and unbundled network element (UNE) access lines leased to another telecommunications provider. It excludes station lines (inside wire) on the line-side of a key system or Private Branch Exchange (PBX).

service. However, under the current FCC separations rules some of the DSL investment is assigned to subscriber line investment, which is part of the basic service costs.[5]
- Operating expenses increased 15.84 percent with 17 of the companies above that percentage increase.

Based on the changes discussed above, the basic service cost per line per month increased for 22 of the 31 rural companies. The increases ranged from $1 to $65 per line per month with 11 rural companies increasing over $10 per line per month. ORS 759.425(3)(a) states the OUS support is equal to the difference between the cost of basic service and the benchmark[6] less any federal loop support or USF support. Between 2001 and 2004 the rural companies' federal offsets increased from $1 to $58 per line per month. For the most part, the federal offset increase was less than the basic service increase which results in a higher support per line requirement from the OUSF based on the formula contained in ORS 759.425(3)(a).

Effect on the OUSF surcharge rate:
At the October 11, 2005, Public Meeting, the Commission approved an increase in the contribution and surcharge rates, to 6.65 percent and 7.12 percent, respectively, effective January 1, 2006. This increase included assumptions that the contribution base would decline 6 percent annually, disbursements would decline 2.3 percent annually and the UM 1017 rural company 3-year review would result in an estimated 15 percent increase in the rural companies' support per line. The 15 percent increase translates to an estimated increase in annual disbursements from $8.9 to $10.3 million.

Following staff's cost review, the increase in the rural companies' support per line showed the annual disbursement from the fund would increase from $8.9 to $16.3 million, an 81 percent increase. The OUSF surcharge rate would increase to 7.87 percent effective January 1, 2007.[7]

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[5] The basic service cost includes the local loop and some usage costs. The subscriber line investment is assigned 100 percent to the local loop.

[6] The Commission set the benchmark at $21 in docket UM 731 Phase IV, Order No. 00-312. The discussion at Issue 8, page 21 states the composite average economic cost of service for Oregon's two major local exchange carriers, GTE Northwest (GTE) and U S WEST Corporation (USWC), makes a good surrogate for an affordable rate for basic local exchange service.

[7] With that large of an increase, the rural companies would not receive disbursements based on the higher support per line until July 2007. Per the Commission order, the OUSF must retain a 3.5 month reserve. Given the time required to calculate the revised rate, present the increase to the OUSF Advisory Board for recommendation, obtain Commission approval at a Public Meeting and notify the contributors to the OUSF, the rate increase would not be effective until January 1, 2007. The first collection at the new rate would be due May 28, 2007, with disbursement in July 2007 to preserve the 3.5 month reserve.

Workshops:
Staff was concerned with the increase in the surcharge rate and conducted a workshop on March 8, 2006, to discuss the findings with the rural companies[8]. Staff presented its findings and a list of options. Staff's options, as shown on Attachment 1, involve opening a docket and revisiting the Commission's decisions set out in order No. 03-082. The rural companies requested time to meet and develop further options. Staff scheduled a second workshop for March 30, 2006, to discuss all options.

At the second workshop, the rural companies stated their preferred option was to proceed with the support per line increase as reflected in the 3-year review. Acknowledging staff's concern with the increased contribution and surcharge rate resulting from implementing that option, the industry caucused during the workshop and offered a compromise. The rural companies offered the option of limiting the increases in the support per line to staff's 15 percent estimate incorporated in the current contribution and surcharge rates. Staff agreed to develop the revised support per line based on this option. See Attachment 2.

Memorandum of Understanding:
Over the next six weeks, staff, OTA and OECA developed a Memorandum of Understanding (MOU) outlining the agreement. Staff's attorney and the attorney for OTA and OECA signed the MOU on May 15, 2006. See Attachment 4. In summary, the MOU states:

- There is an interim limitation on the amount of support per line based on the 15 percent increase built into the current contribution and surcharge rates and the distribution ratio created by the unlimited 2004 support per line.
- The interim limitation would increase the projected rural companies' annual OUSF distribution from $8.9 to approximately $10.3 million[9].
- The parties intend that the interim limitation would be in effect until the next triennial review in 2009.

[8] Representatives from the rural companies, their consultants, representatives from Qwest and Verizon and some OUSF Advisory Board members attended the workshops.
[9] The rural companies would receive the difference between the $10.3 and the $16.3 million from intrastate access charges.

- Either party may file a petition[10] to seek Commission review of the OUSF plan upon:
    - Issuance of an FCC order changing the federal contribution method, unless such change can only be implemented through legislation.
    - Issuance of an FCC order changing the intercarrier compensation mechanism if such order may effect intrastate access charges or OUSF issues.
    - An increase to the contribution base or a decrease in the number of ETCs receiving support from the OUSF such that increasing the support per line does not increase the contribution or surcharge rates.

The Commission's Order No. 03-082 in UM 1017 would not be changed by the MOU except for the interim limitation on the OUSF support per line calculation.

Recommendation:
Staff presented the MOU to the OUSF Advisory Board at its quarterly meeting on May 10, 2006. Those members present[11] agreed that staff should recommend adoption of the MOU at a Public Meeting.

The MOU represents a compromise between the rural companies and staff which does not require an increase in the current contribution and surcharge rates.[12] In addition, the OUSF could begin distributions July 2006 based on the interim limitation rather than July 2007. And finally, the MOU avoids the costs, in time and money, associated with a contested docket.

Staff recommends the Commission adopt the MOU and issue an order approving the revised support per line amounts shown in Attachment 3 effective with the July 2006 OUSF distributions.

[10] The parties agree that the interim limitation will not automatically terminate because a petition is filed, but will continue until the Commission issues a final order which grants, denies or takes other appropriate final action upon the petition.

[11] Members present were Natalie Baker, AT&T, Brian Thomas, Time-Warner, Don Mason, Qwest, Schelly Jensen, Verizon, Karen Ellison, Midvale Telephone and Cynthia Van Landuyt, OPUC Staff. Members absent were Fred Peterson, TRACER, Rommel Raj, Oregontel, LLC and Doug Crow, CUB. There is a vacant Radio Common Carrier (cellular) position.

[12] Based on current projections of contribution revenue change and line count growth, the current rate should be in effect until January 1, 2007, when the rate would increase slightly to 7.18 percent.

PROPOSED COMMISSION MOTION:

The Commission:

- adopt the UM 1017 Memorandum of Understanding between the Public Utility Commission of Oregon Staff, the Oregon Exchange Carrier Association and the Oregon Telecommunications Association; and
- issue an order:
    - approving the rural companies' revised support per line amounts shown in Attachment 3 effective with the July 2006 OUSF distributions.
    - instructing OECA and the rural companies to apply the projected annual OUSF support, based on the revised support per line, as an offset first to the rural companies' intrastate carrier common line revenue requirement, contained in OECA's pending 2006 annual access charge filing[13], and then to other services that provide implicit subsidies.

UM 1017 MOU/cv

[13] OECA Advices 96 and 97, effective July 1, 2006, are scheduled for the June 27, 2006, Public Meeting.

Options for OUSF Support Update

1. Freeze support per line and open docket.

2. Calculate composite rate for rural telcos (2001 level) and increase by an index such as CPI. Distribute support based on 2004 revised support ratios times the capped fund amount.

3. Include a productivity factor in the calculation of the support per line.

4. Change ROR from 11.1% to a lower rate.

5. Impute DSL revenues as an additional OUSF offset.

6. Allocate a portion of COE Cat. 4.13 and CWF Cat. 1.3 (subscriber line for DSL). Would have to remove some federal loop support offset as well.

7. Adjust the line counts to include DSL capable lines in the denominator to calculate cost per line.

8. Use a tiered approach to disallow X% of the increase over a set amount. The % disallowance increases with the size of company.

9. Apply plant and expense per line caps on costs.

10. Adopt Federal formula to calculate loop cost.

11. Change the benchmark.

    a. Index the benchmark. Penalizes Qwest and Verizon if no review of their costs.
    b. Deaverage the benchmark between urban and rural companies.

12. Use economic cost model to calculate support per line.

13. Require companies to demonstrate the need for the support.

14. Revise the definition of supported lines, e.g., primary lines only.

15. Use an affordability benchmark which is company specific.

16. Limit ETC status to 1 ETC in rural areas.

Ln. No.	Company	2005 Basic Service Lines	Current Support/ln/mo	Annual Distribution	Support/ln/mo based on 2004 Form I	Annual Distribution	% of Distribution	Revised Distribution	Revised Support per line
1	Asotin	146	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
2	Beaver Creek	4,287	$5.47	$281,399	$12.77	$656,940	0.040381	$416,749	$8.10
3	Canby	11,029	$1.10	$145,583	$6.62	$876,144	0.053855	$555,808	$4.20
4	Cascade Utilities	8,900	$6.48	$692,064	$4.27	$456,036	0.028032	$289,300	$2.71
5	CenturyTel	68,669	$4.90	$4,037,737	$6.71	$5,529,228	0.339872	$3,507,630	$4.26
6	Citizens	12,582	$2.69	$406,147	$5.56	$839,471	0.051601	$532,543	$3.53
7	Clear Creek	3,607	$0.00	$0	$3.96	$171,405	0.010536	$108,736	$2.51
8	Colton	1,180	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
9	Eagle	454	$8.22	$44,783	$11.42	$62,216	0.003824	$39,469	$7.24
10	Gervais	1,033	$5.51	$68,302	$9.78	$121,233	0.007452	$76,908	$6.20
11	Helix	323	$14.40	$55,814	$17.26	$66,900	0.004112	$42,440	$10.95
12	Home	843	$2.16	$21,851	$3.07	$31,056	0.001909	$19,701	$1.95
13	Malheur	12,303	$2.58	$380,901	$6.92	$1,021,641	0.062798	$648,108	$4.39
14	Midvale	252	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
15	Molalla	6,519	$6.86	$536,644	$12.11	$947,341	0.058231	$600,974	$7.68
16	Monitor	632	$8.46	$64,161	$14.52	$110,120	0.006769	$69,858	$9.21
17	Monroe	927	$4.06	$45,163	$18.17	$202,123	0.012424	$128,223	$11.53
18	Mount Angel	1,676	$0.49	$9,855	$0.41	$8,246	0.000507	$5,231	$0.26
19	Nehalem	3,102	$0.95	$35,363	$2.76	$102,738	0.006315	$65,175	$1.75
20	North State	495	$0.00	$0	$0.35	$2,079	0.000128	$1,319	$0.22
21	Oregon	1,718	$2.28	$47,004	$0.00	$0	0.000000	$0	$0.00
22	Oregon-Idaho	633	$8.77	$66,617	$13.29	$100,951	0.006205	$64,041	$8.43
23	Peoples	1,445	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
24	Pine	927	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
25	Pioneer	14,987	$0.36	$64,744	$4.33	$778,725	0.047867	$494,007	$2.75
26	Roome	641	$24.02	$184,762	$21.46	$165,070	0.010147	$104,717	$13.61
27	Scio	1,800	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
28	Sprint	65,797	$1.87	$1,476,485	$4.63	$3,655,681	0.224708	$2,319,090	$2.94
29	Stayton	7,171	$3.59	$308,927	$3.70	$318,392	0.019571	$201,982	$2.35
30	St. Paul	630	$0.00	$0	$5.93	$44,831	0.002756	$28,440	$3.76
31	TransCascades	205	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
32	TOTAL	234,913		$8,974,304		$16,268,566		$10,320,450	

Attachment 3

UM 1017
Memorandum of Understanding

Ln. No.	Company	Support per line
1	Asotin	$0.00
2	Beaver Creek	$8.10
3	Canby	$4.20
4	Cascade Utilities	$2.71
5	CenturyTel	$4.26
6	Citizens	$3.53
7	Clear Creek	$2.51
8	Colton	$0.00
9	Eagle	$7.24
10	Gervais	$6.20
11	Helix	$10.95
12	Home	$1.95
13	Malheur	$4.39
14	Midvale	$0.00
15	Molalla	$7.68
16	Monitor	$9.21
17	Monroe	$11.53
18	Mount Angel	$0.26
19	Nehalem	$1.75
20	North State	$0.22
21	Oregon	$0.00
22	Oregon-Idaho	$7.43
23	Peoples	$0.00
24	Pine	$0.00
25	Pioneer	$2.75
26	Roome	$13.61
27	Scio	$3.00
28	Sprint	$2.94
29	Stayton	$2.35
30	St. Paul	$3.76
31	TransCascades	$0.00

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1017

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

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

[1] For purposes of this Memorandum of Understanding, OTA's members are as follows: Asotin Telephone Company, Beaver Creek Cooperative Telephone Company, Canby Telephone Association, Cascade Utilities, Inc., CenturyTel of Eastern Oregon, Inc., CenturyTel of Oregon, Inc., Citizens Telecommunications Company of Oregon, Clear Creek Mutual Telephone Company, Colton Telephone Company, Eagle Telephone System, Inc., Gervais Telephone Company, Helix Telephone Company, Home Telephone Company, Malheur Home Telephone Company, Midvale Telephone Exchange, Inc., Molalla Telephone Company, Monitor Cooperative Telephone Company, Monroe Telephone Company, Mt. Angel Telephone Company, Nehalem Telecommunications, Inc., North-State Telephone Company, Oregon-Idaho Utilities, Inc., Oregon Telephone Corporation, People's Telephone Company, Pine Telephone System, Inc., Pioneer Telephone Cooperative, Roome Telecommunications Inc., St. Paul Cooperative Telephone Association, Scio Mutual Telephone Association, Sprint/United Telephone Company of the Northwest, Stayton Cooperative Telephone Company and Trans-Cascades Telephone Company.

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BACKGROUND

Under the terms and conditions set out by the Commission in its Order No. 03-082 in this Docket ("Commission Order"), the Commission is to conduct a triennial review of the costs of those companies drawing from the rural company portion of the Oregon Universal Service Fund ("OUSF"). Under the standards set forth in the Commission Order, that review is to be conducted in 2006, with a target effective date of July 1, 2006. The review is based on the 2004 Form I submitted by each company to the Commission in the fall of 2005.[2]

Under the Commission Order, initial support for the small companies was predicated upon the formula adopted in the Commission Order, which was based upon a review of each company's costs as set out on the 2001 Form I for each company. In anticipation that the costs for the rural companies may have increased from 2001 to 2004, Commission Staff recommended to the OUSF Advisory Board that the surcharge rate for 2006 be increased to 7.12%. That increase anticipated a growth of approximately 15% in per line support for the rural companies.[3] In October 2005, the Commission approved an increase in the surcharge and contribution rates to 7.12% and 6.65%, respectively, effective January 1, 2006.

Commission Staff reviewed the 2004 Form I as submitted by each of the rural incumbent local exchange carriers (rural "ILECs"). Based upon that review, Commission Staff found that if all aspects of the Commission Order were applied on a step-by-step basis, there would be a substantially larger increase in the size of the OUSF than anticipated. As a means of comparison, the anticipated growth was from a current draw of approximately $8.9 million for the rural ILECs to approximately $10.3 million. The theoretical draw which was calculated based upon the review of

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[2] Qwest Corporation and Verizon Northwest Incorporated receive support from the OUSF based upon a forward-looking cost model, rather than upon embedded costs and are not affected by the triennial review concept.
[3] It should be noted that the increase was not solely due to an anticipated increase in costs for the small companies. It also reflected a reduction in the contribution base.

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each individual company's 2004 Form I would increase the draw from the current level of $8.9 million to approximately $16.3 million. This would require revisiting the OUSF surcharge rate or taking action to possibly modify the formula that is contained in the Commission Order.

As a result, the product of the review by Commission Staff was discussed with the OUSF Advisory Board. The OUSF Advisory Board and Commission Staff came up with a number of alternatives that might be explored. Those alternatives are set out on Appendix A.

Two workshops were held to discuss the possible increases to the size of the draw from the OUSF by rural companies and steps that might be taken to mitigate that draw. This included discussing the alternatives on Appendix A. Appendix A was first presented to the industry at the first workshop held on March 8, 2006. The companies affected by the possible changes in the draw from the OUSF were invited to attend. In addition, representatives from Verizon Northwest Incorporated and Qwest Corporation also attended the workshop, as did some members of the OUSF Advisory Board.

At that first workshop, representatives of OTA asked for the opportunity to explore options beyond those listed on Appendix A. That opportunity was granted and a second workshop was scheduled for March 30, 2006. Shortly before the second workshop, OTA circulated its initial position, which was that the Commission Order should be implemented as adopted. OTA's reasoning for this position is attached as Appendix B. Once again, the companies affected by the possible changes in draws from OUSF were invited to attend the workshop. And again, representatives from Verizon Northwest Incorporated and Qwest Corporation also attended the second workshop, as did some members of the OUSF Advisory Board.

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OTA's Compromise Proposal

At the March 30, 2006 workshop, OTA developed and offered a compromise position. That compromise would place an interim limitation on distributions from the rural portion of OUSF. That compromise was discussed and received general support at the workshop. Following the workshop, OTA canvassed its members to determine if any member had an objection to the proposal. No objection was heard.

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

MEMORANDUM OF UNDERSTANDING

For purposes of an interim period of time (defined below) the rural companies that are eligible to draw from the OUSF agree to an interim limitation in the amount of support per line. This interim limitation would be the support per line that is built into the 2006 surcharge rate of 7.12%. The amount for the rural portion of the OUSF would be distributed to the rural companies based upon a distribution ratio created by each rural company's 2004 cost per line derived from the 2004 Form I for each rural company.

This interim limitation would increase the current projected annual draw for rural companies' support in the OUSF from approximately 8.9 million dollars to approximately 10.3 million dollars. A spreadsheet depicting the anticipated draw from OUSF based upon the 2004 Form I for each company is attached as Appendix C. The support would be based on the cost per line as derived from the 2004 Form I for each rural company.

For the estimated 10.3 million dollar annual distribution, the rate rebalancing would follow the method set out at paragraphs 29 through 33 of the stipulation adopted in order 03-082. The OUSF support disbursements to eligible LECs would follow the method set out at paragraphs 19 through 22 of the stipulation.

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The parties to this Memorandum of Understanding intend that the interim limitation will be in effect until the completion of the next triennial review as contemplated by the Commission Order. However, OTA and Staff agree that either party may file a petition to seek Commission review of the OUSF plan upon: (1) the issuance of a future Federal Communications Commission (FCC) order creating a new federal contribution method in CC Docket No. 96-45, unless such change can only be implemented through legislation; (2) the issuance of a future FCC order changing the intercarrier compensation mechanism in CC Docket No. 01-92, if such FCC order may have an effect on intrastate access charges or OUSF issues; or (3) an increase in the per line support for rural companies that does not require a corresponding increase in the surcharge rate based upon either of the following two events: a) an increase to the contribution base or b) a decrease in the number of ETCs receiving support from the OUSF. The parties further agree that the interim limitation will not automatically terminate merely because OTA or Staff have filed a petition as described above but will continue until the Commission issues a final order which grants, denies or takes other appropriate final action upon the petition. Finally, each party reserves the right to make whatever arguments they deem appropriate in any docket resulting from the filing of the aforementioned petition.

This Memorandum of Understanding constitutes an interim proposal and should not be interpreted as incorporating any agreement as to the theoretical basis to adjust any aspect of the Commission Order other than an agreed limitation on the OUSF support per line calculation under paragraphs 10 through 13 of the stipulation adopted in Order 03-082 for purposes of the triennial review contemplated by paragraph 5 of said stipulation.

The advantage of the proposal contained in this Memorandum of Understanding is that it does not require an increase in the 2006 surcharge rate of 7.12%. There may need to be a future increase in the surcharge rate if the contribution base continues to decline.

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A further advantage to the agreed limitation in this Memorandum of Understanding is that it can be implemented effective July 1, 2006. It was apparent that any restructuring of the Commission Order would delay implementation, probably until July 1, 2007.

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

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

Respectfully submitted this 15th day of May, 2006.

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Appendix A

Options for OUSF Support Update

1. Freeze support per line and open docket.

2. Calculate composite rate for rural telcos (2001 level) and increase by an index such as CPI. Distribute support based on 2004 revised support ratios times the capped fund amount.

3. Include a productivity factor in the calculation of the support per line.

4. Change ROR from 11.1% to a lower rate.

5. Impute DSL revenues as an additional OUSF offset.

6. Allocate a portion of COE Cat. 4.13 and CWF Cat. 1.3 (subscriber line for DSL). Would have to remove some federal loop support offset as well.

7. Adjust the line counts to include DSL capable lines in the denominator to calculate cost per line.

8. Use a tiered approach to disallow X% of the increase over a set amount. The % disallowance increases with the size of company.

9. Apply plant and expense per line caps on costs.

10. Adopt Federal formula to calculate loop cost.

11. Change the benchmark.

    a. Index the benchmark. Penalizes Qwest and Verizon if no review of their costs.
    b. Deaverage the benchmark between urban and rural companies.

12. Use economic cost model to calculate support per line.

13. Require companies to demonstrate the need for the support.

14. Revise the definition of supported lines, e.g., primary lines only.

15. Use an affordability benchmark which is company specific.

16. Limit ETC status to 1 ETC in rural areas.

APPENDIX B

OTA's Preferred Course of Action

It was originally anticipated that the OUSF contribution rate would increase to 7.12% under projections made before analysis of the rural companies' 2004 Form I was undertaken. After that analysis, which calculated the increases in per line support that would be generated under the Commission Order, the OUSF contribution rate rises to 7.76%. OTA believes that this is not an undue increase in the contribution rate.

OTA's position is that any such increase is well justified by the actions taken over the course of the three years by the rural ILECs in improving service to customers in rural Oregon.

For example, Monroe Telephone Company has undertaken its first major construction project in over 25 years. It has replaced miles of aerial plant with buried plant. This improves the reliability of service to customers. It is a direct benefit to those customers. In a similar project, Gervais has also replaced aerial plant with underground plant.

Many rural companies have converted to new billing systems in the interval between 2001 and 2004. These new billing platforms are necessary to give customers increased choices and to provide a means which allows the companies to efficiently comply with increased customer education requirements, such as truth-in-billing requirements, notification related to customer rights and responsibilities, and other customer education initiatives. More sophisticated billing systems allow companies to increase customer choice of services and increase the level of customer education through better billing formats.

During this time period, many rural companies had to invest in switch upgrades (usually software, but sometimes hardware) to make their switches CALEA compliant and to enable porting of numbers. The CALEA investment is a matter of national security and thus benefits customer safety. Porting of numbers allows easier competition, which many argue is a benefit to customers.

In addition, many rural companies have added substantial numbers of customer service staff between the years 2001 and 2004. As telecommunications has become more complex, customers have more questions. Those customers more often turn to their local company for information than trying to wade through tedious calling trees that require customers to categorize their questions and wade through multiple layers in an effort to find answers to their questions. This increased need for customer education and customer responsiveness requires more employees and, therefore, a higher level of expense.

In addition, some companies, such as Stayton, Canby and Molalla, among others, find themselves within the boundaries of urban growth areas. This means that the companies are seeing a substantial level of new developments. As carriers of last resort, the rural companies have to build plant to serve throughout each of these new developments, even though they may not have each new home subscribe to service. For example, some customers may not subscribe to wireline service at all, preferring wireless service. Other customers may be enticed by a bundle of services from Comcast, as another example. However, the carrier of last resort obligation requires the investment to be made throughout the service area.

For all of these reasons, the increase in per customer expense and the corresponding increase in per customer support from OUSF is understandable. The result is an increase in the contribution level, but not an outrageous increase.

Ln. No.	Company	2005 Basic Service Lines	Current Support/ln/mo	Annual Distribution	Support/ln/mo based on 2004 Form I	Annual Distribution	% of Distribution	Revised Distribution	Revised Support per line
1	Asotin	146	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
2	Beaver Creek	4,287	$5.47	$281,399	$12.77	$656,940	0.040381	$416,749	$8.10
3	Canby	11,029	$1.10	$145,583	$6.62	$876,144	0.053855	$555,808	$4.20
4	Cascade Utilities	8,900	$6.48	$692,064	$4.27	$456,036	0.028032	$289,300	$2.71
5	CenturyTel	68,669	$4.90	$4,037,737	$6.71	$5,529,228	0.339872	$3,507,630	$4.26
6	Citizens	12,582	$2.69	$406,147	$5.56	$839,471	0.051601	$532,543	$3.53
7	Clear Creek	3,607	$0.00	$0	$3.96	$171,405	0.010536	$108,736	$2.51
8	Colton	1,180	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
9	Eagle	454	$8.22	$44,783	$11.42	$62,216	0.003824	$39,469	$7.24
10	Gervais	1,033	$5.51	$68,302	$9.78	$121,233	0.007452	$76,908	$6.20
11	Helix	323	$14.40	$55,814	$17.26	$66,900	0.004112	$42,440	$10.95
12	Home	843	$2.16	$21,851	$3.07	$31,056	0.001909	$19,701	$1.95
13	Malheur	12,303	$2.58	$380,901	$6.92	$1,021,641	0.062798	$648,108	$4.39
14	Midvale	252	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
15	Molalla	6,519	$6.86	$536,644	$12.11	$947,341	0.058231	$600,974	$7.68
16	Monitor	632	$8.46	$64,161	$14.52	$110,120	0.006769	$69,858	$9.21
17	Monroe	927	$4.06	$45,163	$18.17	$202,123	0.012424	$128,223	$11.53
18	Mount Angel	1,676	$0.49	$9,855	$0.41	$8,246	0.000507	$5,231	$0.26
19	Nehalem	3,102	$0.95	$35,363	$2.76	$102,738	0.006315	$65,175	$1.75
20	North State	495	$0.00	$0	$0.35	$2,079	0.000128	$1,319	$0.22
21	Oregon	1,718	$2.28	$47,004	$0.00	$0	0.000000	$0	$0.00
22	Oregon-Idaho	633	$8.77	$66,617	$13.29	$100,951	0.006205	$64,041	$8.43
23	Peoples	1,445	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
24	Pine	927	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
25	Pioneer	14,987	$0.36	$64,744	$4.33	$778,725	0.047867	$494,007	$2.75
26	Roome	641	$24.02	$184,762	$21.46	$165,070	0.010147	$104,717	$13.61
27	Scio	1,800	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
28	Sprint	65,797	$1.87	$1,476,485	$4.63	$3,655,681	0.224708	$2,319,090	$2.94
29	Stayton	7,171	$3.59	$308,927	$3.70	$318,392	0.019571	$201,982	$2.35
30	St. Paul	630	$0.00	$0	$5.93	$44,831	0.002756	$28,440	$3.76
31	TransCascades	205	$0.00	$0	$0.00	$0	0.000000	$0	$0.00
32	TOTAL	234,913		$8,974,304		$16,268,566		$10,320,450	

Appendix C