

ORDER NO. 11 052

ENTERED

FEB 11 2011

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 731

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Determination of a Decrease in the Oregon
Universal Service Fund Surcharge and
Contribution Rates.

ORDER

**DISPOSITION: SURCHARGE/CONTRIBUTION RATES
DECREASED**

At its public meeting on February 8, 2011, the Public Utility Commission of Oregon (Commission) adopted Staff's recommendation that the current Oregon Universal Service Fund (OUSF) surcharge rate of 5.60 percent be lowered to 4.05 percent, and the corresponding OUSF contribution rate be decreased from 5.30 percent to 3.89 percent, for the period beginning April 1, 2011. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

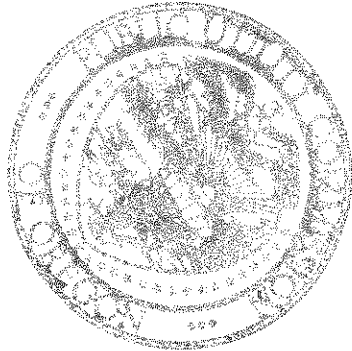
IT IS ORDERED that:

1. The Oregon Universal Service Fund Surcharge shall decrease from 5.60 percent to 4.05 percent for intrastate retail telecommunications services billed beginning April 1, 2011.

2. The associated contribution rate shall decrease from 5.30 percent to 3.89 percent, effective April 1, 2011, payable on August 28, 2011.
3. These rates shall remain in effect until further notice.

Made, entered and effective FEB 11 2011

BY THE COMMISSION:



Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 8, 2011**

REGULAR _____ CONSENT X EFFECTIVE DATE February 8, 2011

DATE: January 25, 2011

TO: Public Utility Commission

FROM: Roger White *RW*

THROUGH: Lee Sparling *LS* and Bryan Conway *BC*

SUBJECT: OREGON UNIVERSAL SERVICE FUND: (Docket No. UM 731) Decrease in the Oregon Universal Service Fund surcharge and contribution rates.

STAFF RECOMMENDATION:

Staff recommends the Oregon Universal Service Fund (OUSF) end-user surcharge be lowered from 5.60 percent to 4.05 percent and the corresponding contribution rate be lowered from 5.30 percent to 3.89 percent.¹ If approved, the new surcharge will be assessed on intrastate telecommunications services billed to retail end-users beginning March 1, 2011.² The new contribution rate will be effective for contributions paid to the OUSF for the quarter beginning April 1, 2011, payable on August 28, 2011.

DISCUSSION:

A. Fund Background:

ORS 759.425 directed the Commission to establish and implement a competitively neutral, nondiscriminatory fund to ensure that basic telephone service is available at a reasonable and affordable rate; this fund is the OUSF, which commenced operation on September 1, 2000.

The OUSF collects money quarterly from more than four hundred certified telecommunications service providers (TSPs) based on their Oregon intrastate retail

¹ The surcharge and contribution rates differ because telecommunications service providers include OUSF surcharges received from end-users as part of their contribution base. Therefore, the contribution rate must be less than the surcharge rate to ensure a one-for-one relationship between surcharges collected from end-users and contributions paid to the OUSF.

² The OUSF Advisory Board approved this recommended surcharge and contribution rate decrease on November 10, 2011, at its board meeting.

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telecommunications revenues and distributes money monthly to 25 eligible telecommunications carriers (ETCs). Distributions are calculated using a wire center specific support per line multiplied times the number of basic service lines in the wire center.

B. Most Recent Reduction:

On April 1, 2010, the surcharge rate was reduced to bring the average balance back into the desired management range³ and the effect of that change was seen in the third and fourth quarters of 2010. With that reduction, the average balance has been declining and would be within the desired management range by the fourth quarter of 2013.

When that rate change was requested, the Board was concerned with the risk that major contributors could significantly revise downward their quarterly filings for up to three prior years and request refunds that would materially impact the fund. This restatement could still happen, but now the Board has the option of refunding this money through a series of payments over a period up to three years instead of as a single payment.⁴ Another concern of the Board was dropping the rate and then turning around and raising the rate a few quarters later. It was a desire of the Board to make as few rate changes as possible.

C. Rationale for Further Rate Reductions:

As of year-end 2010, the fund had an ending balance of \$23.4 million dollars, which was seven times monthly expenditures. At \$23.4 million dollars, the fund was approximately ten million dollars above the high-end of the management range. This high average balance was an item of discussion at the November 10, 2010, OUSF Board Meeting. As a result of this discussion, a motion to lower rates was put to the board for a vote; the board voted unanimously to approve the reduction in rates.

With the proposed rate reduction, the average balance will be within the management range by the first quarter of 2012; this is a year earlier than what would be possible without this change. With this rate reduction, there will also be a rate increase that the board will be requesting at a future Public Meeting for the fourth quarter of 2011. With this pair of rate changes, the average balance will be brought down into the management range and it will remain there through the fourth quarter of 2013, the end of the modeling period, or longer.

³ The fund is normally managed to keep this average balance between 3.5 to 4.0 times monthly expenditures; this is the funds management range.

⁴ Docket No. AR 453, Order No. 10-351.

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Table 1 provides a history of the Surcharge and Contribution rates starting with the beginning of the fund up to the current rate. The table also has two additional sets of rates: one set is the pair of Surcharge and Contribution rates being proposed for approval at the February 8 Public Meeting (Proposed rates); the other set is an estimate of the rates that will be proposed at a future Public Meeting (Future estimated rates). It is expected that the future surcharge rate will increase to approximately 6.15 percent, which is close to the average value between February 2002 and the present rate.

Table 1
Surcharge and Contribution Rates

Order Number	Surcharge Rate	Contribution Rate	Effective Date	Notes
Initial rate	2.35%	2.30%	Sep 1, 2000	⁵
Order 00-760	3.24%	3.14%	Jan 1, 2001	
Order 01-752	3.00%	2.91%	Oct 1, 2001	
Order 01-1063	5.50%	5.21%	Feb 1, 2002	⁶
Order 03-594	6.50%	6.10%	Jan 1, 2004	⁷
Order 04-437	6.00%	5.60%	Oct 1, 2004	
Order 05-1083	7.12%	6.65%	Jan 1, 2006	
Order 10-046	5.60%	5.30%	Apr 1, 2010	
Proposed rates	4.05%	3.89%	April 1, 2011	
Future estimated rates	6.15%	5.79%	Oct 1, 2011	

⁵ On June 16, 2000, the Commission issued Order No. 00-312 resolving issues raised in Phase IV of Docket No. UM 731. In the July 10, 2000, public meeting, following the issuance of this Order, the Commission set the surcharge rate at 2.35% of total Oregon retail telecommunications sales.

⁶ As a result of a lawsuit filed by AT&T, settled by the USA District Court on October 18, 2001, in favor of AT&T, the revenue assessment base for the OUSF was changed from total Oregon retail telecommunications revenues to Oregon intrastate retail telecommunications revenues. The revised rate nearly doubled due to the change in the contribution base.

⁷ In Docket No. UM 1017, Order No. 03-085, the Commission ordered the expansion of the OUSF to include the service area of the rural telephone companies. The annual impact of this expansion was estimated to be a \$9.38 million increase in distributions from the fund. The rate was increased to accommodate this new requirement.

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PROPOSED COMMISSION MOTION:

An order be prepared in Docket No. UM 731, authorizing the OUSF surcharge to decrease from 5.60 percent to 4.05 percent for intrastate retail telecommunications services billed beginning April 1, 2011, and authorizing the associated contribution rate to decrease from 5.30 percent to 3.89 percent for the contributions remitted to the OUSF for the period beginning April 1, 2011, payable on August 28, 2011.

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