

ORDER NO. 11 277

ENTERED JUL 29 2011

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 731

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Determination of an Increase in the Oregon
Universal Service Fund Surcharge and
Contribution Rates.

ORDER

DISPOSITION: SURCHARGE/CONTRIBUTION RATES INCREASED

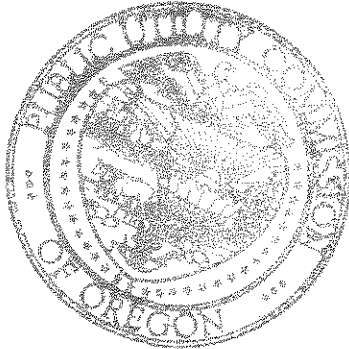
At its public meeting on July 26, 2011, the Public Utility Commission of Oregon (Commission) adopted Staff's recommendation that the current Oregon Universal Service Fund (OUSF) end-user surcharge rate of 4.05 percent be increased to 6.55 percent beginning October 1, 2011.

Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that the Oregon Universal Service Fund End-User Surcharge Rate increases from 4.05 percent to 6.55 percent for intrastate retail telecommunications services billed beginning October 1, 2011.

Made, entered and effective JUL 29 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.

ITEM NO. CA15

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 26, 2011**

REGULAR _____ CONSENT X EFFECTIVE DATE October 1, 2011

DATE: July 18, 2011

TO: Public Utility Commission

FROM: Suzanne Smith *SS*

THROUGH: *LS* Lee Sparling, *BC* Bryan Conway, and *RW* Roger White

SUBJECT: OREGON UNIVERSAL SERVICE FUND: (Docket No. UM 731) Restoring the Oregon Universal Service Fund surcharge rate to the level needed to stabilize the fund.

STAFF RECOMMENDATION:

Staff recommends that the Oregon Universal Service Fund (OUSF) end-user surcharge rate be increased from 4.05 percent to 6.55 percent.¹ If approved, the new surcharge rate will be assessed on intrastate telecommunications services billed to retail end-users beginning October 1, 2011.

DISCUSSION:

A. Fund Background

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

The OUSF collects money quarterly from approximately 290 of the approximately 400 certified telecommunications service providers (TSPs) based on their Oregon intrastate retail telecommunications revenues. These 290 companies have revenues above the threshold amount.² The money is distributed monthly to 25 eligible telecommunications

¹ The OUSF Advisory Board approved the recommended surcharge rate increase on July 14, 2011. All board members approved the increase except for one member who was unavailable for a vote.

² At the rate currently in effect, companies with revenues below \$247 do not have to pay into the fund.

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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. Recent Reduction

Between 2008 and 2009, the average balance of the OUSF fund was allowed to grow to over twice the upper management range.³ This was done to address two serious risks that the fund was facing: a significant increase in disbursements to the rural companies and the threat of up to a \$10 million withdrawal from the fund. On June 23, 2009, the memorandum of understanding between the Commission and the rural companies was extended for another three years, ending the first risk. This left only the risk of withdrawal outstanding.

During the August 2009 OUSF Board Meeting, the board members approved a single rate reduction that would slowly bring the average balance down to the target range by 2013. At that time, the board was still concerned about the second risk: a restatement of revenues by a large contributor resulting in a very substantial withdrawal from the fund. The rate change was approved by the Commission and went into effect at the beginning of the second quarter of 2010.

At the beginning of August 2010, an administrative rule⁴ was put in place that would require companies wishing to make very large withdrawals from the fund to spread the withdrawal over a three-year period. This change was too late for the August OUSF Board Meeting, but the board acted on it during the February 2011 board meeting. With the risk of a massive withdrawal gone, the board decided to implement a pair of rate changes to bring the average balance down into the desired management range.

To bring the fund back into the 3.5 to 4.0 month management range, the OUSF Advisory Board recommended, and the Commission approved, a surcharge rate reduction.⁵ The surcharge rate was decreased from 5.60 percent, which had been set in April 2010, to 4.05 percent for intrastate retail telecommunications services billed beginning April 1, 2011. The OUSF Advisory Board stated that this would be one of a pair of rate changes and that a rate increase would be requested for the fourth quarter of 2011. It is projected that a 4.05 percent surcharge rate for the second and third quarters of 2011 followed by an increase to 6.55 percent will have the fund balance back within the management range by the first quarter of 2012.

³ The fund is normally managed to keep the average balance between 3.5 and 4.0 times monthly expenditures, the fund's management range.

⁴ See Order No. 10-351 which modified OAR 860-032-0620.

⁵ See Order No. 11-052 which reduced the surcharge and contribution rates April 1, 2011.

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C. Rationale for Increasing the Surcharge Rate

The surcharge rate in effect for the second and third quarters of 2011 has reduced the fund's average balance and will have it within the acceptable management range by the first quarter of 2012. The proposed increase will stabilize the fund and maintain its average balance within the desired management range.

Table 1 provides a history of past rate adjustments starting with the inception of the fund through the proposed surcharge rate increase that is the one being requested in this Public Meeting memo.

Table 1
 Surcharge and Contribution Rates

| Order Number | Surcharge Rate | Contribution Rate | Effective Date |
|-------------------------|----------------|-------------------|----------------|
| Initial rate | 2.35% | 2.30% | Sep 1, 2000 |
| 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 |
| Order 03-594 | 6.50% | 6.10% | Jan 1, 2004 |
| 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 |
| Order 11-052 | 4.05% | 3.89% | Apr 1, 2011 |
| Proposed Surcharge Rate | 6.55% | 3.89% | Oct 1, 2011 |

With this rate increase, the fund should stabilize, dropping to 3.6 equivalent months and remain in the fund's desired management range through 2013.

PROPOSED COMMISSION MOTION:

An order be prepared in Docket No. UM 731, authorizing the OUSF surcharge rate to increase to 6.55 percent for intrastate retail telecommunications services billed beginning October 1, 2011.

UM 731-OUS Surcharge July 2011