

ORDER NO. 12 065

ENTERED FEB 28 2012

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1481

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Staff Investigation of the Oregon Universal
Service Fund.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on February 28, 2012, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter, attached as Appendix A.



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. 1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 28, 2012**

REGULAR X CONSENT _____ EFFECTIVE DATE February 29, 2012

DATE: February 7, 2012

TO: Public Utility Commission

FROM: Roger White *RW*

THROUGH: Bryan Conway *BC*

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: (Docket No. UM 1481) Transparency and accountability recommendation for the non-rural Oregon ILEC subsidiaries of Frontier and CenturyLink.

STAFF RECOMMENDATION:

Staff recommends the Commission approve the proposed means, shown in attached appendices A and B, to assure transparency and accountability of the non-rural Oregon Incumbent Local Exchange Carrier (ILEC) subsidiaries of Frontier and CenturyLink.

DISCUSSION:UM 1481, Order No. 10-496

On April 26, 2010, Docket No. UM 1481 was opened to conduct a full investigation of the Oregon Universal Service Fund (OUSF). The intent of this investigation was to determine how effective the OUSF has been in meeting its obligations laid out in ORS 759.425 and what modifications should be made to address the significant changes that have taken place in the telecommunications industry since the initial goals were set.

The first phase of Docket No. UM 1481 consisted of three workshops and two rounds of comments. These workshops and comments addressed the current status of the fund and recommendations for the fund's revision. Although there were a large number of issues covered in the comments, Order No. 10-496 concluded that all but accountability and transparency should be addressed in a later stage of the docket; it was noted that the other items deserved careful consideration and required more time than what was available in the first phase. A further reason for deferring the other issues for a later

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docket was the possibility of legislative activities at the state and federal level on these and related issues.

Order No. 10-496 in the section on Accountability proposed a clarification on how the OUSF funds should be used. That clarification stated that non-rural companies may only use OUSF distributions for investment in infrastructure or maintenance in areas with demonstrably higher installation and maintenance costs. These areas were further specified as those currently receiving high cost support.

UM 1481, Order No. 11-132

On February 22, 2011, Frontier and Qwest filed a joint motion for reconsideration and stay of Order No. 10-496. One of the principle objections the companies had with Order No. 10-496 was what they classified as a re-purposing of the fund when there was no evidentiary basis for any such changes. They contended that the Commission had specifically stated previously that the purpose of the OUSF is the transfer of implicit support to explicit support, and companies were required to file revenue-neutral cost studies to participate in the fund. The companies further argued that the notion of an infrastructure improvement fund was explicitly rejected in prior orders and that the clarification passage in Order No. 10-496 was not consistent with prior orders.

On April 25, 2011, the Commission signed Order No. 11-132 granting the motion for reconsideration and a stay of Order No. 10-496. On this same date, the Commission held a public meeting, which provided the parties the opportunity to express their views on the scope and timing of the investigation into the OUSF and the need for accountability and transparency with respect to the use of OUSF funds by the non-rural ILEC companies.

UM 1481, Order No. 11-192

On June 16, 2011, the Commission signed Order No. 11-192, which suspended Docket No. UM 1481 until such time as the Federal Communications Commission (FCC) issued its decision on the means by which federal support will be given for investment in broadband communications services in rural areas. This order also directed staff, Frontier, and CenturyLink to work together to develop and provide the Commission with recommendations as to the best means to assure transparency and accountability of the non-rural Oregon ILEC subsidiaries of Frontier and CenturyLink, for their use of Oregon Universal Service Fund distributions.

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The Joint Proposal

Since the existing OUSF framework of orders only called for a revenue-neutral rate filing by the two non-rural companies, there was no specific requirement in the past to establish a pool of funds that would be dedicated to offsetting investments and expenses in the high cost areas. Further, the companies successfully argued in their request for reconsideration that the notion of an infrastructure improvement fund was explicitly rejected in prior orders.

After several discussions between staff and the two companies concerning what information could reasonably be provided, it was decided that tracking the annual investments made in high cost areas by wire center would be a good interim step. Although staff would have preferred to see direct outside plant and central office expenses tracked at this level as well, the companies indicated that their records did not record the information at that level. In the end, staff and the companies agreed to an allocation of engineering, construction and maintenance expenses to each of the high cost wire centers.

On October 4, 2011, a notice was sent to each party in the docket describing the format that the companies would be required to use to submit data to staff on an annual basis and a description of the reporting requirements. This information is contained in attached appendices A and B. The parties were given three days to provide comments on what staff and the companies were proposing. Feedback was minimal, but favorable.

The proposed interim reporting process calls for the companies to provide annual investments and expenses at the wire center level for each of the high cost wire centers. Investments are to be broken out into three general categories: local loop, central office, and interoffice facilities. Expenses are an allocation of central office, cable and wire and network operations expense incurred by the company for the reporting year.

This report will identify how much is being spent in the high cost areas on a year-by-year basis, which can be compared to what the company is receiving in those areas from support and revenues derived from its customers in those areas. For a single year it would not be unexpected to see a significant difference between total support and expenditures for an area; however, over a period of years, one would expect to see total revenues from the customers and the support from the OUSF in those areas match up if the level of support is correctly set.

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PROPOSED COMMISSION MOTION:

The proposed means to assure transparency and accountability of the non-rural Oregon ILEC subsidiaries of Frontier and CenturyLink, as shown in attached appendices A and B, be approved.

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APPENDIX A

GENERAL INSTRUCTIONS:

INVESTMENT:

General

The reported investment is for the current year and can be reported on a percent completion basis if the project extends for more than one year. If an alternative method of reporting the investment is adopted, please provide a description of the methodology. Whichever methodology is used, it should be consistent across all three categories. The investments should not include any allocations.

Switch Investment

This will include all investment for the year that would fall under the Part 32 switch investment account. This should be the investment directly tied to a specific wire center and should include no allocations.

Interoffice Investment

This will include investment for the year that would fall under the Part 32 categories for circuit equipment and cable-and-wire equipment, which is associated with interoffice facilities. This should include only the portion that would be associated with a specific wire center. This should be the investment directly tied to a specific wire center and should include no allocations.

Local Loop Investment

This will include investment for the year that would fall under the Part 32 categories for circuit equipment and cable-and-wire equipment, which is associated with the local loop. This should be the investment directly tied to a specific wire center and should include no allocations.

EXPENSE:

Expense

This will include the expense incurred to support the network and will be restricted to the following general account groups: 6200, 6230, 6400, and 6530. If these expenses are allocated, please provide a description of the methodology with an example.

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APPENDIX B

QWEST HIGH COST WIRECENTERS			2010 INVESTMENT			
ID/Name	Wire Center	CLLI Code	Switch	Interoffice	Local Loop	Direct Expenses
1	Adair	ADAR				
2	Athens-Weston	ATHN				
3	Baker City	BAKR				
4	Black Butte	BLBT				
5	Blue River	BLRV				
6	Burlington	BURL				
7	Cannon Beach	CNBH				
8	Cottage Grove	CTGV				
9	Culp Creek	CLCK				
10	Culver	CLVR				
11	Falls City	FLCY				
12	Gold Hill	GLHL				
13	Independence	INDP				
14	Jacksonville	JCVL				
15	Jefferson	JFSN				
16	Junction City	JNCY				
17	La Pine	LAPI				
18	Leaburg	LEBG				
19	Lowell	LWLL				
20	Madras	MDRS				
21	Mapleton	MPTN				
22	Marcola	MRCL				
23	Milton Freewater	MLTN				
24	North Plains	NPLN				
25	Nyssa	NYSS				
26	Oakridge	OKRG				
27	Ontario	ONTR				
28	Oregon Slope	ORSL				
29	Prineville	PRVL				
30	Rainier	RANR				
31	Rogue River	RGRV				
32	Siletz	SLTZ				
33	Sisters	SSTR				
34	Spring River	SPRV				
35	Stanfield	STFD				
36	Sutherlin	STHR				
37	Toledo	TOLD				
38	Umatilla	UMTL				
39	Vale	VALE				
40	Veneta	VENT				
41	Warm Springs	WRSP				
42	Warrenton	WRTN				
43	Westport	WSPT				
44	Winston	WNTN				