

ORDER NO. 12 205

ENTERED JUN 05 2012

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1594

In the Matter of

OREGON UNIVERSAL SERVICE
SURCHARGE

Increases the Oregon Universal Service
Surcharge rates to fund the increase in
disbursements resulting from docket
UM 1017.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on June 5, 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. 2

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 5, 2012**

REGULAR X CONSENT _____ EFFECTIVE DATE July 1, 2012

DATE: May 22, 2012

TO: Public Utility Commission

FROM: Roger White *RW*

THROUGH: Jason Eisdorfer *E* and Bryan Conway *BC*

SUBJECT: OREGON UNIVERSAL SERVICE SURCHARGE: (Docket No. UM 1594)
Increases the Oregon Universal Service (OUS) surcharge rates to fund the increase in disbursements resulting from Docket No. UM 1017 Memorandum of Understanding.

STAFF RECOMMENDATION:

Staff recommends that Commission issue an Order increasing the Oregon Universal Service Fund (OUSF) surcharge rate to support an increased disbursement amount.¹ This proposed rate change would increase the surcharge rate from 6.55 percent to 8.5 percent.² The new surcharge rate would go into effect July 1, 2012.

DISCUSSION:

A. Impact of the Rate Change

Before going into the background and general discussion of the surcharge rate increase, it is useful to examine the impact of the proposed change. Since 2002, the OUSF surcharge rate has fluctuated around 6.5 percent. For four of the nine years during this period the rate was at 7.12 percent. Currently the rate is 6.55 percent. In terms of what a typical residential customer would see on their bill, the increase from the current 6.55 percent to 8.5 percent would result in a \$0.35 per month increase in their phone bill. From the perspective of a customer whose services are all subject to the OUSF surcharge, their bill would increase by 1.8 percent.

¹ Staff's recommendation regarding this rate increase is conditioned on the approval of the UM 1017 proposed Memorandum of Understanding (MOU) appearing on the June 5, 2012, Public Meeting Agenda.

² Docket No. UM 1594 is a docket recently opened to consider OUSF matters. Staff's understanding is that the requested Order would be issued within Docket UM 1594.

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B. 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 290 of the approximately 400 certified telecommunications service providers (TSPs) based on their Oregon intrastate retail telecommunications revenues. The remaining companies are exempt from paying because they have very low or no revenues. The OUSF distributes money monthly to 25 eligible telecommunications carriers (ETCs).³ Distributions are calculated using a wire center specific support per line multiplied by the number of basic service lines in the wire center.

Support per line for the eligible carriers was established in 2000 for the non-rural carriers, at that time US West and GTE, based on a national model. In 2003, the rural companies entered the OUSF. The rural companies' support, which was to be used to reduce the carrier common line charge element of their access rates, was calculated using their actual expenses and investments based on the detailed steps outlined in Order No. 03-082.

Unlike the non-rural companies that had their support per line set by a model and never updated, Order No. 03-082 called for the support per line for rural companies to be updated every three years or more frequently as necessary. The first support per line amounts for the rural companies were set in 2003 using the method prescribed by the order. In the next two triennial reviews, staff and the companies elected to hold the support amounts essentially flat.⁴

In the current triennial review, which was just completed, staff and the companies reached a settlement that calls for the annual disbursement amount to the rural companies to go from \$7 million to \$15 million.⁵ Total annual disbursements to both rural and non-rural companies would go from \$35 million to \$43 million. If the

³ The 25 companies consist of 24 Incumbent Local Exchange carriers (ILECs) and one competitive local exchange carrier.

⁴ In 2006, staff and the companies agreed to hold the increase in the resulting disbursement amounts to 15%; the actual increase would have been 80%. In 2009, the companies and staff agreed to make no changes in the support per line the companies were receiving.

⁵ This rate increase is the subject of the MOU that was recently filed in Docket UM 1017 and which is also being presented for the Commission's consideration at the June 5, 2012 Public Meeting.

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Commission approves this increase in disbursements, the surcharge rate needs to increase to keep the fund inflows and outflows in balance.

C. The Surcharge Rate

The 8.5 percent surcharge rate was calculated from a simple model that incorporates projected fund inflows and outflows based on historical trends and the assumptions being tested. Different surcharge rates or patterns of surcharge rates can be entered into the model and the impact on the average balance observed. The 8.5 percent rate was determined as the lowest rate that keeps the average balance high enough to cover the quarterly roll-up of the monthly disbursements. Because payments are made on a monthly basis and collections are made on a quarterly basis, it is important that the equivalent-month ratio stays above 3.0; this is the minimum level of float set in Order No. 99-197. The normal minimum management level is set slightly higher: 3.5 equivalent months.⁶ Because of the one quarter lag between when the rate goes into effect and when the inflows into the fund occur, one of the model assumptions was that the disbursement increase would take place in steps, with the full increase in outflows occurring in the first quarter of 2013.

On April 26, 2012, a special OUSF Advisory Board⁷ meeting was held to discuss the surcharge rate increase and to vote to recommend the increase to the Commission. With half the Board clearly opposed to increasing the surcharge rate, no formal vote was taken on the proposal and the meeting ended with the proposal to increase the rate neither being approved or rejected. The disagreement among Board members was not with the increase in disbursements, which all members appeared to support. The disagreement was with how the increase would be funded. The Board members opposing the surcharge rate increase felt that the funding should come from shifting money away from the non-rural companies to the rural companies rather than raising the surcharge rate.

Shifting support away from the non-rural companies could require recalculating the support per line by wire center. The method laid out in Order No. 00-312 for calculating the level of support for each of the non-rural companies' wire centers is complex and would require the updating of the model and collecting data that is currently not readily available today. To address the Board members' concerns with increasing the

⁶ Disbursement and average balance information is reported on a quarterly basis. Equivalent months are calculated from this information to show how many months the average balance will cover give the current level of disbursements.

⁷ OUSF board was created by Order No. 99-197 to advise and assist the Commission in following areas: the selection of the Administrator, the effective operations of the fund, and the evaluation of the success of the OUS program. The OUSF Board was also directed to review the OUSF budget and provide an interface between the Administrator and the telecommunications service providers.

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surcharge rate to fund the increased disbursements, rather than shifting costs, Staff has recommended that the Commission open an investigation into the OUSF. Parties will have the opportunity, within that docket, to provide testimony on the appropriateness of re-allocating the costs of the OUSF. In the meantime, the need for increased disbursements is clear and if the Commission approves the recommended increase to disbursement, Staff recommends that the Commission fund the disbursements through a surcharge rate increase.

PROPOSED COMMISSION MOTION:

An order be issued in Docket No. UM 1594 authorizing the OUSF surcharge rate to increase to 8.5 percent for intrastate retail telecommunications services billed beginning July 1, 2012.

UM 1594-OUSF Surcharge Rate Increase