ORDER NO. 25-342
ENTERED Aug. 29, 2025

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UT 125

In the Matter of

QWEST CORPORATION, fka U S WEST COMMUNICATIONS, INC., PRELIMINARY ORDER

Application for an Increase in Revenues.

DISPOSITION: THRESHOLD ISSUES RESOLVED; ADDITIONAL BRIEFING

TO BE SCHEDULED

Following a review of the parties' Phase I briefs in this matter, we issue this preliminary order to resolve two threshold issues: (1) the scope of these remand proceedings and (2) required agency review. We also request additional briefing consistent with these decisions.

I. INTRODUCTION

In these remand proceedings, the Court of Appeals has directed the Oregon Public Utility Commission (PUC) to reexamine whether the rates charged by Qwest Corporation (Qwest) for services used by independent payphone providers between 1997 and 2003 exceeded the amounts allowed by federal law. In *Northwest Public Communications Council v. Qwest*, 323 Or App 151 (2022) (*NPCC III*), the court held that our conclusion in Order No. 17-473—that Qwest's payphone rates satisfied federal law—was not supported by substantial evidence. The court reversed our decision and remanded it for reconsideration, and instructed that "if, after proper inquiry, the PUC finds that Qwest's pre-2003 payphone rates exceeded that allowed by federal law and amount to 'unjust and unreasonable exactions,' the PUC has a duty to protect ratepayers, including [payphone providers], by providing some appropriate remedy." 1

The parties disagree on whether Qwest's payphone services rates met federal requirements. The Northwest Public Communications Council (NPCC), a regional trade association representing payphone companies, contends that Qwest's rates exceeded federal standards and is obligated to provide refunds under prior PUC orders issued in

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¹NPCC III at 168.

Qwest's rate proceedings, docket UT 125. NPCC also maintains that no issues of fact remain for adjudication. NPCC believes that our review on remand is limited to determining whether the rates charged during 1997-2003 "matched" the rates the PUC found in 2007 to meet federal requirements. Qwest maintains that its payphone rates complied with the flexible federal standards adopted by the Federal Communications Commission (FCC) and, alternatively, argues that NPCC has waived its right to seek refunds. In addition, Qwest and Staff disagree with NPCC's proposed limited PUC review and contend the court required a full and proper rate inquiry.

For reasons explained below, we conclude that the Court of Appeal's *NPCC III* opinion conclusively decided that the PUC's prior orders *did not* require the refunds NPCC seeks. Thus, NPCC's arguments relying on prior PUC orders have been resolved by the court, and we cannot revisit them here. Similarly, Qwest's arguments that NPPC's arguments seeking refunds under prior PUC orders are barred by claim and issue preclusion are rendered moot.

We also conclude that, while the court concluded that refunds *might* be appropriate under state and federal law, it did not, as NPCC argues, find that the rates approved by the PUC in 2007 apply retroactively to the 1997 to 2003 period. Thus, the court did not limit our review to whether Qwest's the payphone services rates from the earlier period "matched" the rates later found to meet federal standards. To the contrary, the court directed the PUC to conduct a "proper inquiry" to determine whether "Qwest's pre-2003 payphone rates exceeded that allowed by federal law * * *."²

II. BACKGROUND

To provide context for our decisions, we begin with a brief discussion of the relevant federal law, followed by a summary of the key PUC orders and judicial decisions stemming from docket UT 125, Qwest's rate proceedings, and docket UC 600, NPCC's related complaint against Qwest.

A. 1996 Telecommunications Act and FCC Payphone Orders

In 1996 Congress amended the Federal Communications Act to improve local competition in the telecommunications industry. The 1996 Telecommunications Act included provisions, codified as 47 USC §276(a), that prohibit an incumbent local exchange carrier (ILEC) like Qwest from subsidizing its own payphone services, or taking actions that would discriminate in favor of its payphone service over independent payphone providers. The 1996 Telecommunications Act required the FCC to prescribe

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² NPCC III at 168.

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regulations governing payphone rates that must, at a minimum, meet a pricing standard called the new services test (NST). Under the NST, the cost for a service must be the direct cost of providing the services, together with an appropriate level of overhead costs.

In the following years, the FCC issued a series of orders to implement the 1996 Telecommunications Act. In summary, it required ILECs to develop NST-compliant payphone rates for state commission approval and charged state commissions with the responsibility to ensure that payphone rates: (1) were cost-based; (2) excluded subsidies from exchange and exchange access services; and (3) were nondiscriminatory. Payphone services include public access lines (PALs), which payphone providers use to connect to the telephone network, and fraud protection services, which payphone providers use to protect against fraudulent payphone use.

The FCC required ILECS to file new payphone tariffs by January 15, 1997, with an effective date no later than April 15, 1997. At the request of several ILECs, the FCC later granted an extension of time for the new tariffs. In its *Waiver Order*, the FCC gave the ILECs an additional 45 days (from April 15, 1997) to file NST-compliant tariffs (by May 19, 1997). The FCC imposed refund obligations on ILECs that relied on the extension of time to file NST complaint tariffs after the original April 15 deadline.

Qwest filed updated payphone services rates intended to meet the requirements of the FCC order in Advice No. 1688. The PUC approved Qwest's rates with an effective date of April 15, 1997.

B. PUC Docket UT 125 Rate Proceedings

During this time, Qwest had a general rate proceedings pending before the PUC. In 1991, the PUC had approved an alternative form of regulation (AFOR) for Qwest that gave the company greater flexibility to change rates without PUC approval, conditioned on Qwest fulfilling certain service quality requirements. In 1995, the PUC terminated Qwest's AFOR due to deteriorating service quality and directed Qwest to initiate a general rate proceedings. The PUC docketed the rate proceedings as docket UT 125 and adopted a two-phase procedural schedule: Phase I would determine Qwest's revenue requirement, while Phase II would set rates to allocate that revenue requirement among customer classes and services. Pending completion of both phases of the rate review, the PUC ordered all of Qwest's rates to be interim and subject to refund with interest as of May 1, 1996.

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C. Docket UT 125 Phase I

The PUC concluded Phase I in 2000 by entering Order Nos. 00-190 and 00-191, which reduced Qwest's overall revenues, and ordered refunds and bill credits. The refunds were designed to return to customers the revenues Qwest earned above what its overall revenue should have been while its rates were interim. The bill credits were designed to reduce Qwest's overall annual revenue until the PUC could complete Phase II.

NPCC did not appeal the Phase I orders, but as discussed below filed a complaint that the PUC docketed as docket UC 600.

D. Docket UT 125 Phase II

The PUC concluded Phase II in 2001 by entering Order No. 01-810 (docket *UT 125 Phase II Order*), which approved Qwest's proposed rates to implement the stipulated Phase I revenue requirement. As relevant here, the PUC agreed with Qwest that PAL rates should be essentially the same as rates charged for a business phone line. The PUC also approved Qwest's proposed rate for CustomNet, the company's fraud protection service. Over NPCC's objections, the PUC found that Qwest's PAL rates satisfied the NST, and that Qwest's fraud protection rates need not comply with the NST.

NPCC appealed the docket *UT 125 Phase II Order* and argued that the 1996 Telecommunications Act fundamentally changed the method for setting rates for payphone services. Specifically, NPCC maintained that federal law required the PUC to use a different rate-setting method for payphone services that focused on Qwest's cost of providing the specific payphone service rather than on its overall return.

In 2002, while the appeal of docket *UT 125 Phase II Order* was pending, Qwest proposed, and the PUC approved, significantly reduced payphone rates in Advice Nos. 1935 (effective March 17, 2003) and 1946 (effective August 28, 2003).

E. PUC Docket UC 600 Complaint

As noted above, NPCC did not appeal the PUC's Phase I orders, but instead filed a complaint in 2001 docketed as UC 600. In the complaint, NPCC claimed that its members were entitled to refunds in addition to those provided in the Phase I orders under the FCC's *Waiver Order*, which as discussed had provided ILECs additional time to file NST-compliant tariffs and imposed refund obligations on ILECs that relied on the extension of time.

The PUC denied NPCC's requests in Order No. 11-504 (docket *UC 600 Order*). The PUC found that Qwest did not rely on the extension provided by the *Waiver Order*, because it had already filed new payphone rates that were approved effective April 15, 1997. Thus, the PUC concluded that the refund obligations imposed under the *Waiver Order* were never triggered and granted Qwest's motion for summary judgment. NPPC appealed the docket *UC 600 Order* to the Court of Appeals.

F. Court of Appeals Decisions – Docket UT 125 Phase II Order (NPCC I) and Docket UC 600 Order (NPCC II)

In separate decisions, the Court of Appeals issued opinions resolving NPCC's appeals of the docket *UT 125 Phase II Order* and the docket *UC 600 Order*. In the appeal of docket *UT 125 Phase II Order*, the Court of Appeals agreed with NPCC that the PUC had failed to apply the federal methodology prescribed by the FCC for setting payphone service rates. In *Northwest Public Communications Counsel v Qwest*, 196 Or App 94 (2004) (*NPCC I*), the court remanded the case for the PUC to consider whether the approved payphone rates complied with the NST.

In the appeal of the docket *UC 600 Order*, however, the Court of Appeals affirmed the PUC's decision to grant Qwest's summary judgment. In *Northwest Public Communications Counsel v Qwest*, 279 Or App 626 (2015) (*NPCC II*), the court agreed with the PUC that Qwest did not rely on the FCC's *Waiver Order* but rather relied on its rates that had been approved by the PUC effective April 15, 1997. Thus, the court upheld the PUC's determination that no refund obligation under the *Waiver Order* had been triggered.

G. NPCC I Remand Proceedings

In response to the Court of Appeals remand of docket *UT 125 Phase II Order*, Qwest, NPCC, and the PUC staff entered a stipulation intended to resolve all issues. In the stipulation, all parties agreed that Qwest's PAL and fraud protection rates filed and approved by the PUC in Advice Nos. 1935 (effective March 17, 2003) and 1946 (effective August 28, 2003), complied with federal requirements, including the NST. The stipulation did not include any provisions requiring refunds. The PUC adopted the parties' stipulation in Order No. 07-479 (Docket *UT 125 Remand Order*). NPCC did not appeal.

H. 2017 Show Cause

Almost ten years after the docket *UT 125 Phase II Order* issued, NPCC filed a motion in 2017 for the PUC to issue an order requiring Qwest to show cause why it is not in violation of prior orders and state and federal law or, alternatively, to amend the 2007 docket *UT 125 Remand Order* to require Qwest to issue refunds for any excess revenue it previously collected under rates that failed to comply with the NST. Qwest raised numerous procedural and substantive objections to NPPC's motion, including that docket *UT 125 Remand Order* was final by operation of law and that NPCC had waived any claim it had for additional refunds.

The PUC denied NPCC's requests in Order No 17-473 (docket *UT 125 Show Cause Order*). First, the PUC agreed with Qwest that NPCC had effectively waived its right to challenge the prior payphone rates, but denied NPPC's motion on substantive grounds. The PUC found that its prior orders had previously determined Qwest's 1997 PAL rates (Advice No. 1668) to be NST-compliant and concluded that the docket *UT 125 Remand Order* had resolved all outstanding issues between the parties, including the issue of additional refunds for allegedly non-NST-compliant rates between 1996 and 2003. The PUC further concluded that there was "no legal error in our rate setting orders in this docket, and we find there is no other authority available to NPCC to seek refunds here."³

NPCC appealed the docket *UT 125 Show Cause Order* to the Court of Appeals.

I. Court of Appeals Decision – Docket UT 125 Show Cause Order (NPCC III)

The Court of Appeals did not address NPCC's arguments that the PUC erred in denying its motions on procedural grounds, "because the PUC concedes that it decided NPCC's motion on the merits and does not present any argument on appeal defending its order on procedural grounds."⁴

The Court of Appeals did, however, agree in part with NPCC's substantive arguments. In *Northwest Public Communications Council v. Qwest*, 323 Or App 151 (2022) (*NPCC III*), the court found that there was no substantial evidence to support two PUC's findings used to deny NPCC's motions: (1) that the PUC had previously determined Qwest's 1997 PAL rates to be NST-compliant, and (2) that the docket *UT 125 Remand Order* had resolved all of Qwest's refund liability from 1996-2003. Because those findings lacked substantial evidence, the court reversed the PUC's docket UT 125 Show Cause Order and remanded the matter for reconsideration.

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³ Order No. 17-473 at 6 (Nov. 16, 2017).

⁴ NPCC III at 163.

III. DISCUSSION

In their Phase I briefs, the parties have presented arguments under differing theories and frameworks for our consideration. Because these differing perspectives include threshold issues, we find it necessary to initially resolve two issues relating to the scope and nature of our review and invite additional briefing to allow the parties an opportunity to present more focused arguments under a common legal framework.

A. Scope of Remand Proceedings

A threshold issue is the scope of our proceedings on remand. Although NPCC and Qwest each criticize the other's representation of the procedural posture of this case, both parties fail to fully recognize that the Court of Appeal's *NPCC III* opinion decided many issues that they attempt to relitigate here. The scope of these proceedings is established by the court's opinion in *NPCC III*, and we must give effect to both the court's express and implied directions.⁵

In their respective briefs, both NPCC and Qwest renew many arguments raised in the initial 2017 show cause proceeding. NPCC again asserts that Qwest's refund obligation began when the PUC ordered all of Qwest's rates to be interim and subject to refund following the termination of the company's alternative form of regulation (AFOR) and pending an evaluation of Qwest's revenues in docket UT 125. NPCC adds that Qwest's refund obligation remained in effect until the PUC finally established final payphone rates that met federal requirements in the 2007 docket *UT 125 Remand Order*.

Similarly, Qwest renews many of its procedural and substantive challenges to NPPC's motions, including arguments that NPCC waived its right to seek refunds because it joined the stipulation approved by the PUC to resolve all issues on remand. Qwest also contends that NPCC's motions are barred by issue and claim preclusion.

A reading of *NPCC III*, however, shows that the Court of Appeals conclusively decided that the PUC's prior orders *did not* require the refunds NPCC seeks. The court framed NPCC's assignment of error in *NPCC III* as follows:

Turning to NPCC's substantive arguments, NPCC argues that the PUC erred in denying its motions because the PUC is required to order Qwest to issue refunds for alleged non-NST-complaint payphone rates between

⁵ See, Village at Main Street Phase II, LLC, v Dept. of Rev., 360 Or 738, 749 (2016).

1996 and 2003 under prior PUC orders in this docket and under state and federal law.⁶

Thus, the court identified three alleged sources requiring the refunds: (1) prior PUC orders, (2) state law, and (3) federal law.

The Court of Appeals then determined that the PUC's prior orders *did not* require Qwest to pay the refunds NPCC seeks. The court explained that, in docket UT 125 rate proceedings, "the PUC reviewed all of Qwest's telecommunications rates pursuant to the traditional regulatory method under Oregon law that focused on whether met its overall revenue requirement." For that reason, the court found that the refunds and rate credits the PUC ordered in this docket were designed to address "excess revenues Qwest had earned while its rates were interim" and were "based solely on the reduced revenue requirement under state law" and not obligations under federal law. 8

The Court of Appeals essentially separated obligations imposed by the PUC's docket UT 125 rate proceedings and those imposed for payphone services by the 1996 Telecommunications Act. The court clarified that the PUC had created a refund mechanism to protect ratepayers from Qwest *overearning* during the review of its rates in docket UT 125. In contrast, Section 276 and FCC regulations created separate obligations unrelated to an ILEC's revenue needs. To promote competition within the payphone industry, these new federal requirements dictated that payphone rates must be cost-based, and unrelated to Qwest's revenue requirement.

While the PUC reviewed payphone rates along with other rates in docket UT 125, the Court of Appeals, recognizing the differing regulatory frameworks, found that the docket UT 125 "refund and bill credits were based on 'the traditional procedure for reviewing a regulated utility's rate schedule." Because the docket UT 125 refund procedures were related to Qwest's overall revenues and not costs to provide payphone services, the court concluded that "none of the PUC's orders require Qwest to pay additional refunds" for alleged non-NST-compliant rates. ¹⁰

The Court of Appeals then laid the foundation for these remand proceedings when it further concluded that none of the prior PUC orders "preclude Qwest from additional refund liability for non-NST-complaint rates from 1996-2003." The court raised the

⁶ NPCC III, 323 Or App at 163-164 (emphasis supplied).

⁷ NPCC III, 323 Or App at 165.

⁸ *Id*.

⁹ *Id.* at 160.

¹⁰ *Id.* at 166.

¹¹ *Id.* at 167. (emphasis supplied.)

possibility that state and federal law may require the PUC to order the requested refunds, and highlighted the PUC's statutory powers and duties to protect ratepayers from unjust exactions:

Under the applicable regulatory scheme, the PUC does not have discretion to simply ignore NPCC's allegations that Qwest's pre-2003 payphone rates violate section 276. And if, after proper inquiry, the PUC finds that Qwest's pre-2003 payphone rates exceeded that allowed by federal law and amount to "unjust and unreasonable exactions," the PUC has a duty to protect ratepayers, including NPCC's members, by providing some appropriate remedy. ¹²

Ultimately, the Court of Appeals could not "determine whether state and federal law require the PUC to order the requested refunds, because the PUC has not yet determined whether Qwest's pre-2003 payphone rates complied with federal law." Because the PUC had not made that determination, the court held that the key findings in the appealed docket *UT 125 Show Cause Order* were not supported by substantial evidence, and reversed and remanded to the PUC for reconsideration.

Accordingly, the Court of Appeal's opinion narrowed the scope of these remand proceedings. First, the court upheld in part the PUC's denial of NPCC's motion by concluding that prior PUC orders did not require Qwest to pay refunds for payphone services. Thus, NPCC's arguments relying on prior PUC orders have been resolved by the court, and we cannot revisit them here. Similarly, Qwest's arguments that NPPC's arguments seeking refunds under prior PUC orders are barred by claim and issue preclusion are rendered moot.

Second, the Court of Appeals concluded that, while prior PUC orders did not require refunds, a remedy might be appropriate under state and federal law. The court, however, could not reach that issue finding that the PUC had never conclusively determined whether Qwest's prior payphone rates were compliant under federal law.

Thus, the task before us, as directed by the court, is two-fold. First, we must determine whether Qwest's rates for payphone services in effect from April 15, 1997, through 2003 complied with federal law. If not, we must examine whether our statutory obligations to protect ratepayers require the PUC to provide a remedy.

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¹² NPCC III, 323 Or App at 168.

¹³ *Id.* at 164.

B. Required PUC Review

The parties dispute the nature of review required by the PUC on remand to determine whether the rates charged by Qwest during the period in question met federal standards. NPCC contends that Qwest's payphone services rates from 1997-2003 rates were not NST-compliant for the simple reason that they exceeded the rates found to be NST-compliant in the PUC's 2007 docket UT 125 Remand Order. Thus, NPCC maintains that no issues of fact remain for adjudication. Simply stated, NPCC believes that "the inquiry the Court ordered was simply to determine whether or not Qwest's charges matched the NST rates set in Order 07-497." Because the earlier rates exceeded the later rates, NPCC concludes Qwest was charging non-NST-complaint rates for this period.

Qwest and Staff disagree with NPCC's simplistic approach. Qwest maintains that the FCC had adopted a flexible pricing scheme that evolved over time, and that its payphone services rates in effect between 1996 and 2003 complied with the FCC's then-existing formulation of the NST. ¹⁵ In other words, Qwest believes that the FCC's NST requirements changed prospectively during the period in question, and that it would be improper to apply new requirements retroactively to invalidate rates that satisfied prior requirements.

Staff agrees with Qwest that the Court of Appeal did not, as NPCC maintains, conclude that the NST-complaint rates set in 2007 apply retroactively to the period in question. Rather, Staff contends that "whether Qwest's payphone service rates complied with the NST prior to 2003 is a question for resolution in these proceedings, [and was] not one adjudicated by the court." ¹⁶

We agree with Qwest and Staff that NPCC has mischaracterized the Court of Appeals decision in *NPCC III* and reject its proposal to limit our review to whether the payphone services rates from 1997 to 2003 "matched" the rates found to be NST complaint in 2007. Contrary to NPCC's assertion, the court made no finding that the rates approved in 2007 "apply to the entire interim period May 1996 to November 2007." Rather, the court directed the PUC to conduct a "proper inquiry" to determine whether "Qwest's pre-2003 payphone rates exceeded that allowed by federal law * * *." 18

¹⁴ NPCC's Reply Brief at 61 (Apr. 24, 2025).

¹⁵ Qwest's Reply Brief at 3 (Apr. 24, 2025).

¹⁶ Staff's Response Brief at 17 (Mar. 27, 2025).

¹⁷ NPCC's Opening Brief at 17 (Jan. 12, 2024).

¹⁸ *NPCC III*, 323 Or App at 168.

Moreover, as explained by the FCC, the NST "places a *flexible, cost-based upper bound* on new service prices to guard against unreasonably high rates and, by requiring that prices exceed direct costs, also establishes a price floor, ensuring that prices are not predatory." In other words, the NST established rules to set a "maximum permissible rate and to require the incumbent LEC to charge no more than that rate." Thus, although the FCC imposed new standards to set rates for payphone services, it did not adopt a methodology that yields one precise result, but rather one that allows a permissible range. Moreover, there is no evidence in the record that the PUC concluded that the rates adopted by the PUC in 2007 for PALs and fraud protection services were the maximum permissible rates.

I. Interim Order and Additional Briefing

Because the parties' briefs relied on differing legal frameworks, the briefing to date has not provided a targeted discussion of relevant matters addressing the issues before us on remand. We invite further briefing on the previously identified two issues and provide specific directions to help focus the parties' arguments. Again, the two issues are:

- 1. Whether Qwest's rates for payphone services in effect from 1997 through 2003 complied with federal law, and
- 2. If not, whether the law requires the PUC to provide a remedy.

On the first question, we direct the parties to address the applicable provisions of the 1996 Telecommunications Act and the FCC's series of orders establishing the payphone services regulations. As recognized by the Court of Appeals, "[o]ver the years, the FCC has 'issued a series of orders intended to implement the requirements of the 1996 Act." Although the parties have addressed some of these FCC orders, none provide a comprehensive summary of those decisions with an analysis of their application to the rates in question here. We ask the parties to provide a more complete review of the FCC's orders, including the origins of the NST, and well as the FCC articulation of the NST over time as applied to payphone services.

The second question requires an examination into the PUC's refund authority. That issue was key in resolving a long-standing controversy related to Portland General Electric Company's recovery of undepreciated costs resulting from the premature retirement of

¹⁹ In the Matter of Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, 11 FCC Rcd 6716 at ¶46 (June 6, 1996). (emphasis supplied.) ²⁰ In the Matter of Wisconsin Public Service Commission; Order Directing Filings, 15 FCC Rcd 9978 ¶6 (Mar. 6, 2000).

²¹ NPCC III, 323 Or App at 157.

the Trojan nuclear power plant. That proceeding, which was specifically referenced by the Court of Appeals in *NPCC III*, similarly involved numerous court decisions and PUC proceedings. In Order No. 08487, the PUC reversed prior decisions and concluded this agency had "the authority to order a utility to issue refunds in unusual and limited circumstances." The Oregon Supreme Court ultimately affirmed the PUC's decision in *Gearheart v. PUC*, 356 Or 216 (2014). Parties are directed to provide an analysis of the applicability the PUC's limited refund authority as clarified by that case so that we can determine whether Qwest's rates, to the extent they exceed NST, constitute "unjust exactions" that should be remedied.

PRELIMINIARY ORDER

IT IS ORDERED that:

- 1. This scope of proceedings on remand and required agency review are established as clarified above.
- 2. The Administrative Hearings Division is directed to hold a scheduling conference to adopt a schedule for additional briefing.

Made, entered, and effective

August 29, 2025

Letha Tawney

Chair

Les Perkins

Commissioner

Karin Power

Commissioner

²² In the Matters of The Application of Portland General Electric Company for an Investigation into Least Cost Plan Plant Retirement (DR 10), Revised Tariffs Schedules for Electric Service in Oregon Filed by Portland General Electric Company (UE 88), and Portland General Electric Company's Application for an Accounting Order and for Order Approving Tariff Sheets Implementing Rate Reduction (Docket UM 989), Order No. 08-487 at 42 (Sept. 30, 2008).