

ULM1481
ITEM NO. 5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 26, 2010

REGULAR CONSENT EFFECTIVE DATE April 14, 2010

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FROM: ^{OW}Roger White

Public Utility Commission of Oregon
Administrative Hearing Division

THROUGH: ^{agw}Lee Sparling and ^{BC}Bryan Conway

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: Staff recommendation to open a docket to investigate the Oregon Universal Service Fund.

STAFF RECOMMENDATION:

Staff recommends that the Commission open a docket to conduct a full investigation of the Oregon Universal Service Fund.

DISCUSSION:

ORS 759.425 directed the Commission to establish a universal service fund and currently defines the key characteristics of the fund (e.g., who must pay into the fund, who can withdraw funds, etc.). The following discussion addresses the reason for an investigation, the history of the Oregon Universal Service Fund (Oregon USF), the size of the fund, and the issues to be investigated.

Reasons for an Investigation:

Due to changes in technology and anticipated Federal Communications Commission (FCC) action, the Commission should explore whether the Oregon USF should change from wireline support to broadband support and whether reforming the Oregon USF requires rebalancing intrastate access charges.

Changes in Technology:

The Commission has not investigated the performance and operation of the Oregon USF since its inception almost 15 years ago. Since that time, there have been significant changes in the telecommunications industry: the technology has changed from slow-speed, analog, voice service to high-speed, digital, voice-over-data service; cell phone use has gone from less than 15 percent of the population to almost 90

percent of the population and; the wire-line industry has experienced a loss in both lines and compensated minutes carried by their network.

Anticipated FCC Action:

The FCC has stated that it intends to change the supported services from voice service support to broadband support. With this change, the Federal Universal Service Fund (Federal USF) would provide support for fixed and mobile broadband services to qualifying consumers. Since the scope of the Oregon USF and underlying methodology for calculating support is in part defined by the Federal USF, major changes in the Federal USF should trigger a review of the Oregon USF. As part of the National Broadband Plan, the FCC is also reviewing intercarrier compensation rates (access charges) with a stated goal of reducing these rates.

History of the Oregon Universal Service Fund:

On December 19, 1994, Order No. 94-1852 opened Docket UM 731 to undertake a Universal Service Investigation. On January 12, 1995, a pre-hearing conference was held and at staff's request the investigation was bifurcated into two phases: Phase I addressed policy issues and proposals relating to universal service funding, Phase II addressed specific implementation issues. Staff identified four issues that needed to be addressed in Phase I:

1. How should universal service be defined?
2. What should the objective criteria be for universal service funding?
3. Who should pay for universal service and how should the assessment be levied?
4. Who should receive universal service assistance?

On October 17, 1995, in Order No. 95-1103, the Commission expressed its conclusions regarding the four issues that staff had proposed for Phase I:

Definition. Basic telephone service, for universal service purposes, is affordable switched access to the network, consisting of single-party, voice grade service with touch-tone capability. A customer would have access to local calling, including extended area service (EAS), and to ancillary services (e.g. operator services, 911). Toll blocking would be available at no cost for low-income customers. No specifications for data transmission or information service access are mandated at this time, but the Commission will monitor these issues.

Design. A universal service fund should (1) be administratively simple and low cost, (2) provide the minimum amount of support necessary to maintain affordable basic network access service, and (3) require the price of basic

service to cover costs prior to applying universal service credits. The universal service fund collection mechanism should (1) be supported by a broad user base and (2) be as competitively neutral as possible. Finally, distribution of universal service support should (1) maintain affordable basic local exchange service, (2) promote operating efficiency, and (3) eliminate artificial investment incentives.

Collection. The Commission adopts a gross revenue fee on all telecommunications providers to fund universal service. Legislation will be required to extend the Commission's statutory authority to include radio common carriers (RCCs) in the universal service collection and distribution mechanisms.

Distribution. The Commission adopts three basic methods of support for universal service: (1) support for local exchange carriers (LECs) who are carriers of last resort and whose overall rates would be excessive without universal service support; (2) support for targeted high-cost residential customers, triggered if the Commission orders fully regulated LECs to deaverage; and (3) expanded support for low-income residential customers.¹

On June 16, 2000, Order No. 00-312 (UM 731 Phase IV) approved the final plan for the Oregon USF and initiated the fund's operations for the non-rural companies: GTE (Verizon) and US West (Qwest). Beginning September 2000, all companies holding a certificate to provide intrastate service started collecting money from their customers, which was paid into the fund at the end of February 2001. At the beginning of May, Qwest and Verizon received their first disbursement from the Oregon USF.

In order to receive money from the Oregon USF, Verizon and Qwest agreed to a reduction in a variety of business rates; this reduction was done in Advice No. 719 and Advice No. 1844, approved in the March 6, 2001 Public Meeting. The reason for the reduction was the agreement by all parties that a revenue-neutral filing should be made by the telecommunications utilities to offset the Oregon USF support amounts received.

Further modifications to the Oregon USF were initiated on March 12, 2001, when Docket UM 1017 was opened to investigate how the rural telecommunication carriers could be brought into the fund. On May 23, 2001, the FCC released Order No. 01-157 relating to costs of rural telecommunications carriers. The FCC allowed the carriers to continue the use of embedded costs, but made modest modifications to the methodology.

On November 4, 2002, staff filed a stipulation that was agreeable to the Oregon Telecommunications Association Small Company Committee. The stipulation

¹ Order No. 95-1103, p. 2, Docket UM 731

established conditions for cost computation, contribution and billing, distributions, study areas, portability, and rate rebalancing. The stipulation also provided an estimate of the impact of the rural companies on the disbursements from the pool: an \$11.3 million increase to the \$47 million dollar pool. The major difference between the rural companies and the non-rural companies, as a result of the stipulation, were the following:

Cost Computation:

The rural companies would be allowed to develop their support per line using the costs taken from their income statements and balance sheets; the non-rural companies were required to use their forward-looking, modeled cost.

Study Area:

The small companies were allowed to develop their support per line on a total company basis, while the large companies had their support developed at the wire center level.

Rate rebalancing:

Both the rural and non-rural companies were required to file revenue-neutral tariff filings; the non-rural companies elected to reduce their business rates while the rural companies elected to reduce their access rates. As a result of this stipulation, each year when the small companies develop their access rates, the Oregon USF support is used to reduce the revenue requirement.

Size of the Fund:

Since its inception in the first quarter of 2001, the fund has distributed approximately \$425 million dollars and currently distributes approximately \$45 million dollars annually.

Issues to be investigated:

The basic issues that were identified in Phase I of Docket UM 731 should be re-visited in this investigation, along with three new ones. The issues that should be investigated are the following:

1. Should there continue to be an Oregon USF?
2. What services should the Oregon USF support?
3. How should the Oregon USF be designed for contribution purposes?
4. How should the Oregon USF be designed for distribution purposes?
5. What should be the requirements to qualify for Oregon USF support?
6. How should end-users contributions be assessed?
7. What changes, if any, should be made to intercarrier compensation, and is rate rebalancing required in order to implement changes to Oregon USF?

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PROPOSED COMMISSION MOTION:

A docket be opened to conduct a full investigation of the Oregon Universal Service Fund.

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