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June 4, 2012

**VIA E-MAIL AND U.S. MAIL**

Filing Center  
Oregon Public Utility Commission  
550 Capitol St NE Ste 215  
Salem, OR 97301-2551

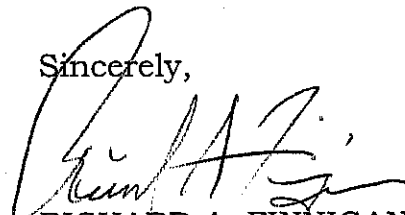
Re: UM 1017 – Response of the Oregon Telecommunications  
Association and Oregon Exchange Carrier Association to Verizon's  
Comments

Dear Sir/Madam:

Enclosed are the original and one copy of the Response of the Oregon  
Telecommunications Association and Oregon Exchange Carrier Association to  
Verizon's Comments. Also enclosed are the original and one copy of a  
Certificate of Service.

Thank you for your attention to this matter.

Sincerely,



RICHARD A. FINNIGAN

RAF/km  
Enclosures

cc: Service List (via e-mail)  
Clients (via e-mail)

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**BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON**

UM 1017

In the Matter of the Investigation into  
Expansion of the Oregon Universal Service  
Fund to Include the Service Areas of Rural  
Telecommunications Carriers.

RESPONSE OF THE OREGON  
TELECOMMUNICATIONS ASSOCIATION  
AND OREGON EXCHANGE CARRIER  
ASSOCIATION TO VERIZON'S  
COMMENTS

The Oregon Telecommunications Association ("OTA") and the Oregon Exchange Carrier Association ("OECA") are filing these Comments in response to Verizon's<sup>1</sup> Comments filed June 1, 2012, in this Docket. Verizon opposes the Joint Motion of OECA, OTA and Commission Staff to approve and accept the Memorandum of Understanding that is pending before the Commission. OTA and OECA respectfully request that the Commission not follow Verizon's recommendation. Rather, OTA and OECA request that the Commission accept and approve the Memorandum of Understanding.

I. The Need for Acceptance and Approval of the Memorandum of Understanding.

This matter comes at an extraordinarily critical juncture for rural telephone companies in Oregon. The rural companies in Oregon are struggling to comply with the Federal Communications Commission's *Transformational Order*<sup>2</sup> which requires substantial reductions in intrastate access

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<sup>1</sup> The Comments were filed by MCI Communications Services, Inc. d/b/a Verizon Business Service and MCI Metro Access Transmission Services LLC d/b/a Verizon Access, which together were labeled as Verizon.

<sup>2</sup> FCC No. 11-161 (released November 18, 2011).

1 rates with the reductions to take effect July 1, 2012.<sup>3</sup> Complicating this process is the fact that  
2 CenturyLink (legacy CenturyTel) and Frontier (legacy Citizens) made a decision to exit the OECA  
3 pools.<sup>4</sup> With CenturyLink and Frontier in the pools, the pool rate was lower than what it would be  
4 without those two companies participating in the pool. This has made the FCC mandated  
5 reductions that have to occur in the pool for intrastate access rates even more difficult.

6 At the same time, the FCC has frozen the level of intrastate access rates on the terminating  
7 side.<sup>5</sup> This means the only place that revenue can be raised in access charges if there is a shortfall  
8 in recovering the revenue requirement on the terminating side is through originating access rates.  
9 Without the OUSF support sought through the Memorandum of Understanding, the result would be  
10 that originating access rates for rural carriers in Oregon would increase to over \$0.25 per minute on  
11 average. This would likely translate to much higher toll rates for consumers in rural Oregon. It  
12 would also likely result in most interexchange carriers exiting rural markets, thereby limiting  
13 customer choice. This would be a disastrous consequence.

14 All of this comes at a time when the rural companies are fighting on their customers' behalf  
15 against rural call completion issues. As described in the Staff Comments in UM 1547, rural call  
16 completion issues have resulted in large volumes of calls not being terminated into rural company  
17 service areas. This means that customers in those areas become more isolated socially and the  
18 businesses in those areas suffer economically.

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<sup>3</sup> See, 47 C.F.R. § 51.909(b).  
<sup>4</sup> This should not be taken as a criticism of CenturyLink and Frontier. Their action was a natural outcome of their  
respective transactions in acquiring the legacy Verizon properties by Frontier and legacy Qwest by CenturyTel. The  
rural companies, legacy CenturyTel, Embarq and Citizens, are entitled to OUSF distributions from the rural portion of  
the OUSF to reflect their investments in serving rural Oregon.  
<sup>5</sup> 47 C.F.R. § 51.909(a).

1 II. Verizon's Arguments are Misleading.

2 In part of its argument, Verizon points to the FCC's Residential Rate Ceiling of \$30.00 and  
3 implies that rural companies should be at the \$30.00 level to receive funding from the OUSF.<sup>6</sup>  
4 What Verizon does in making this statement is to mislead the Commission. The Residential Rate  
5 Ceiling is a ceiling. It is not a determination of what the appropriate rate should be. The purpose of  
6 the ceiling is to limit when rural companies can apply the Access Recovery Charge of \$0.50 per  
7 month per customer as part of the access reduction recovery.<sup>7</sup>

8 The Residential Rate Ceiling consists of the flat rate charge for residential local service,  
9 EAS service charges, the federal SLC and ARC, and state USF contributions along with 911 and  
10 TRS charges. What this effectively means is that if an Oregon company has residential rates with  
11 EAS at approximately \$22.00 or more, it is already over the Residential Rate Ceiling.

12 Verizon argues that Oregon companies have low residential rates that can be increased.<sup>8</sup>  
13 However, there are fifteen rural companies that already exceed the FCC's Residential Rate Ceiling.  
14 For example, Canby's residential rate with EAS produces a rate of \$24.08. ColtonTel's residential  
15 rate with EAS is \$37.85. Molalla's residential rate with EAS is \$27.95. Monroe's residential rate  
16 with EAS is \$23.58. North-State's residential rate with EAS is \$26.80. For most rural companies in  
17 Oregon, residential rates are already substantially above the national average. Verizon's argument is  
18 misleading.

19 Verizon makes the further misleading statement that the OUSF surcharge is a tax.<sup>9</sup> The  
20 surcharge is not a tax. It is a charge placed on all customer of wireline companies<sup>10</sup> to recognize the

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22 <sup>6</sup> Verizon Comments at p. 6-7.

23 <sup>7</sup> See, FCC 11-161 at ¶¶ 913 and 914.

24 <sup>8</sup> Verizon Comments at p. 6-7.

25 <sup>9</sup> Verizon Comments at p. 4 and elsewhere.

26 <sup>10</sup> It is ironic that Verizon's largest set of operations, its wireless operations, do not contribute to the OUSF and if they did, the surcharge would be much less.

1 value of having a robust public switched telecommunications network (PSTN) throughout the state  
2 of Oregon. It is a surcharge on services that recognize those services use the rural portion of the  
3 PSTN and that the rural portion of the PSTN has a higher cost per customer to construct and  
4 maintain than does the urban portion of the PSTN. The PSTN is one network that exists throughout  
5 the state to serve all customers and the surcharge is a contribution to keeping the network viable for  
6 all customers throughout the state of Oregon.

7 As set out in the Memorandum of Understanding, the analysis contained within the  
8 Memorandum of Understanding is premised upon the Commission's orders in UM 1017. This year  
9 is the normal triennial review as established by the Commission in those orders. What the level of  
10 support reflects is the additional investments that rural companies have made to serve customers in  
11 rural Oregon since 2003.

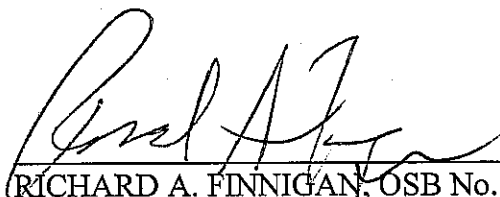
12 What Verizon fails to point out to the Commission is that the OUSF draws by the companies  
13 have not increased since 2003. They remained at 2003 levels after both the 2006 and 2009 triennial  
14 reviews for a variety of reasons. The important point is that the increase represented by the 2012  
15 Memorandum of Understanding is approximately a three percent per year increase from 2003. That  
16 is a modest increase on a per year basis when compared to the rate of inflation.

17 Verizon argues that if the Memorandum of Understanding is approved, the renewal process  
18 should be modified. Under the Commission's orders, the triennial review is supposed to set support  
19 for three years. Recognizing that there will be a review of the OUSF during this triennium, it was  
20 agreed that the Memorandum of Understanding would be set for a year-by-year renewal basis for  
21 those three years on the assumption that at some point in time it will be replaced by a Commission  
22 order. That process, as incorporated in the Memorandum of Understanding, reflects the  
23 Commission's existing orders and is a reasonable approach to be sure there is not a substantial  
24 disruption in service to customers in rural Oregon.

1 CONCLUSION

2 OTA and OECA have agreed to join in an examination of the OUSF. However, it is  
3 absolutely critical to avoid a major disruption to rural customers that the Memorandum of  
4 Understanding be approved and then the examination of the OUSF occur. Having originating  
5 access rates rise to \$0.25 per minute on average in rural Oregon will be a disaster. OTA and OECA  
6 respectfully request that the Commission approve the Memorandum of Understanding as set out in  
7 the Joint Motion filed with Commission Staff.

8 Respectfully submitted this 4th day of June, 2012.

9  
10 

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12 Attorney for the Oregon Telecommunications  
13 Association and the Oregon Exchange Carrier  
14 Association

**CERTIFICATE OF SERVICE  
UM 1017**

I certify that I have this day sent the attached Response of the Oregon Telecommunications Association and Oregon Exchange Carrier Association to Verizon's Comments by electronic mail and U.S. mail to the following:

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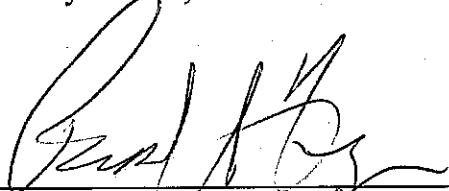
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