

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1481

In the Matter of)
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PUBLIC UTILITY COMMISSION OF)
OREGON Staff,)
)
Investigation of the Oregon Universal)
Service Fund)

OPENING COMMENTS
OF THE
CITIZENS' UTILITY BOARD OF OREGON

October 25, 2010



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I. Introduction

CUB appreciates the opportunity to comment on the Public Utility Commission (PUC) Staff's investigation of the Oregon Universal Service Fund (USF). The USF has long been an important resource for helping improve telecommunications access for rural and low-income customers. With the myriad changes that have come about in the telecommunications industry over the past few years, CUB agrees that it is time to reassess the purpose of the fund and how it operates.

CUB, however, has been frustrated that the workshops in this docket so far have only discussed the contents of the issues list, and not the actual issues that Staff, CUB, and other parties have concluded are germane to the discussion that this docket was created to facilitate. Furthermore, CUB notes that there is pending federal legislation pertaining to the federal USF, as well as pending FCC rulemaking for broadband capital funds related to the National Broadband Plan and the American Recovery and

Reinvestment Act (ARRA) that will greatly influence how Oregon should treat its state-level USF in future years.

CUB's Opening Comments will focus on general issues that CUB feels are important to discuss in this proceeding. Addressing every single issue in a 78-point issues list is cumbersome, repetitive, and largely unnecessary. Rather than responding to each item on the issues list, CUB will focus on the issues that are most pertinent to ensuring the continued success of the Oregon USF. Other segments of this testimony will be written on general topics and will reference individual issues as they pertain to CUB's discussion of the Oregon USF.

II. Current Administrative Issues Faced by the Current Oregon USF

The Oregon USF was established in 1995 to help expand telephone networks into rural areas that have high costs of service due to low population density and/or geographical issues. The fund has maintained a fairly simple structure for the duration of its lifetime, with customers of utilities from areas with lower costs of service paying into the fund and customers of utilities that have higher costs of service receiving subsidies from the fund. In recent years, however, the decline in customers of traditional, urban land line providers such as Qwest has resulted in a smaller base of customers contributing to the fund. On the other hand, rural carriers that traditionally receive subsidies are losing customers at a slower rate than the carriers that traditionally pay into the fund, resulting in an increasing funding gap.

Furthermore, the basic structure of the American telecommunications industry has changed greatly over the past decade. Many customers are opting to forego land line service entirely in favor of wireless service, while many others have switched from a

traditional land line carrier to a cable TV company or a VOIP provider. These carriers are not participants in the Oregon USF, so they neither pay into the fund nor receive subsidies from it for customers who may otherwise prefer to use their services. Given that this trend is likely to continue or even accelerate in the near future, measures must be taken to ensure that the Oregon USF remains viable.

A. Issue 1 – Is there a need for an Oregon Universal Service Fund (OUSF)?

Oregon’s USF should continue for traditional voice communication. The backbone of universal service has been standalone basic phone service. By supporting policies to keep stand alone basic local service affordable, Oregon ensures that all of its residents have access to emergency services, and to each other. While not all Oregonians want or can afford broadband service and the necessary on premises equipment, all Oregonians need basic access to phone service in their communities, including the ability to call 911 in emergencies.

B. Issue 34 – How should on-going support be targeted to high cost areas that contain no unsubsidized competitor?

It is important to recognize that while telecommunications services are increasingly competitive, there is almost no competition for stand-alone basic phone service. Ensuring the continuation of affordable stand-alone basic local phone service would not interfere with the competitive market, because affordable stand-alone basic local phone service is a service that is not competitive. In addition, universal service enhances all competitive phone offerings by increasing the number of households that have phone service. Whether land line or wireless, a phone is at its core a two-way communication tool, and its value is enhanced by the number of people that can be called.

III. Broadband Issues

Broadband is a fundamentally different service from basic local telephone service. Adding broadband to the requirements of the Oregon USF will require the taking of a different approach than that currently employed by the Commission. Universal service for voice communications is fundamentally about affordability, essentially ensuring that phones service is affordable even in high cost areas. Universal service for broadband, on the other hand, is fundamentally about access. The goal is to ensure that there is a provider of broadband services in all communities, but prices are left to the competitive market and there is no guarantee of universal affordability. However, because the focus is on underserved areas, USF support for broadband is not creating a competitive market, so affordability is largely ignored.

Finally, while not officially part of the Oregon USF, Oregon does have a program to pursue investments in areas that are currently underserved by broadband providers. In the Frontier/Verizon merger there was a condition for the company to invest \$25 million in broadband network improvements, primarily in underserved areas. Current and future merger dockets may well include similar conditions which would further improve Oregon's commitment to broadband network development. Such conditions provide for significant investment that goes a long distance towards expanding broadband access.

A. Issue 6 - Should the Commission retain the status quo until it knows what the FCC is doing and how the National Broadband Plan and American Recovery and Reinvestment Act are implemented?

CUB believes that it is in the best interests of the Commission and the parties participating in this docket to delay making final recommendations on broadband funding from the Oregon USF until the Obama Administration has made definitive decisions on

the amount of broadband funding it will include under the American Recovery and Reinvestment Act (ARRA). Additionally, the Boucher-Terry Universal Service Reform Act of 2010,¹ which would restructure the federal USF to provide funding for broadband subsidies, is still pending in the US House.

B. Issue 52 – With most of the small companies already providing broadband service to a high percentage of their customers and the large companies being required to do the same as part of settlement conditions, is there a need for a fund focused on broadband service?

CUB sees a need for a fund for broadband service, particularly in underserved rural areas of Oregon, but the focus of that fund is not entirely clear. Broadband Internet access has emerged as an essential telecommunication service in the last few years, and the increasing reliance of everyday tasks on broadband access will only accelerate in the future. Communities and individuals that do not have reliable high-speed Internet access will be on the losing side of the growing technological divide. Whether a fund should focus on development of broadband networks or should focus on reducing the cost of broadband for low income households, however, is not entirely clear. It makes sense for Oregon to wait until the federal role is determined and the plans for the current required investment are made clear before such a program is designed.

C. Issue 53 – Should a company that receives OUSF be required to provide access to all its customers at the same speeds, ensuring that customers in rural or poorer communities receive the same quality of broadband throughout Oregon?

CUB believes that this condition in particular is unnecessary and misguided. A basic minimum standard of service should certainly be established by the Commission. Mandating uniform service speeds, however, penalizes customers who are willing to pay for better service, and would result in many providers holding speeds down to the bare

¹ H.R. 5828, Introduced July 22, 2010.

minimum for all customers, even in areas where a network is capable of handling much higher speed data traffic.

IV. Funding Issues

A. Issue 66 - Should all communications service providers operating in Oregon contribute to the fund, including wireless and VoIP providers?

CUB would encourage the Commission to use its authority – to the extent practicable – to include wireless, VOIP, cable, and other providers of voice telecommunications services to make contributions to the Oregon USF. While many of these carriers are not regulated by the Oregon PUC, the shift in customer base away from traditional land line phone providers to the newer generation of IP-based phone carriers has resulted in a significant decrease in the Oregon USF’s revenues. CUB would like to see a revenue-based calculation of the USF assessment (see Section IV.B. below), but understands that many of these carriers offer flat rate plans that would make that calculation difficult.

B. Issue 67 – Should the basis for contributing to the fund be revenues, telephone numbers (or their equivalent), or some other basis?

CUB advocates that contributions to the Oregon USF be determined on the basis of carrier revenues. Assessing contributions on the basis of telephone numbers places a disproportionate burden on low-volume users, whereas calculating contributions based on revenues allows for charges to be based on the volume of local and intrastate calls made by customers.

C. Issue 68 – If categories of companies are ineligible for support, should they or their customers be required to pay into the fund?

CUB argues that all voice communications carriers in the state should contribute to the Oregon USF. There are currently carriers – or at least large numbers of exchanges – that are paying into the Oregon USF that are ineligible to receive funding. Excluding these carriers from contributing would severely limit the amount of funding available. In other words, while only certain carriers or exchanges should be determined to be eligible to receive funding from the Oregon USF, ideally all other carriers and their customers would pay into the fund. As CUB has pointed out, expanding the universe of households with phones increases the value of service to all other phone users.

V. Conclusion

CUB has decided to submit fairly brief comments in the opening round in this docket, and has only selected a few key issues on which to comment specifically. Other parties will undoubtedly address most or all of the issues contained in the Staff Issues List. CUB looks forward to reading the comments of other parties and offering a more complete analysis of the issues at hand in this docket in the next round of comments.

Respectfully Submitted,



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UM 1481 – CERTIFICATE OF SERVICE

I hereby certify that, on this 25th day of October, 2010, I served the foregoing **OPENING COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UM 1481 upon each party listed in the UM 1481 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending 2 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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