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October 25, 2010

Honorable Shani Pines, Administrative Law Judge  
Oregon Public Utility Commission  
P. O. Box 2148  
Salem, OR 97308-2148

RE: UM 1481 – Staff Investigation of the Oregon Universal Service Fund – Qwest’s  
Opening Comments

Dear Judge Pines:

As requested in the Telephone Conference Report, Docket UM 1481, filed on June 22, 2010, Qwest hereby files its opening comments in this matter.

Qwest believes that the consolidated issues list is best addressed by starting with an examination of the existing Oregon USF. It is the current policy of the State of Oregon that every customer should have affordable access to basic telephone services. To that end, the 1999 Oregon Legislative Assembly directed the Public Utility Commission of Oregon (PUC) to establish and implement an Oregon Universal Service (OUS) fund. The OUS fund is codified under the Oregon Revised Statutes (ORS) 759.425. ORS 759.425 stated that “The Public Utility Commission shall establish and implement a competitively neutral and nondiscriminatory universal service fund. Subject to subsection (6) of this section, the commission shall use the universal service fund to ensure basic telephone service is available at a reasonable and affordable rate.” In UM 731, the PUC instituted a fund which targets support for non-rural carriers to high cost wire centers and provides explicit support for high cost lines in these areas. The high cost wire centers are determined based upon a forward-looking economic cost model developed by the FCC. Using a forward-looking economic cost model and

targeting support to the wire center insures that the fund is based on efficient carrier costs.

The cost model is designed to identify the efficient amount of support needed to operate high cost wire center. Once this efficient support per line is identified, it is provided to the eligible telecommunications carriers for each line served in the identified high cost wire center. Because the OUS support per-line payments are now received by LECs as explicit support under the OUS program, the PUC reduces certain business and non-basic telephone service prices in an amount equal to the OUS support received by each LEC. The effect is to replace implicit universal service support derived from traditional telephone service pricing with explicit universal service support from the OUS Fund. Such price reductions are effective when LECs receive their first OUS support payments and continue for the period that support is received.

UM 1017 established support for rural ILECs in Oregon based upon their embedded costs through a Memorandum of Understanding. The purpose of these two mechanisms is to maintain basic local telephone service at reasonable and affordable rates.

As of March 2009, over 98 percent of the households in Oregon subscribed to basic telephone service<sup>1</sup>. This statistic indicates that the Oregon universal service programs instituted by the Commission have been a successful part of making basic telephone service affordable to Oregon consumers. The penetration statistics support the notion of overall effectiveness of the current program meeting its main goals. However, the PUC should examine data to determine if small geographic pockets within the state are underserved and have any special circumstances that may cause these areas to lag other areas within the state. One means of examining these underlying details is to utilize the OUS Advisory Board (established by the PUC), which among other duties, assists the PUC in evaluating the success of the OUS program. This OUS Advisory Board should be called upon by the PUC to develop a better understanding of the strengths and weaknesses of the current program exist. The Advisory Board can be directed to develop alternative proposals for mitigating any shortcomings in the current mechanism in meeting the goals of providing affordable access to basic local service.

The OUS fund mechanism is designed to complement the federal Universal Service High-Cost Fund mechanism. Therefore, it makes sense to reexamine the purpose and goals of Oregon's universal service policies in light of the changing Federal policies and mechanisms. On the Federal side, the FCC's National Broadband Plan has created a high level roadmap for the FCC to follow for expanding broadband deployment, for the reform of its Federal universal service and for the reform of intercarrier compensation policies and rules. At this point in time, the FCC is just beginning the process to implement the National Broadband Plan by issuing numerous Notices of Inquiry and Notices of Proposed Rulemaking. Until the FCC issues rules concerning new definitions of supported services, new programs supporting the deployment of broadband in high cost areas, and new rules governing interconnection between carriers, it is premature for

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<sup>1</sup> Telephone Penetration by Income by State, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, released May 2010, Table 3. This figure includes wireline, wireless and cable subscribers.

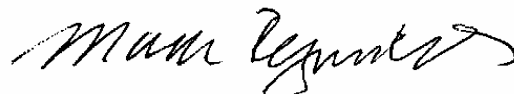
the states to develop complementary systems to enhance and cover gaps that result from the implementation of the new federal programs. Additionally, if broadband is to be considered a supported service, the results of the broadband mapping process are vital components in the consideration of where support might be required.

Once new Federal rules are in place it makes sense for the PUC to reexamine which services should be supported and how support should be efficiently distributed to meet the goals of expanding the supported service. In developing Oregon specific policies, the PUC should consider the following principles:

- Support for broadband services should only be provided to unserved areas where a positive business case cannot be made for deploying broadband at the defined speeds;
- Support for expanding broadband service to unserved areas should be on an RFP basis to receive a one-time grant to serve an area for a specified period of time. The carriers' proposal defines the area for expansion, the speeds of the service to be provided, the price of service, and provides the carrier's qualifications to provide the service;
- Support should only be provided to a single carrier to expand services in each unserved area; and
- On-going support in high cost areas where broadband and voice services are already deployed by an ETCs may be necessary. These could be areas currently receiving OUS support.

Qwest appreciates this opportunity to file written comments on the issues raised in this docket. If you have questions concerning this filing, please contact Mark Reynolds at 206-345-1568.

Sincerely,

A handwritten signature in black ink that reads "Mark Reynolds". The signature is written in a cursive, flowing style.

cc: Certificate of Service

## CERTIFICATE OF SERVICE

### UM 1481

I hereby certify that on the 25<sup>th</sup> day of October 2010, I served the foregoing **QWEST CORPORATION'S OPENING COMMENTS** in the above entitled docket on the following persons via U.S. Mail, by mailing a correct copy to them in a sealed envelope, with postage prepaid, addressed to them at their regular office address shown below, and deposited in the U.S. post office at Portland, Oregon.

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DATED this 25<sup>th</sup> day of October, 2010.

**QWEST CORPORATION**



By: \_\_\_\_\_

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