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May 30, 2012

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

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

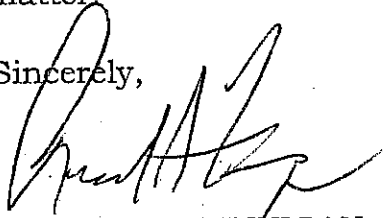
Re: UM 1017 – Replacement Memorandum of Understanding

Dear Sir/Madam:

Enclosed are the original and one copy of a Memorandum of Understanding that replaces the Memorandum of Understanding that was filed with the Commission on May 22, 2012. 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)

1  
2  
3  
4  
5 **BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON**

6 UM 1017

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

MEMORANDUM OF UNDERSTANDING

10 This Memorandum of Understanding is entered into by and between the Public Utility  
11 Commission of Oregon Staff ("Staff"), the Oregon Exchange Carrier Association ("OECA") and  
12 the Oregon Telecommunications Association ("OTA") on behalf of its members.<sup>1</sup>

13 BACKGROUND

14 Under the terms and conditions set out by the Commission in its Order No. 03-082 in this  
15 Docket ("Commission Order"), the Commission is to conduct a triennial review of the costs of  
16 those companies drawing from the rural company portion of the Oregon Universal Service Fund  
17

18  
19 <sup>1</sup> For purposes of this Memorandum of Understanding, OTA's members are as follows: Asotin Telephone Company  
20 d/b/a TDS Telecom, Beaver Creek Cooperative Telephone Company, Canby Telephone Association d/b/a Canby  
21 Telcom, Cascade Utilities, Inc. d/b/a Reliance Connects, CenturyTel of Eastern Oregon, Inc. d/b/a CenturyLink,  
22 CenturyTel of Oregon, Inc. d/b/a CenturyLink, Citizens Telecommunications Company of Oregon d/b/a Frontier, Clear  
23 Creek Mutual Telephone Company d/b/a Clear Creek Communications, Colton Telephone Company d/b/a ColtonTel,  
24 Eagle Telephone System, Inc., Gervais Telephone Company, Helix Telephone Company, Home Telephone Company  
25 d/b/a TDS Telecom, Molalla Telephone Company d/b/a Molalla Communications, Monitor Cooperative Telephone  
26 Company, Monroe Telephone Company, Mt. Angel Telephone Company, Nehalem Telecommunications, Inc. d/b/a  
RTI Nehalem Telecom, North-State Telephone Company, Oregon-Idaho Utilities, Inc., Oregon Telephone Corporation,  
People's Telephone Company, Pine Telephone System, Inc., Pioneer Telephone Cooperative, Roome  
Telecommunications Inc., St. Paul Cooperative Telephone Association, Scio Mutual Telephone Association, United  
Telephone Company of the Northwest d/b/a CenturyLink, Stayton Cooperative Telephone Company and Trans-  
Cascades Telephone Company d/b/a Reliance Connects.

MEMORANDUM  
OF UNDERSTANDING - 1

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1 ("OUSF"). Under the standards set forth in the Commission Order, that review is to be conducted  
2 in 2012, with a target effective date of July 1, 2012. The review is based on the 2010 Form I  
3 submitted by each company to the Commission in the fall of 2011.

4 Under the Commission Order, initial support for the rural companies was predicated upon  
5 the formula adopted in the Commission Order, which was based upon a review of each company's  
6 costs as set out on the 2001 Form I for each company. Because of concerns about the effect on the  
7 OUSF surcharge, and, thus, customers, the triennial reviews in 2006 and 2009 resulted in  
8 memorandums of understanding that in 2006 capped the OUSF surcharge for that triennium and in  
9 2009 froze the support amounts for the rural companies for that triennium.

10 Commission Staff reviewed the 2010 Form I as submitted by each of the rural incumbent  
11 local exchange carriers ("rural ILECs"). Based upon that review, Commission Staff found that if all  
12 aspects of the Commission Order were applied on a step-by-step basis, there would be a  
13 substantially larger increase in the size of the OUSF than anticipated. The theoretical draw which  
14 was calculated based upon the review of each individual company's 2010 Form I would increase the  
15 draw from the current level of \$6.8 million to more than \$30 million. This would require  
16 substantially increasing the OUSF surcharge rate or taking action to possibly modify the formula  
17 that is contained in the Commission Order.

18 A workshop was held to discuss the possible increases to the size of the draw from the  
19 OUSF by rural ILECs and steps that might be taken to mitigate that draw. The industry held several  
20 meetings among the rural ILECs and presented a proposal to Commission Staff. Commission Staff  
21 provided its feedback. Based on that feedback, the rural ILECs and Commission Staff developed a  
22 compromise proposal.

23 The compromise proposal is premised upon the idea that for purposes of the initiation of this  
24 triennial review, the OUSF surcharge should not exceed 8.5%. This compromise proposal  
25

26 MEMORANDUM  
OF UNDERSTANDING - 2

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1 represents a substantial amount of negotiation and compromise both (a) among the rural ILECs and  
2 (b) between the rural ILECs and Commission Staff. As a result of limiting the OUSF surcharge for  
3 the initiation of this triennial review to 8.5%,<sup>2</sup> it is anticipated that the OUSF surcharge will  
4 generate \$15,650,000 in total for the rural company portion of the OUSF rather than \$30,000,000 in  
5 total for the rural company portion of the OUSF.

6 On the basis of the foregoing, Staff, OTA and OECA offer the following:

7 MEMORANDUM OF UNDERSTANDING

8 A. OUSF Support Amounts.

9 This triennium will begin with an OUSF surcharge of 8.5%. This 8.5% surcharge is  
10 expected to generate \$15,650,000 in total distributions for the rural company portion of the OUSF.  
11 To achieve that level of distribution, all rural ILECs have agreed to accept less than the full amount  
12 that they would otherwise be entitled to under the current UM 1017 mechanism. The estimated  
13 distributions are set out in Attachment 1, which is incorporated herein as if fully set forth.

14 The support will be calculated on a per line amount. The per line amount will be initially  
15 based on the January, 2012, line counts. The per line amount will be adjusted every six months  
16 based upon a six month trailing line count. For example, since the July, 2012, distributions are  
17 based on a January, 2012, line count, the distributions beginning in January of 2013 will be based  
18 upon July, 2012, line counts. The per line amount will be adjusted every six months in this fashion.

19 B. OUSF Reserve.

20 The rural ILECs and Commission Staff agree that the OUSF needs to have a reserve fund  
21 that ideally has an average balance for any quarter staying above 3.5 equivalent months of cash  
22 reserve. To accommodate this requirement and to allow new draws to begin July 1, 2012, eligible  
23

24  
25 <sup>2</sup> It should be kept in mind that the OUSF surcharge also funds the non-rural portion of the OUSF.

1 rural ILECs will take 75% of their eligible distribution between July 1, 2012, and January 31, 2013.  
2 Beginning with February, 2013, the draws will reflect 100% of the eligible draws for each eligible  
3 rural ILEC. This means that the OUSF average balance will drop to 3.2 equivalent months and stay  
4 between 3.2 and 3.3 equivalent months until the next required support review at the beginning of  
5 2015.

6 C. Use of OUSF Distributions.

7 Consistent with the provisions of the Stipulation adopted in Order No. 03-082, distributions  
8 received under the OUSF shall first be applied by a rural ILEC to reduce its carrier common line  
9 charge to the extent not reduced by actions required to be taken by the rural ILEC pursuant to the  
10 Federal Communications Commission's ("FCC") Order No. 11-161 ("FCC 11-161"). OUSF  
11 support is to be viewed as complementary to support that the rural ILEC may receive from federal  
12 universal service funds under the implementation of FCC 11-161, not a substitute of such support or  
13 duplication of such support. After reducing the carrier common line charge, a rural ILEC may  
14 apply OUSF distributions for the purpose of keeping local service rates lower than they might  
15 otherwise be required to be in light of the rural ILECs' local service revenue requirement. This  
16 includes, but is not limited to, recovery of amounts lost under the FCC's intercarrier compensation  
17 reform rules that are not replaced with federal support under the FCC's rules adopted in FCC 11-  
18 161.<sup>3</sup>

19 D. Duration of Memorandum of Understanding - Exceptions.

20 The parties to this Memorandum of Understanding intend that the limitations set forth in this  
21 Memorandum of Understanding will be in effect for one year but may terminate earlier upon the  
22 Commission's issuing an order revising the Oregon Universal Service Fund: provided, that, this

23 \_\_\_\_\_

24 <sup>3</sup> Reference to FCC 11-161 is meant to include subsequent FCC orders in the same dockets, such as orders of  
25 clarification or reconsideration.

1 Memorandum of Understanding shall renew for no more than two successive one-year periods,  
2 subject to the right of any party to file an objection to the renewal with the Commission. If a party  
3 desires to file an objection to renewal, it shall do so by March 1 of the year preceding the July 1  
4 renewal. Any renewal shall be subject to early termination upon the Commission issuing an order  
5 revising the Oregon Universal Service Fund. However, the rural ILECs and Staff agree that any  
6 party may file a petition to seek Commission review of the limitations on this Memorandum of  
7 Understanding upon either: a) an increase to the contribution base; b) a decrease in the number of  
8 eligible telecommunications carriers receiving support from the OUSF; c) there is a material,  
9 overall increase in federal universal service support for the rural ILECs; or d) other good cause.  
10 The parties further agree that the interim limitations will not automatically terminate merely  
11 because a party has filed a petition as described above, but will continue until the Commission  
12 issues a final order which grants, denies or takes other appropriate final action upon the petition.  
13 Finally, each party reserves the right to make whatever arguments they deem appropriate in any  
14 docket resulting from the filing of the aforementioned petition. For purposes of filing an objection  
15 or petition, "party" refers to a party in UM 1017.

16 E. Request for Opening of Generic Docket to Consider Reform to the OUSF.

17 The parties to this Memorandum of Understanding agree that they will, at the Commission  
18 Public Meeting at which the Commission considers whether to approve this Memorandum of  
19 Understanding, jointly recommend to the Commission that it open as soon as possible a generic  
20 docket to investigate reform of the Oregon Universal Service Fund,

21 F. Waiver of Stipulation and Reservation of Positions.

22 To the extent inconsistent with this Memorandum of Understanding, the provisions of the  
23 Stipulation adopted in Order No. 03-082 are deemed waived for this triennium to accommodate this  
24 Memorandum of Understanding.

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26 MEMORANDUM  
OF UNDERSTANDING - 5

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1 This Memorandum of Understanding constitutes an interim proposal and should not be  
2 interpreted as incorporating any agreement as to the theoretical basis to adjust any aspect of the  
3 Commission Order other than an agreed limitation on the OUSF support as set forth in this  
4 Memorandum of Understanding.

5 G. Advantages of this Memorandum of Understanding.

6 An advantage of the proposal set forth in this Memorandum of Understanding is that the  
7 increase in the OUSF surcharge is much lower than if the UM 1017 mechanism had been fully  
8 implemented.

9 A further advantage to the agreed limitations in this Memorandum of Understanding is that  
10 it can be implemented effective July 1, 2012.

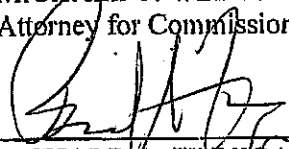
11 Another advantage of the interim limitation as set forth in this Memorandum of  
12 Understanding is that all parties avoid the significant transactional costs that the reopening of  
13 Docket No. UM 1017 would entail.

14 CONCLUSION

15 For the reasons set forth above, Staff, OTA and OECA respectfully submit the  
16 Memorandum of Understanding for Commission consideration.

17 Respectfully submitted this 22nd day of May, 2012.

18  
19 By:   
20 MICHAEL T. WEIRICH, OSB No. 82425  
21 Attorney for Commission Staff

22 By:   
23 RICHARD A. FINNIGAN, OSB No. 965357  
24 Attorney for the Oregon Telecommunications  
25 Association and the Oregon Exchange Carrier  
26 Association

MEMORANDUM  
OF UNDERSTANDING - 6

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**CERTIFICATE OF SERVICE  
UM 1017**

I certify that I have this day sent the attached replacement Memorandum of Understanding by electronic mail and U.S. mail to the following:

FILING CENTER  
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I further certify that I have this day sent the attached replacement Memorandum of Understanding by electronic mail to the following parties or attorneys of parties:

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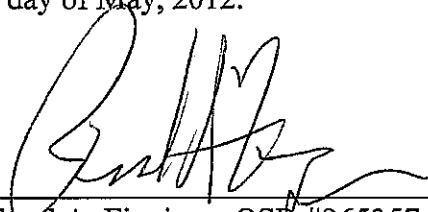
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15 Dated at Olympia, Washington, this 30th day of May, 2012.

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21 Attorney for the Oregon Exchange Carrier Association  
22 and the Oregon Telecommunications Association  
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