

Law Office of  
Richard A. Finnigan  
2112 Black Lake Blvd. SW  
Olympia, Washington 98512  
Fax (360) 587-3852

Richard A. Finnigan  
(360) 956-7001  
rickfinn@localaccess.com

Kathy McCrary, Paralegal  
(360) 753-7012  
kathym@localaccess.com

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May 22, 2012

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

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

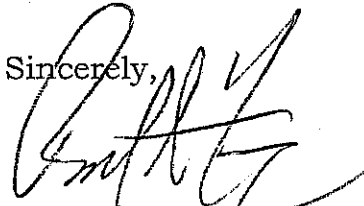
Re: UM 1017 – Joint Motion to Approve and Accept Memorandum of Understanding

Dear Sir/Madam:

Enclosed are the original and one copy of a Joint Motion to Approve and Accept Memorandum of Understanding. 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)  
Client (via e-mail)

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3  
4 **BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON**

5 UM 1017

6  
7 In the Matter of the Investigation into  
8 Expansion of the Oregon Universal Service  
9 Fund to Include the Service Areas of Rural  
10 Telecommunications Carriers.

11 **JOINT MOTION TO APPROVE AND  
12 ACCEPT MEMORANDUM OF  
13 UNDERSTANDING**

14  
15 This Motion to Approve and Accept Memorandum of Understanding ("Motion") is brought  
16 jointly by the Public Utility Commission of Oregon Staff ("Staff"), the Oregon Exchange Carrier  
17 Association ("OECA") on behalf of its members and the Oregon Telecommunications Association  
18 ("OTA") on behalf of its members. Appendix A lists the members of OECA and OTA.

19 **BACKGROUND**

20 In Order No. 03-082 entered in this Docket, the Commission established the initial Oregon  
21 Universal Service Fund ("OUSF") support for rural telephone companies. The Commission further  
22 directed that a triennial review of the cost of the companies trying for the rural company portion of  
23 the OUSF be undertaken.

24 This is the third triennial review. The Staff review indicated that a substantial increase in  
25 the draw from the OUSF was a probable outcome of the review. In fact, the rural portion of the  
26 OUSF was projected to increase to over \$30,000,000 from the current level of about six million  
dollars. Because the projected amount of OUSF support would result in an OUSF surcharge well in  
excess of ten percent, the parties were concerned the effect that this might have on the public.

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JOINT MOTION TO APPROVE AND ACCEPT  
MEMORANDUM OF UNDERSTANDING - 1

Law Office of  
Richard A. Finnigan  
2112 Black Lake Blvd. SW  
Olympia, WA 98512  
(360) 956-7001

1 As a result, Staff, OECA and OTA met and had a series of discussions. After those  
2 discussions and extensive analysis, Staff, OECA and OTA reached agreement that support would be  
3 capped at \$15,650,933. This results in an OUSF surcharge of 8.5%. It should be noted that the  
4 8.5% surcharge also funds the non-rural portion of the OUSF.

5 To memorialize the standards for this triennium, Staff, OTA and OECA entered into a  
6 Memorandum of Understanding ("MOU") which reflect the lower level of support. The MOU is  
7 attached as Exhibit 1.

8 The support for rural companies has been frozen since 2003. The increase from this  
9 triennial review represents approximately a three percent per year rate of increase from 2003 levels.  
10 Staff, OTA and OECA believe that a three percent per annum increase is reasonable in light of the  
11 rate of inflation and the investments that have been made since 2003 to improve voice services and  
12 provide broadband services to rural Oregon.

13 MOTION

14 Based upon the foregoing, Staff, OTA and OECA respectfully request that the Commission  
15 accept and approve the MOU and issue an order to that effect.

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

17  
18 By: 

MICHAEL T. WEIRICH, OSB No. 82425  
Attorney for Commission Staff

19  
20  
21 By: \_\_\_\_\_

RICHARD A. FINNIGAN, OSB No. 965357  
Attorney for the Oregon Telecommunications  
Association and the Oregon Exchange Carrier  
Association

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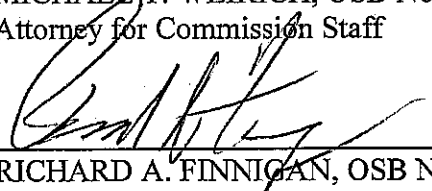
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16 Respectfully submitted this 22nd day of May, 2012.

17  
18 By: \_\_\_\_\_  
19 MICHAEL T. WEIRICH, OSB No. 82425  
20 Attorney for Commission Staff

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

## APPENDIX A

<u>Oregon Telecommunications Association</u>	<u>Oregon Exchange Carrier Association</u>
Asotin Telephone Company d/b/a TDS Telecom	Asotin Telephone Company d/b/a TDS Telecom
Beaver Creek Cooperative Telephone Company	Beaver Creek Cooperative Telephone Company
Canby Telephone Association d/b/a Canby Telecom	Canby Telephone Association d/b/a Canby Telecom
Cascade Utilities, Inc., d/b/a Reliance Connects	Cascade Utilities, Inc., d/b/a Reliance Connects
CenturyTel of Oregon, Inc., d/b/a CenturyLink	Clear Creek Telephone & Television
CenturyTel of Eastern Oregon, Inc., d/b/a CenturyLink	Colton Telephone Company, d/b/a ColtonTel
Clear Creek Telephone & Television	Eagle Telephone System, Inc.
Colton Telephone Company, d/b/a ColtonTel	Gervais Telephone Company
Eagle Telephone System, Inc.	Helix Telephone Company
Frontier Communications Northwest, Inc.	Home Telephone Company d/b/a TDS Telecom
Gervais Telephone Company	Midvale Telephone Exchange
Helix Telephone Company	Molalla Communications, Inc. d/b/a Molalla Communications
Home Telephone Company d/b/a TDS Telecom	Monitor Cooperative Telephone Company
Midvale Telephone Exchange	Monroe Telephone Company
Molalla Communications, Inc. d/b/a Molalla Communications	Mt. Angel Telephone Company
Monitor Cooperative Telephone Company	Nehalem Telecommunications, Inc., d/b/a RTI Nehalem Telecom
Monroe Telephone Company	North-State Telephone Co.
Mt. Angel Telephone Company	Oregon-Idaho Utilities, Inc.
Nehalem Telecommunications, Inc., d/b/a RTI Nehalem Telecom	Oregon Telephone Corporation
North-State Telephone Co.	People's Telephone Co.
Oregon-Idaho Utilities, Inc.	Pine Telephone System, Inc.
Oregon Telephone Corporation	Pioneer Telephone Cooperative
People's Telephone Co.	Roome Telecommunications Inc.
Pine Telephone System, Inc.	St. Paul Cooperative Telephone Association
Pioneer Telephone Cooperative	Scio Mutual Telephone Association
Roome Telecommunications Inc.	Stayton Cooperative Telephone Company
St. Paul Cooperative Telephone Association	Trans-Cascades Telephone Company, d/b/a Reliance Connects
Scio Mutual Telephone Association	
Stayton Cooperative Telephone Company	
Trans-Cascades Telephone Company, d/b/a Reliance Connects	

# **EXHIBIT 1**

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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

14 BACKGROUND

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

Law Office of  
Richard A. Finnigan  
2112 Black Lake Blvd. SW  
Olympia, WA 98512  
(360) 956-7001

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

Law Office of  
Richard A. Finnigan  
2112 Black Lake Blvd. SW  
Olympia, WA 98512  
(360) 956-7001



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 until the completion of the next triennial review as  
22 contemplated by the Commission Order. However, the rural ILECs and Staff agree that any party  
23

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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 may file a petition to seek Commission review of the limitations on this Memorandum of  
2 Understanding upon either: a) an increase to the contribution base; b) a decrease in the number of  
3 eligible telecommunications carriers receiving support from the OUSF; or c) there is a material,  
4 overall increase in federal universal service support for the rural ILECs. The parties further agree  
5 that the interim limitations will not automatically terminate merely because a party has filed a  
6 petition as described above, but will continue until the Commission issues a final order which  
7 grants, denies or takes other appropriate final action upon the petition. Finally, each party reserves  
8 the right to make whatever arguments they deem appropriate in any docket resulting from the filing  
9 of the aforementioned petition.

10 E. Waiver of Stipulation and Reservation of Positions.

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

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

18 F. Other Commitments.

19 Because there may be continuing upward pressure on the OUSF surcharge, the parties  
20 commit that during this triennium, it will be a priority for attention by the parties to explore ways  
21 for expanding the contribution base and dealing with other OUSF issues.

1 G. Advantages of this Memorandum of Understanding.

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

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

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

10 CONCLUSION

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

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

14  
15 By:   
16 MICHAEL T. WEIRICH, OSB No. 82425  
17 Attorney for Commission Staff

18 By: \_\_\_\_\_  
19 RICHARD A. FINNIGAN, OSB No. 965357  
20 Attorney for the Oregon Telecommunications  
21 Association and the Oregon Exchange Carrier  
22 Association

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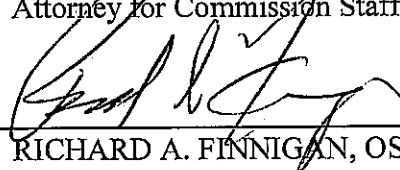
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18 By:  \_\_\_\_\_  
19 RICHARD A. FINNIGAN, OSB No. 965357  
20 Attorney for the Oregon Telecommunications  
21 Association and the Oregon Exchange Carrier  
22 Association

**ATTACHMENT 1**

**2012 PROPOSED OUS DISTRIBUTIONS**

<b>Company</b>	<b>Agreed OUS Draw</b>	<b>January, 2012 Line Count</b>	<b>Initial Per Line Per Month Amount</b>
Asotin	\$38,737	124	\$26.03
Beaver Creek	\$306,666	3,155	\$8.10
Canby	\$658,938	9,024	\$6.09
Cascade	\$481,424	7,088	\$5.66
CenturyLink*	\$3,594,000	48,860	\$6.13
Clear Creek	\$233,025	2,684	\$7.24
Colton	\$43,771	1,032	\$3.53
Eagle	\$294,825	431	\$57.00
Frontier	\$593,200	10,140	\$4.88
Gervais	\$121,935	693	\$14.66
Helix	\$213,341	229	\$77.64
Home	\$94,352	677	\$11.61
Midvale	\$29,479	244	\$10.07
Molalla	\$715,108	4,398	\$13.55
Monitor	\$413,042	478	\$72.01
Monroe	\$290,481	820	\$29.52
Mt. Angel	\$348,957	1,416	\$20.54
Nehalem	\$467,374	2,604	\$14.96
North-State	\$39,014	408	\$7.97
Oregon Tel	\$0	1,621	\$0.00
Oregon-Idaho	\$354,869	532	\$55.59
People's	\$247,003	1,084	\$18.99
Pine	\$1,075,358	943	\$95.03
Pioneer	\$1,764,942	11,854	\$12.41
RTI	\$75,127	460	\$13.61
Scio	\$300,967	1,628	\$15.41
Stayton	\$683,287	5,226	\$10.90
St. Paul	\$142,024	548	\$21.60
Trans-Cascades	\$54,687	214	\$21.30
United Telephone	\$1,975,000	39,209	\$4.20
<b>TOTAL</b>	<b>\$15,650,933</b>	<b>157,824</b>	

\*Includes CenturyTel of Eastern Oregon and CenturyTel of Oregon

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**CERTIFICATE OF SERVICE**  
**UM 1017**

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

FILING CENTER  
PUBLIC UTILITY COMMISSION OF OREGON  
550 CAPITOL ST NE STE 215  
SALEM, OR 97301-2551  
puc.filingcenter@state.or.us

I further certify that I have this day sent the attached Joint Motion to Approve and Accept Memorandum of Understanding by electronic mail to the following parties or attorneys of parties:

CHARLES L BEST  
1631 NE BROADWAY #538  
PORTLAND, OR 97232-1425  
chuck@charleslbest.com

CYNTHIA MANHEIM  
AT&T  
PO BOX 97061  
REDMOND, WA 98052  
cindy.manheim@att.com

DAVID COLLIER  
AT&T COMMUNICATIONS OF THE  
PACIFIC NORTHWEST INC.  
645 E PLUMB LN  
PO BOX 11010  
RENO NV 89502  
david.collier@att.com

SHARON L MULLIN  
DIRECTOR-EXTERNAL AFFAIRS  
AT&T SERVICES, INC.  
400 W 15TH ST, STE 930  
AUSTIN, TX 78701  
slmullin@att.com

ARTHUR A BUTLER  
ATER WYNNE LLP  
601 UNION STREET, STE 1501  
SEATTLE WA 98101-3981  
aab@aterwynne.com

JOEL PAISNER  
ATER WYNNE LLP  
601 UNION STREET, STE 1501  
SEATTLE WA 98101-3981  
jrp@aterwynne.com

MARK TRINCHERO  
DAVIS WRIGHT TREMAINE LLP  
1300 SW FIFTH AVE SUITE 2300  
PORTLAND OR 97201-5682  
marktrinchero@dwt.com

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WILLIAM E. HENDRICKS  
CENTURYLINK, INC.  
902 WASCO ST A0412  
HOOD RIVER, OR 97031  
tre.hendricks@centurylink.com

ROBERT JENKS  
EXECUTIVE DIRECTOR  
CITIZENS' UTILITY BOARD OF  
OREGON  
610 SW BROADWAY, STE 400  
PORTLAND, OR 97205  
bob@oregoncub.org

G. CATRIONA MCCRACKEN  
LEGAL COUNSEL/STAFF ATTY  
CITIZENS' UTILITY BOARD OF  
OREGON  
610 SW BROADWAY, STE 400  
PORTLAND, OR 97205  
catriona@oregoncub.org

RAYMOND MYERS, ATTORNEY  
CITIZENS' UTILITY BOARD OF  
OREGON  
610 SW BROADWAY, STE 400  
PORTLAND, OR 97205  
ray@oregoncub.org

DOUG COOLEY  
GOVERNMENT AFFAIRS MANAGER  
COMCAST BUSINESS  
COMMUNICATIONS LLC  
1710 SALEM INDUSTRIAL DRIVE NE  
SALEM, OR 97303  
doug\_cooley@cable.comcast.com

TIM SPANRING  
OPERATIONS MANAGER  
COMSPAN COMMUNICATIONS INC.  
278 NW GARDEN VALLEY BLVD  
ROSEBURG OR 97470  
tims@comspancomm.com

ALAN J. GALLOWAY  
DAVIS WRIGHT TREMAINE LLP  
1300 SW FIFTH AVE  
PORTLAND, OR 97201-5630  
alangalloway@dwt.com

PHYLLIS WHITTEN  
FRONTIER COMMUNICATIONS  
9260 E STOCKTON BLVD  
ELK GROVE, CA 95624  
phyllis.whitten@ftr.com

RENEE WILLER, EXTERNAL AFFAIRS  
MANAGER  
FRONTIER COMMUNICATIONS  
NORTHWEST INC.  
20575 NW VON NEUMANN DR  
BEAVERTON, OR 97006-6982  
renee.willer@ftr.com

CARSTEN KOLDSBAEK  
CONSULTING MANAGER  
GVNW CONSULTING INC.  
PO BOX 2330  
TUALATIN, OR 97062  
ckoldsbaek@gvnw.com



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JIM RENNARD  
CONSULTING MANAGER  
GVNW CONSULTING INC.  
PO BOX 2330  
TUALATIN, OR 97062  
jrennard@gvnw.com

JEFFRY H. SMITH  
VICE PRESIDENT & REGIONAL  
MANAGER  
GVNW CONSULTING INC.  
PO BOX 2330  
TUALATIN, OR 97062  
jsmith@gvnw.com

ADAM LONEY  
MCDOWELL RACKNER & GIBSON PC  
419 SW 11TH AVE., SUITE 400  
PORTLAND, OR 97205  
adam@mcd-law.com

LISA F. RACKNER, ATTORNEY  
MCDOWELL RACKNER & GIBSON PC  
419 SW 11TH AVE., SUITE 400  
PORTLAND, OR 97205  
dockets@mcd-law.com

MICHAEL DEWEY, EXEC. DIRECTOR  
OCTA  
1249 COMMERCIAL ST SE  
SALEM, OR 97302  
mdewey@oregoncable.com

ROGER WHITE, PROGRAM  
MANAGER  
PUBLIC UTILITY COMMISSION OF  
OREGON  
PO BOX 2148  
SALEM OR 97308  
roger.white@state.or.us

MICHAEL WEIRICH  
ASSISTANT ATTORNEY GENERAL  
DEPARTMENT OF JUSTICE  
BUSINESS ACTIVITIES SECTION  
1162 COURT ST NE  
SALEM, OR 97301-4096  
michael.weirich@doj.state.or.us

MARK REYNOLDS  
CENTURYLINK  
1600 7TH AVE RM 3206  
SEATTLE WA 98191  
mark.reynolds3@centurylink.com

RON TRULLINGER  
CENTURYLINK  
310 SW PARK AVE, 11TH FL  
PORTLAND, OR 97205  
ron.trullinger@centurylink.com

LYNDALL NIPPS  
VICE PRESIDENT, REGULATORY  
AFFAIRS  
TW TELECOM OF OREGON LLC  
9665 GRANITE RIDGE DR STE 500  
SAN DIEGO, CA 92123  
lyndall.nipps@twtelecom.com

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RICHARD B SEVERY  
ASST GENERAL COUNSEL  
VERIZON  
2775 MITCHELL DR, BLDG. 8-2  
WALNUT CREEK CA 94598  
richard.b.severy@verizon.com

MILT H DOUMIT  
DIRECTOR-STATE GOVT.  
RELATIONS  
VERIZON COMMUNICATIONS  
NORTHWEST INC.  
410 - 11TH AVE SE, STE 103  
OLYMPIA, WA 98501  
milt.h.doumit@verizon.com

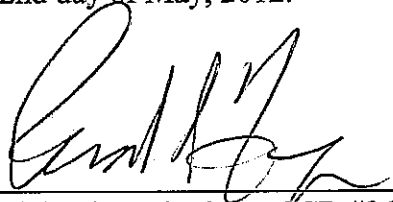
RUDOLPH M REYES  
ASST. GENERAL COUNSEL  
VERIZON CORPORATE COUNSEL  
201 SPEAR STREET, 7TH FLOOR  
SAN FRANCISCO CA 94105  
rudy.reyes@verizon.com

MARSHA SPELLMAN  
WARM SPRINGS  
TELECOMMUNICATIONS  
10425 SW HAWTHORNE LN  
PORTLAND OR 97225  
marsha.spellman@warmspringstelecom.com

MARC M. CARLTON  
WILLIAMS, KASTNER & GIBBS PLLC  
888 SW FIFTH AVENUE, SUITE 600  
PORTLAND, OR 97204-2025  
mcarlton@williamskastner.com

ADAM HAAS  
WSTC  
10425 SW HAWTHORNE LN  
PORTLAND OR 97225  
adam.haas@warmspringstelecom.com

Dated at Olympia, Washington, this 22nd day of May, 2012.



Richard A. Finnigan, OSB #965357  
Attorney for the Oregon Exchange Carrier Association  
and the Oregon Telecommunications Association