ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 26, 2019

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** Various

DATE: February 12, 2019

TO: Public Utility Commission

FROM: Stephen Hayes

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck

SUBJECT: **CENTURYTEL OF OREGON, INC., CENTURYTEL OF EASTERN OREGON, INC., QWEST CORPORATION AND UNITED TELEPHONE COMPANY OF THE NORTHWEST:** (Docket Nos: ADV 914/Advice No. 19-01; ADV 915/Advice No. 363, ADV 916/Advice No. 2148). Increases in Residence Access Line Rates and Decreases in Extended Area Service Rates

STAFF RECOMMENDATION:

Staff recommends that the Commission approve these filings from CenturyTel of Oregon, Inc. and CenturyTel of Eastern Oregon, Inc. (CenturyTel), United Telephone Company of the Northwest (United), these d/b/a as CenturyLink, and Qwest Corporation (Qwest) d/b/a CenturyLink QC, (collectively, CenturyLink or the Companies), which increase the Residence Access Line rates, reduce Extended Area Service (EAS) rates, and make other changes with proposed effective dates of March 1, 2019 (Qwest) and March 8, 2019 (CenturyTel and United). If the Commission has not adopted a Stipulation resolving its concurrent investigation into EAS policy for price plan companies by the February 26, 2019 regular public meeting at which this item will be presented, Staff expects to put forth an alternative recommendation to suspend these filings until the Commission has resolved that proceeding.

DISCUSSION:

Issue

Whether the Commission should approve the Companies' proposed tariff filings, which increase the Residence Access Line rates, decrease EAS rates and, in the case of Qwest, modify the tariff structure with respect to EAS.

Applicable Law and Rules

Telecommunications utilities are required by ORS 759.175 to submit tariff filings to the Commission whenever they intend to change their rates, terms, or conditions of service. The Companies operate under a price plan (the CenturyLink Price Plan or Plan) pursuant to ORS 759.255, under which the Commission regulates prices without regard to the return on investment of the utilities. The CenturyLink Price Plan was approved in Docket UM 1908 with Order No. 18-359, and became effective on September 28, 2018.

Among its numerous provisions, the CenturyLink Price Plan contains price rules (most often in the form of price caps) and availability requirements for various services, including Primary Line Basic Service (PLBS). Section 1(g) of the Plan defines PLBS as the first line only of basic local exchange service for an individual residential or business customer that is not sold as part of a package. Under Section 4(e)(i) of the Plan, the Companies may increase monthly flat rates for residential PLBS services by a maximum of $3.00 per plan year, with a maximum increase of $10.00 over the four-year term of the Plan. Section 4(e)(ii) of the plan also limits the line component of the residential measured service rate to no more than 80 percent of the flat residential PLBS rate. These caps are reduced if CenturyLink elects to introduce a Facility Improvement Surcharge under Section 5 of the Plan by the amount of that surcharge.

Under Section 4(g) of the Plan, The Companies' EAS rates are capped at pre-plan rates. This section of the Plan also relieves the Companies from any obligation to provide new or expanded EAS routes and allows them to combine residential PLBS rates and EAS rates on a single bill line for the purpose of bill simplification. Additionally, Staff and the Companies recently entered into a Stipulation in which they agreed to relax the Commission's generally applicable EAS policy to allow companies that operate under ORS 759.255 price plans additional downward EAS rate flexibility beyond that supported by the Commission's legacy EAS rate design criteria. This Stipulation, if adopted, would require companies exercising such flexibility to, over time, gradually reduce the difference between differing EAS rate levels for different customers and allow customers to change their EAS options (e.g., flat versus measured service) once without charge in the six months following EAS rate changes.[1]

Section 8(a)(i) of the Plan requires tariff changes to be filed with the Commission at least 30 days prior to the effective date of the change and requires the Companies to provide customers subscribing to affected service 30 days' notice of any increases and allows one-day notice for price decreases.

[1] As of the time this memorandum was drafted, the Stipulation was pending before the Commission. See Docket No. UM 2002.

Prices charged under an ORS 759.255 price plan are subject to a statutory price floor equal to "the total service long run incremental cost, for nonessential functions, of providing the service and the charges of essential functions used in providing the service." ORS 759.255(4). The Commission may, however, allow rates for residential local exchange service to be set "at any level necessary to achieve the commission's universal service objectives."

More generally, ORS 759.260 prohibits telecommunications utilities from charging a person more or less than is charged to another for a like and contemporaneous service under substantially similar circumstances. ORS 759.275 also bars telecommunications utilities from giving undue or unreasonable preference or advantage to any particular person or locality. A violation of these prohibitions constitutes unjust discrimination. A difference in charges based on a difference in classification pursuant to ORS 759.210 does not constitute such a violation. ORS 759.260(1)(b).

Analysis

In the three tariff filings addressed in this memorandum, the Companies seek to increase rates for various categories of residential access line service, which all include forms of basic local service. The Companies also seek to reduce EAS rates. Each filing was made more than 30 days prior to its effective date. CenturyTel and United stated in each advice letter that customers are being notified of the changes proposed 30 days in advance. Qwest is in the process of noticing its customers. All three companies provided copies of the bill messaging customer notices.

CenturyLink has explained to Staff that its proposed combination of increases to local exchange service and decreases in EAS rates serves the company's goal of reducing the number of rate points in its billing system. This results from the fact that CenturyLink displays the local exchange rate and EAS rate together as one billing element, as permitted by the Plan. A secondary benefit of the proposal is that reductions in EAS rates offset some of the local exchange rate increases allowed under the Plan.

As explained below, each of the CenturyLink tariff proposals were initially in conflict with or may have been in conflict with the Commission's legacy EAS policy. After reviewing these issues and how the proposed Stipulation pending in Docket No. UM 2002 remedies them, I further discuss each filing separately below.

EAS Issues Common to the Filings
Staff identified the below five rate design criteria for EAS that would either (1) not be satisfied by the pending proposal or (2) for which Staff is unable to determine

whether the condition would be satisfied without in-depth investigation. The Stipulation recommends these criteria not be applied to price plan companies.

- Criterion 4: Flat EAS rates should be asymmetrical between exchanges to reflect differences in the number of subscriber lines.

- *Legacy EAS Policy Issue:* Without investigating current subscriber counts by exchange, it would be difficult to fully assess compliance with this criterion. Qwest proposes to change EAS rates for its rate group three business customers to zero, which would not be compliant unless the relevant subscriber counts were also zero. United proposes to equalize rates for two of its three residential rate levels, which leaves two bands with asymmetric rates; CenturyTel proposes to equalize rates for four of its five rate bands for residential and business customers, which leaves two bands with asymmetric rates. These results would be compliant only if they correspond to the current relevant subscriber line counts, but Staff believes that this criterion is less relevant than it was when it was adopted by the Commission now that CenturyLink operates under a price plan whose pricing rules are centered on price caps and upward and downward price flexibility within those caps. Plan rules for business service, in particular, are mostly un-capped, while EAS is capped at pre-plan rates.

- Criterion 6: Flat EAS rates must include a residential/business differential under which business customers pay a higher flat rate.

- *Legacy EAS Policy Issue:* Qwest's filing would create business rates that are less than those for the corresponding residential rates for business rate bands A3, B1, B2, B3, C1, and C2. (This numbering reflects that the company proposes differing EAS rates for customers located in historical EAS rate bands A, B, and C depending on whether those customers are located in rate groups 1, 2, and 3; this proposed structure adds granularity to the EAS rate possibilities that has not previously existed in the tariffs.)

- Criterion 8: EAS rates must recover the costs of switching and transport and make a contribution to common overhead and the cost of the local loop.

- *Legacy EAS Policy Issue:* Where the filings seek to set EAS rates at zero (e.g., for Qwest's A3 and B3), rates would not recover any costs.

- Criterion 9: Rates must first make up revenue shortfall from company-wide EAS rates, then from company-wide local exchange rates.

- *Legacy EAS Policy Issue:* The filings would increase local exchange rates while reducing EAS rates. This conflicts with this criterion.

- Criterion 10: EAS tariff proposals should be revenue neutral.

- *Legacy EAS Policy Issue:* It is unknown whether the filings are revenue neutral. Additionally, the Commission is prohibited from assessing return on revenue for price plan companies under ORS 759.255.

In place of these criteria, the Stipulation proposes two requirements to protect ratepayers in the short and long term: customers should be given one free change to their EAS election (e.g., flat or measured) in the six months following EAS rate changes, and subsequent EAS rate changes should reduce disparities between EAS rates.

Docket No. ADV 914/Advice No. 19-01
United's filing increases the rates for its flat-rate local exchange service. United's filing increases the residential basic access line rate and measured service rate as follows:

Service	Current Monthly Rate	Increase Amount	New Rate	Percentage Increase
Residence – One Party Flat Rate	$16.43	$3.00	$19.43	18%
Residential Measured – One-Party	$10.07	$3.00	$13.07	30%

When purchased as the first line of basic local exchange service, residence – One Party is PLBS, for which the increase is capped at $3.00 per plan year, minus any new or increased charge for a Facility Improvement Surcharge. United proposes no such surcharge. The above increase is below this annual cap. As the first increase under the new Plan, it also satisfies the $10.00 per-term cap. The monthly measured rate (not including the usage charge) further satisfies the Plan's floating cap of 80 percent of the residential PLBS flat-rate local exchange service rate. The measured rate proposed is 67 percent of the flat rate (increased from 61 percent).

United's filing also proposes changes to two residential EAS flat rates and two business EAS flat rates as shown below.

Service	Current Monthly Rate	Decrease Amount	New Rate	Percentage (Decrease)
Residence – EAS (Level 2)	$4.04	($0.04)	$4.00	(1%)
Residence – EAS (Level 3)	$6.00	($2.00)	$4.00	(33%)
Business – EAS (Level 2)	$6.00	($2.00)	$4.00	(33%)
Business – EAS (Level 3)	$11.00	($3.00)	$8.00	(27%)

The EAS rate levels correspond to the subscriber line counts that were current when the relevant EAS routes were first introduced, with having the lowest number of access lines and level 3 having the highest number of access lines. The Price Plan caps EAS at pre-plan rates but does not prevent lowering EAS rates; the Stipulation proposes further relaxation of other EAS rate level criteria. The above changes comply with both the Plan's cap and the terms of the Stipulation, since the company also revised the tariff to permit customers to change their EAS elections once in the six months following the tariff effective date.

Docket No. ADV 915/Advice No. 363
CenturyTel's filing proposes increases to the rates for its flat-rate rate local exchange service in both of its rate groups one and two. The filing also proposes decreases to residential and business EAS rates ranging from 50 cents to three dollars, depending on rate band. Rate bands are based upon the number of access lines that can be called outside of the local exchange but within the EAS arrangement, as counted when the relevant EAS routes were introduced. The proposed rate changes are as follows:

Service	Current Monthly Rate	Increase (Decrease) Amount	New Monthly Rate	Percentage Increase (Decrease)
Residential Flat Rate Res Service (Rate Group 1)	$15.48	$3.00	$18.48	19%
Residential Flat Rate Res Service (Rate Group 2)	$17.55	$1.93	$19.48	11%
Residential EAS (Band C)	$5.50	($0.50)	$5.00	(9%)
Residential EAS (Band D)	$5.50	($0.50)	$5.00	(9%)
Residential EAS (Band E)	$7.00	($2.00)	$5.00	(29%)
Business EAS (Band C)	$9.00	($2.00)	$7.00	(22%)

Service	Current Monthly Rate	Increase (Decrease) Amount	New Monthly Rate	Percentage Increase (Decrease)
Business EAS (Band D)	$10.00	($3.00)	$7.00	(30%)
Business EAS (Band E)	$12.00	($3.00)	$9.00	(25%)

The first two (non-EAS) services involve flat-rate residential PLBS services in two different rate groups. Increases are therefore capped at $3.00 per plan year, minus any new or increased charge for a Facility Improvement Surcharge. CenturyTel has not initiated such a surcharge. The increases are below the annual cap. As the first increases under the new Plan, they also satisfy the $10.00 per-term cap.

The Price Plan caps EAS at pre-plan rates but does not prevent lowering EAS rates; the Stipulation proposes further relaxation of other EAS rate level criteria. The above changes comply with both the Plan's cap and the terms of the Stipulation, since the company also revised the tariff to permit customers to change their ES elections once in the six months following the tariff effective date.

Docket No. ADV 916/Advice No. 2148
Qwest's filing increases the rates for its local exchange service flat-rate rate groups one and two. The filing also proposes decreases to residential and business EAS rates ranging from 50 cents to three dollars, depending on the combination of EAS rate band and the customer's rate group, with some changes resulting in EAS rates of $0. Additionally, the filing proposes changes to billed tribal Lifeline credits, which are further explained below. The proposed rate changes are as follows:

Residential Table 1 - Local Exchange Rate Change Summary

Residential Service	Current Monthly Rate	Increase (Decrease) Amount	New Monthly Rate	Percentage Increase (Decrease)
Budget Measured	$9.37	$3.00	$12.37	32%
Flat Rate Service (RG1)	$15.80	$3.00	$18.80	19%
Flat Rate Service (RG2)	$16.80	$3.00	$19.80	18%
Flat Rate Service (RG3)	$17.80	$2.00	$19.80	11%

The changes listed above involve flat-rate residential PLBS services in two different rate groups. Increases are therefore capped at $3.00 per plan year, minus any new or increased charge for a Facility Improvement Surcharge. Qwest has not initiated such a

surcharge. The increases are below this annual cap. As the first increases under the new Plan, they also satisfy the $10.00 per-term cap.

Residential Table 2 - EAS Rate Change Summary

Residential Service	Current Monthly Rate	Increase (Decrease) Amount	New Monthly Rate	Percentage Increase (Decrease)
EAS Flat Rate (Band A)	$1.28	($0.08)	$1.20	(6%)
EAS Flat Rate (Band C)	$4.97	($0.77)	$4.20	(15%)
Route Specific EAS (Albany to Scio)	$0.14	($0.14)	$0.00	(100%)
Route Specific EAS (Jefferson to Salem)	$2.05	($1.05)	$1.00	(51%)
Route Specific EAS (Salem to Jefferson)	$0.05	($0.05)	$0.00	(100%)
Route Specific EAS (Newport to Lincoln City)	$0.14	($0.14)	$0.00	(100%)
Route Specific EAS (Siletz to Lincoln City)	$0.45	($0.45)	$0.00	(100%)
Route Specific EAS (Ontario to Huntington)	$0.35	($0.35)	$0.00	(100%)

The Price Plan caps EAS at pre-plan rates but does not prevent lowering EAS rates; the Stipulation proposes further relaxation of other EAS rate level criteria. The above changes comply with both the Plan's cap and the terms of the Stipulation, since the company also revised the tariff to permit customers to change their EAS elections once in the six months following the tariff effective date. Staff further acknowledges the efficiencies that will be gained by this initial set of changes in that the company will be able to simplify its billing practices and related customer service. Staff is therefore comfortable that this initial set of changes does not reflect inequitable or unjustly discriminatory rates. Staff expects, however, that EAS rate disparities for different customers will be reduced over time in future rate changes.

Residential Table 3 - Tribal Lifeline Credit Rate Change Summary

Residential Service	Current Monthly Rate	Increase (Decrease) Amount	New Monthly Rate	Percentage Increase (Decrease)
Tribal Lifeline Credit - Athena	($16.33)	($1.92)	($18.25)	12%

Residential Service	Current Monthly Rate	Increase (Decrease) Amount	New Monthly Rate	Percentage Increase (Decrease)
Tribal Lifeline Credit – Camp Sherman	($17.25)	($2.00)	($19.25)	12%
Tribal Lifeline Credit - Culver	($16.25)	($3.00)	($19.25)	18%
Tribal Lifeline Credit – Klamath Falls	($14.33)	($2.92)	($17.25)	20%
Tribal Lifeline Credit - Pendleton	($14.33)	($2.92)	($17.25)	20%
Tribal Lifeline Credit - Siletz	($16.78)	($1.47)	($18.25)	9%
Tribal Lifeline Credit – Warm Springs	($17.25)	($2.00)	($19.25)	12%

The Tribal Lifeline Credit changes above stem from the fact that Qwest has previously indicated that rate changes to basic exchange service require changes to its specific tribal lifeline credits. Unlike other companies, Qwest asserts that it needs to specify these credits in its tariff because its particular billing system cannot compute them dynamically. As a result, Qwest uses specific billing elements to obtain the correct bill amounts. These credits vary by exchange, as the tribal areas are located in areas where different exchange line rate-group charges are applicable. Staff reviewed the Company's calculations related to the Tribal Lifeline Credit and finds that they are accurate and will provide the appropriate credit. The Tribal Lifeline credits in the Residential Table 3 take into account: 1) the residential flat rate at the attributable rate group for the geographic area of the specific tribal entities; 2) the appropriate EAS band rate; 3) the subscriber line charge (SLC, referred to as CALC by Qwest) for the specific area of the tribal entity, and 4) the Federal Communications Commission approved rate for residential credit of $9.25. The amount of Tribal Lifeline credit remaining, $25.00, covers the remainder of the charges for residential flat rate, the SLC ($6.50), and EAS charges for an eligible tribal lifeline customer.[2]

Business Table 1 - EAS Rate Change Summary

Business Service	Current Monthly Rate	(Decrease) Amount	New Monthly Rate	Percentage (Decrease)
EAS Flat Rate (Band A1 & A2)	$1.95	($0.45)	$1.50	(23%)

[2] (https://www.fcc.gov/consumers/guides/lifeline-support-affordable-communications)

Business Service	Current Monthly Rate	(Decrease) Amount	New Monthly Rate	Percentage (Decrease)
EAS Flat Rate (Band A3)	$3.00	($3.00)	$0.00	(100%)
EAS Flat Rate (Band B1 & B2)	$3.00	($1.00)	$2.00	(33%)
EAS Flat Rate (Band B3)	$3.00	($3.00)	$0.00	(100%)
EAS Flat Rate (Band C1)	$6.00	($2.00)	$4.00	(33%)
EAS Flat Rate (Band C2)	$6.00	($3.00)	$3.00	(50%)
EAS Flat Rate (Band A3) USOC TJX	$0.43	($0.43)	$0.00	(100%)
EAS Flat Rate (Band B3) USOC TJX	$0.92	($0.92)	$0.00	(100%)
EAS Flat Rate (Band C2) USOC TJX	$1.50	($1.00)	$0.50	(67%)
EAS Flat Rate-Pkg. Hours (6,9)-RG A3	$0.51	($0.51	$0.00	(100%)
EAS Flat Rate-Pkg. Hours (6,9)-RG B3	$1.05	($1.05)	$0.00	(100%)
EAS Flat Rate-Pkg. Hours (6,9) RG C2	$1.87	($1.87)	$0.00	(100%)
EAS Flat Rate-Pkg. Hours (12)-RG A3	$0.98	($0.98)	$0.00	(100%)
EAS Flat Rate-Pkg. Hours (12)-RG B3	$1.82	($1.82)	$0.00	(100%)
EAS Flat Rate-Pkg. Hours (12)-RG C2	$3.75	($1.75)	$2.00	(47%)
Route Specific EAS (Albany to Scio)	$0.20	($0.20)	$0.00	(100%)
Route Specific EAS (Jefferson to Salem)	$3.00	($3.00)	$0.00	(100%)
Route Specific EAS (Salem to Jefferson)	$0.07	($0.07)	$0.00	(100%)
Route Specific EAS (Newport to Lincoln City)	$0.21	($0.21)	$0.00	(100%)
Route Specific EAS (Siletz to Lincoln City)	$0.90	($0.90)	$0.00	(100%)

Business Service	Current Monthly Rate	(Decrease) Amount	New Monthly Rate	Percentage (Decrease)
Route Specific EAS (Ontario to Huntington)	$0.50	($0.50)	$0.00	(100%)
EAS Flat Rate – Nyssa	$0.85	($0.85)	$0.00	(100%)
EAS Flat Rate – Ontario	$1.20	($0.20)	$1.00	(17%)
EAS Flat Rate – Oregon Slope	$1.20	($0.20)	$1.00	(17%)
EAS Flat Rate – Vale	$1.55	($1.55)	$0.00	(100%)

To reduce the length of the summary tables, Staff does not include rate changes that are essentially identical.[3] Plan rules for business service, in particular, are mostly un-capped, while EAS is capped at preplan rates. Consequently, business EAS rate decreases are allowable under the plan. The above changes comply with both the Plan's cap and the terms of the Stipulation, since the company also revised the tariff to permit customers to change their EAS elections once in the six months following the tariff effective date. Staff again acknowledges the efficiencies that will be gained in the form of simplified billing practices and related customer service. Staff is comfortable that this initial set of changes does not reflect inequitable or unjustly discriminatory rates. Staff expects, though, that the EAS rate disparities for different customers will be reduced in future rate changes.

Conclusion

CenturyLink makes its first major rate change proposals under its new Price Plan in these filings. Staff has analyzed the filings and determined that they comply with the CenturyLink Price Plan and that they comply with the Stipulation resolving the Commission's concurrent investigation into whether and how to modify its legacy EAS policy for companies with price plans and related law. If the Commission has adopted this Stipulation prior to the proposed effective dates of these filings (March 1 and 8, 2019), Staff recommends that the Commission approve the three tariff filing proposals described in this report. If the Commission has not yet resolved its concurrent investigation into whether and how to modify its legacy EAS policy for companies with price plans prior to the proposed effective dates of these filings, Staff recommends that

[3] For simplicity, the summary tables above do not include duplicate identical entries that only vary by the uniform service order code (USOC). For example, three USOC types for residential flat rate service are represented above; 1FR, JRG, and RUA. Two USOC types for budget measured service are represented LW1 and JRN. The full list of services and rates can be found on page 2 of the Company's filing. https://edocs.puc.state.or.us/efdocs/UAC/adv916uac13158.pdf

these filings be suspended until such date that the Commission resolves that investigation so that the filings can be assessed against the proper standard. In anticipation of the Commission adopting the Stipulation in advance of the public meeting at which this memorandum is to be presented, Staff proposes the below motion to approve the filings. If the Stipulation has not been adopted by that date, however, Staff expects to move this item to the regular agenda and will recommend an alternative of suspending the filings until that issue is resolved by the Commission.

PROPOSED COMMISSION MOTION:

Allow the tariff sheets filed by CenturyTel of Oregon, Inc. and CenturyTel of Eastern Oregon, Inc. (CenturyTel), United Telephone Company of the Northwest (United), three d/b/a as CenturyLink to become effective for service rendered on and after March 8, 2019 and allow the tariff sheets filed by Qwest Corporation (Qwest) d/b/a CenturyLink QC to become effective for service rendered on and after March 1, 2019.

ADV.914.915.916.CenturyLink.Price.Plan.Exchange.EAS.Rates