



December 10, 2012

PUC Filing Center
Public Utility Commission of Oregon
550 Capitol Street N.E., Suite 215
Salem, Oregon 97301

RE: UM 1481 Opening Testimony of R. Kirk Lee on Behalf of Frontier Communications Northwest Inc. and Citizens Telecommunications Company of Oregon

Dear Filing Center:

Enclosed please find the original and five copies of the Opening Testimony of R. Kirk Lee on behalf of Frontier Communications Northwest Inc. and Citizens Telecommunications Company of Oregon (collectively, "Frontier").

Sincerely,

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

Kevin Saville
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Enclosures

cc: Service List

**BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON**

In the Matter of)	
)	
PUBLIC UTILITY COMMISSION OF OREGON)	DOCKET NO. UM 1481
)	
Staff Investigation of the Oregon Universal Service Fund.)	
)	

DIRECT TESTIMONY OF

R. KIRK LEE

MANAGER - GOVERNMENT AND EXTERNAL AFFAIRS

ON BEHALF OF

FRONTIER COMMUNICATIONS NORTHWEST INC.

and

CITIZENS TELECOMMUNICATIONS COMPANY OF OREGON

DECEMBER 10, 2012

INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is R. Kirk Lee. My business address is 1800 41st Street, Everett, Washington, 98201.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Manager – Government and External Affairs for Frontier Communications Corporation. I am responsible for interaction and advocacy with public officials, including state legislators and state regulatory agencies, in support of Frontier policies and positions. My responsibilities also include testifying on policy issues and related matters before state regulatory bodies.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?

A. I have a Bachelor of Arts degree in Business Administration (Accounting) from the University of Washington and a Master of Business Administration degree from Seattle University. My work experience began with GTE Northwest Inc. in Everett, Washington, in December 1978 as a Staff Accountant. At GTE Northwest, I held various positions of increasing responsibility in payroll, cost accounting, general accounting, internal auditing, and budgeting.

In 1989 I was named to the position of Staff Manager - Regulated Earnings Analysis in the Regulatory and Governmental Affairs Department at GTE Telephone Operations headquarters, responsible for analyzing and reporting interstate and intrastate rates of return, and for supporting GTE's annual Interstate Access Tariff filing. From

1 1992 to 1995, I was the Section Manager - Intrastate Access Pricing, in the Pricing and
2 Tariffs Department, responsible for planning and rate design for access and ancillary
3 services, and for tariff implementation of these services. Following assignments in
4 Strategic Planning and Finance, in 1996 I returned to Pricing as Manager - Pricing and
5 was responsible for managing the integration and implementation of GTE's rates for
6 Unbundled Network Elements (UNEs), interconnection, collocation, and resale required
7 by the Telecommunications Act of 1996 (the Act). In 1999 I became Sr. Marketing
8 Manager for GTE/Verizon. As the product manager for UNEs I was responsible for
9 product roll-out and life cycle management to ensure that these products were provided in
10 accordance with the requirements of the Act.

11 After relocating back to Everett, Washington in 2001, I held the position of Sr.
12 Consultant – Financial Planning and Analysis (FP&A), responsible for budgeting,
13 tracking, analyzing and reporting expense results for the Central Office Equipment
14 Installation and Centralized Network Operations groups. In 2004, I took an equivalent
15 FP&A position supporting Core Private Line and Optical Services products for Verizon's
16 enterprise customers. Following Verizon's acquisition of MCI in 2006, I went to work in
17 the Verizon Business FP&A organization, with responsibility for managing the \$2 billion
18 annual capital plan, and capital planning process. I held this position until 2011 when I
19 left Verizon. I began my current position with Frontier in May 2012.

20 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
21 **PROCEEDING?**

22 A. I am presenting testimony on behalf of Frontier Communications Northwest Inc.
23 (Frontier NW), a “non-rural” incumbent local exchange carrier (ILEC), and Citizens

1 Telecommunications Company of Oregon Inc. (Citizens), a “rural ILEC,” both wholly-
2 owned subsidiaries of Frontier Communications Corporation.¹ In my testimony I refer to
3 them collectively as “Frontier.”

4 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN OREGON?**

5 A. Yes. I testified before the Public Utility Commission of Oregon in Docket No. ARB 163,
6 Arbitration of the Interconnection Agreement between AT&T and GTE Northwest Inc.,
7 and in Docket No. UM 773, US West Communications Inc.'s UM 351 Cost Study
8 Summaries. I have also sponsored testimony in various rate, cost and arbitration
9 proceedings before state regulatory commissions in California, Florida, Hawaii, Illinois,
10 Indiana, Michigan, New Mexico, Oklahoma, Texas, Washington and Wisconsin.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. The purpose of my testimony is to present Frontier’s policy positions in relation to the list
13 of issues identified in Administrative Law Judge Arlow’s August 29, 2012 Ruling
14 designated for inclusion in these proceedings: (1) What changes should be made to the
15 existing Oregon Universal Service Fund (OUSF) related to the calculation, the collection,
16 and the distribution of funds?; (2) What changes should be made to the existing OUSF
17 related to how funds are used?; and (3) What changes should be made to the existing
18 OUSF related to transparency and accountability?²

19 **Q. PLEASE BRIEFLY SUMMARIZE FRONTIER’S RECOMMENDATIONS TO**
20 **THE COMMISSION ON THE IDENTIFIED ISSUES IN THIS PROCEEDING?**

¹ The Commission has used the “rural” and “non-rural” definitions from the Federal Telecommunications Act of 1996. See Docket UM 1017, Order No. 03-082, page 2, footnote 1.

² *In the Matter of Public Utility Commission of Oregon Staff Investigation of the Oregon Universal Service Fund*, UM 1481, Ruling, issued August 29, 2012.

1 A. The Commission should retain the existing structure and methodology for calculating the
2 amount of OUSF support per line available in high-cost wire centers and distributing it to
3 eligible basic telephone service providers. Frontier does not recommend revision of the
4 cost study for the non-rural ILEC wire centers, but if the Commission were to pursue
5 that, it would need to be in a separate, subsequent phase of this docket and Frontier's
6 recommended changes would include updates of some inputs, for example, operating
7 expenses, investment costs and line counts.

8 The Commission should consider whether current state law requires Voice-over-
9 Internet-Protocol (VoIP) providers in Oregon to contribute to the OUSF.

10 For reasons described later in my testimony, no changes are needed as to
11 regulating how the OUSF funds are used by ILECs.

12 Finally, existing reports provide more than sufficient transparency and
13 accountability for the ILECs to assure that the OUSF funds are serving the intended
14 purpose, and public policy goal, of maintaining affordable basic telephone service in
15 high-cost areas. No additions or changes are needed for those reports, and the interim
16 reports added earlier in this proceeding should be discontinued.

17 **ISSUE: WHAT CHANGES SHOULD BE MADE TO THE EXISTING OUSF**
18 **RELATED TO THE CALCULATION, THE COLLECTION, AND**
19 **THE DISTRIBUTION OF FUNDS?**

20 **Q. PLEASE PROVIDE BACKGROUND INFORMATION REGARDING THE TWO**
21 **FRONTIER ILECS?**

22 A. Between its two ILECS in Oregon (Frontier NW and Citizens), Frontier provides service
23 to approximately 229,000 access lines in Oregon spread across 68 wire centers as of

1 December 2011. Frontier NW served 218,504 access lines in 58 wire centers and with
2 the exception of a few urban areas served by Frontier NW near Portland, Frontier NW's
3 service territory is rural, sparsely populated and costly to serve. Similarly, virtually all
4 of Citizen's service territory in the 10 wire centers it serves is sparsely populated and
5 expensive to serve. The largest two communities served by Citizens are Myrtle Creek
6 and Cave Junction, both with populations of less than 4000. In aggregate, Citizens
7 served 10,820 access lines as of December 31, 2011.

8 **Q. PLEASE DESCRIBE FRONTIER NW'S BASIS FOR RECEIVING OUSF?**

9 A. In Order No. 00-312 in Docket UM 731, the Commission established the parameters and
10 plan under which Frontier NW currently receives OUSF.³ A forward-looking economic
11 cost model developed by the FCC was utilized to calculate the cost of providing basic
12 telephone service for each wire center. Frontier NW had 39 wire centers (out of 58 wire
13 centers) where its costs to provide service exceeded the benchmark established by the
14 Commission and Frontier NW began receiving OUSF support in these wire centers in
15 2001. Support amounts were calculated on a per line basis and the support is distributed
16 today based upon the number of lines Frontier NW serves in each of the 39 supported
17 wire centers.

18 **Q. PLEASE DESCRIBE HOW THE OUSF IS DISTRIBUTED TO CITIZENS?**

19 A. In Docket UM 1017, Citizens, along with other rural telecommunications carriers, began
20 participating in the OUSF. In Order 03-082, issued on February 3, 2003 in Docket UM
21 1017, the Commission approved a stipulation that resolved issues in the Docket and
22 established among other things the calculation, distribution, contribution and rate

³ *In the Matter of the Investigation of Universal Service in the State of Oregon, UM 731 Phase IV*, Order No. 00-312, entered June 16, 2000.

1 rebalancing methodologies of the OUSF program for rural carriers.⁴ The amount of
2 support per line to be provided was calculated based on the embedded costs of providing
3 basic service and was distributed to Citizens based on the number of lines it served in its
4 ten high cost wire centers.

5 **Q. IN ITS ORDER NUMBER 10-496, THE COMMISSION STATED THAT IT**
6 **OPENED THIS DOCKET IN RESPONSE TO A COMMISSION STAFF**
7 **RECOMMENDATION THAT NOTED “THERE HAVE BEEN SIGNIFICANT**
8 **CHANGES IN THE TELECOMMUNICATIONS INDUSTRY.” WHAT**
9 **CHANGES HAVE PARTICULARLY AFFECTED FRONTIER AS A PROVIDER**
10 **OF BASIC TELEPHONE SERVICE?**

11 A. Data released by the Federal Communications Commission (“FCC”) shows that
12 competitive local exchange carriers and wireless service providers have consistently
13 expanded their market share of subscriber lines in Oregon.⁵ As of June 2011, competitive
14 providers had a 41% market share of the traditional landline telephony service in Oregon
15 compared to incumbent carriers including Frontier.⁶ Moreover, wireless service
16 providers are now the predominant voice service provider in Oregon and served
17 approximately 3.4 million subscribers in Oregon as of June 2011, as compared to a
18 combined approximately 1.6 million subscribers for ILEC and non-ILEC access line

⁴ *In the Matter of the Investigation into Expansion of the Oregon Universal Service Fund to Include the Service Areas of Rural Telecommunications Carrier*, UM 1017, Order No. 03-082, entered February 3, 2003.

⁵ *Local Telephone Competition: Status as of June 30, 2011*, Industry and Technology Division, Wireline Competition Bureau, Federal Communications Commission, June 2012.

⁶ *Id.*, table 9 (page 20).

1 providers of voice services.⁷ As a result, the ILEC market share has declined
2 precipitously.

3 The type and level of competition, has dramatically impacted Frontier in terms of
4 access line loss. Since the OUSF was started in 2000, Frontier NW has lost fifty-seven
5 percent (57%) of its access lines. The number of lines served by Frontier NW as of
6 December 31, 2011 was 218,504. This is down from 511,804 access lines as of
7 December 2000.

8 **Q. WHAT IMPACT HAS THE LEVEL OF COMPETITION AND LOSS OF**
9 **ACCESS LINES HAD ON FRONTIER'S OUS FUNDING?**

10 A. Because the OUSF support is determined on a per line basis and Frontier has experienced
11 declines in access lines, the absolute level of OUSF support received has also declined.
12 The access line reductions in its high-cost wire centers alone have caused a decrease of
13 \$6.8 million in the annual OUSF support received by Frontier NW, from an initial level
14 of \$18.5 million⁸ to \$11,694,545 received for 2011, a thirty-seven percent (37%)
15 reduction. The access line reductions in the rest of the company's service areas have
16 decreased the basic telephone service revenue available to cover the company's overall
17 costs of providing that service in Oregon.

18 **Q. WHAT IMPACT HAS THE LEVEL OF COMPETITION AND LOSS OF**
19 **ACCESS LINES HAD ON FRONTIER'S COSTS OF PROVIDING SERVICE TO**
20 **ITS REMAINING CUSTOMERS?**

⁷ *Id.*, tables 9 and 18. As of June 30, 2011 in Oregon, wireless providers served 3.355 million subscribers, ILECs served 949,000 subscribers and CLEC/VoIP providers served 646,000 subscribers.

⁸ Frontier NW first received OUSF support for eight months of 2001 in the amount of \$12,350,220, which annualizes to a figure of \$18,525,330.

1 A. Notwithstanding the significant reduction in access lines and corresponding revenues
2 from providing telephone services on those access lines, Frontier NW's investment and
3 operating costs have not gone down correspondingly. From 2000 to 2011 Frontier NW's
4 investment in its intrastate regulated operations increased by forty-two percent (42%).
5 On a per access line basis, Frontier's intrastate investment has increased by 233%. In
6 that same period, its aggregate annual intrastate regulated operating expenses (before
7 depreciation) have increased by seventeen percent (17%). In other words, Frontier NW
8 operating expenses excluding depreciation are higher today than they were when the
9 OUSF program was started even though Frontier NW serves less than one-half the
10 number of access lines and has experienced a 37% decline in the OUS funding it
11 receives. In fact the operating expense per access line for Frontier NW has increased by
12 173% on a per in-service access line basis.

13 **Q. WHAT ARE THE SERVICE COST CHARACTERISTICS OF FRONTIER'S**
14 **OPERATIONS IN OREGON?**

15 A. One of the primary drivers of cost in the provision of basic telephone service is customer
16 density: the lower the density, the higher the cost per customer. Citizens serves ten (10)
17 wire centers in the southwestern part of the state. Its company-wide density is 4.7 access
18 lines per square mile. All of its wire centers are "high cost" and, therefore, all of its lines
19 receive OUSF support. Frontier NW serves fifty-eight (58) wire centers in Oregon. It has
20 a few wire centers in the areas near Portland, but a majority of its wire centers are located
21 in more rural parts of the state. Thirty-nine (39) of its wire centers are "high cost" and
22 receive OUSF support. While its wire centers that do not receive OUSF support have a
23 density of 101.01 lines per square mile, the thirty-nine (39) "high cost" wire centers have

1 a combined density of 7.33 lines per square mile. Approximately thirty-one percent
2 (31%) of Frontier NW's access lines considered for OUSF purposes are located in the
3 high cost wire centers and receive OUSF support.

4 **Q. HOW DOES FRONTIER'S INCREASED INVESTMENT, EXPENSE AND HIGH**
5 **COSTS ASSOCIATED WITH THE ACCESS LINES FRONTIER CONTINUES**
6 **TO SERVE RELATE TO THE OUSF FUNDING FRONTIER RECEIVES?**

7 A. The support received by Frontier from the OUSF is even more essential for the universal
8 provision of affordable basic telephone service now than it was twelve years ago. As
9 noted above, Frontier's investment and expenses have increased even though the
10 company serves fewer access lines. Without the existing OUSF support, Frontier would
11 have to pursue basic local service rate increases in order to continue to fulfill its carrier-
12 of-last-resort obligations, which would be directly contrary to the purpose and directive
13 of the state's universal service fund law.

14 Also, it is important to bear in mind that early in 2001, Frontier NW implemented
15 rate "rebalancing" reductions to offset OUSF support to be received as a Commission
16 imposed condition of receiving OUSF support, and these reductions remain in place.⁹ If
17 any reductions were to be made to OUSF support as a result of this proceeding, offsetting
18 increases in basic local service rates would need to be immediately implemented.

19 **Q. HAS THE EXPANSION IN TYPE AND LEVEL OF COMPETITION**
20 **ELIMINATED OR REDUCED THE NEED FOR ONGOING OUSF SUPPORT?**

21 A. Absolutely not. While the extent of competition has increased very dramatically, as
22 evidenced by the company's access line losses, the reality remains that high cost

⁹ *In the Matter of the Investigation of Universal Service in the State of Oregon, UM 731 Phase IV*, Order No. 00-312, entered June 16, 2000.

1 competitive carriers have not agreed to undertake the obligations associated with serving
2 all existing and potential consumers in these high-cost areas in Oregon.

3 In today's environment the major competitors are cable television companies that
4 include voice service in their offerings. These cable companies have overbuilt ILEC
5 networks within the cable TV franchise areas they serve, which are primarily within a
6 city or municipal boundary. However, the cable companies often do not extend their
7 service beyond their in-town franchise area and do not have the basic telephone service
8 carrier-of-last-resort obligations that the ILECs do to serve customers outside the
9 populated city or municipal area. Thus, the cable companies are able to focus on lower
10 cost service areas rather than the high-cost rural areas, especially territory outside of
11 cities and towns, which the ILECs are obligated to – and do – serve. Secondly, an
12 increasing portion of the public chooses to have no wireline voice service and to rely
13 wholly on wireless (i.e., cell phone) service. The recent National Health Statistics report
14 on “wireless substitution” estimates that as of December 2011, 38.2% of Oregon adults
15 lived in “wireless-only households,” up five percentage points from a year prior.¹⁰ Like
16 cable companies, wireless companies do not have a legal obligation to serve every
17 customer or to ensure a certain level of service quality in terms of service availability to a
18 customer located in their service footprint.

19 As a result, ILECs remain virtually the only companies providing carrier-of-last-
20 resort basic telephone service in high-cost areas. Despite the decade-long availability of
21 competitively neutral OUSF support for such operations, I am aware of only two non-

¹⁰ *Wireless Substitution: State-level Estimates From the National Health Interview Survey, 2010-2011*, page 5, Table 1, U.S. Department of Health and Human Services, Center for Disease Control and Prevention, National Center for Health Statistics, <http://www.cdc.gov/nchs/data/nhsr/nhsr061.pdf>.

1 ILECs that participate in the OUSF program and have assumed carrier-of-last-resort-like
2 responsibilities in high-cost territories. And, those firms operate as such in only a
3 handful of the 217 wire centers supported by the OUSF. This demonstrates the reality of
4 the significant challenges involved in viably providing basic telephone service in high-
5 cost areas of Oregon, and confirms that the burden has not shifted from ILECs like
6 Frontier. Unless and until other carriers agree to accept carrier of last resort obligations
7 and provide basic service to all potential customers, OUS funding must continue to be
8 provided to defray the costs of providing basic phone service to the extraordinary high
9 costs areas in Oregon.

10 **Q. PLEASE EXPLAIN HOW FRONTIER’S “CARRIER-OF-LAST-RESORT**
11 **OBLIGATIONS” RELATE TO ITS OUSF FUNDING?**

12 A. As ILECs and companies authorized to receive OUSF support, the Frontier companies
13 have statutory and regulatory “carrier of last resort” responsibilities to provide service to
14 customers requesting service within their service areas. ILECs like Frontier have built
15 and maintain network and other facilities matched to that obligation. This includes having
16 invested in facilities that reach virtually every premise at which a potential customer
17 could request telephone service, as opposed to just investing in construction to premises
18 where the company actually has a current customer or simply finds it economically viable
19 to offer service, an option which is available to competitors. Frontier must continue to
20 invest in and maintain all of the telephone network infrastructure throughout its service
21 territory, which requires ongoing capital, operating and employee resources. These high
22 levels of investments and expenses incurred by Frontier are not just in the small towns

1 located in the high-cost wire centers, but also in the more sparsely populated surrounding
2 rural areas, where costs per line are much higher.

3 The cost model used by the Commission when it established the OUSF for the
4 non-rural ILECs essentially assumed that the companies would have customers for each
5 line constructed and maintained (with some “fill” allowances). Thus, the OUSF support
6 distribution formula also assumes that Frontier is serving – and deriving revenue from –
7 basic telephone service customers at virtually every premise in its service areas. As I
8 stated in response to the prior question, this is far from reality. Rather, Frontier is
9 receiving revenue from less than half the number of lines that it was serving when the
10 OUSF was implemented. As a result, the revenues Frontier receives from the OUSF are
11 even more important today, than they were when OUSF was initiated, in terms of
12 ensuring that Frontier is able to continue to provide affordable service to consumers in
13 the high cost areas of Oregon.

14 **Q. SHOULD ANY CHANGES BE MADE TO THE CALCULATION OF BASIC**
15 **TELEPHONE SERVICE COSTS ON WHICH OUSF SUPPORT IS BASED?**

16 A. The existing OUSF program has well served the State’s universal service public policy
17 objective of ensuring that Oregon consumers in high-cost service areas are provided
18 affordable basic telephone service. In light of Oregon ILECs having a unique obligation
19 to serve both high-cost and low-cost areas and to provide basic telephone service at rates
20 set by the Commission, the existing OUSF methodologies remain consistent with the
21 public policy goal of maintaining affordable rates in high-cost areas of Oregon that would
22 otherwise be uneconomical to serve. The goal of the fund and the funding mechanism
23 should remain unchanged. Frontier does not recommend revising the cost study for the

1 non-rural ILECs' wire centers. However, if the Commission were to pursue such a
2 course, it would need to be in a separate, subsequent phase of this docket, and updates
3 would be needed for some inputs, for example, operating expenses, investment costs and
4 line counts. As noted above, given the access line reductions and increased costs
5 experienced by Frontier, an updated review of the costs would most likely show that the
6 amount of OUSF support per line required is even higher than the current OUSF support
7 being provided today.

8 **Q. SHOULD ANY CHANGE BE MADE TO THE CALCULATION OF THE**
9 **BENCHMARK?**

10 A. At this time no change should be made to the benchmark that is used in the OUSF
11 support distribution formula. The Commission should continue to use a cost benchmark
12 rather than a revenue benchmark because – as the Commission concluded in Order 00-
13 312 (page 21) in Docket UM 731 – a cost benchmark is more stable over time and using a
14 revenue benchmark would leave implicit subsidies in the ILECs' rate structures.

15 If the basic service cost study for the non-rural ILECs' wire centers were to be
16 updated, then it would be appropriate to review the level of the benchmark. However,
17 such a review would have to consider the impact that a change in the benchmark would
18 have on the level of OUSF support and the resulting effect on the price needed to be
19 charged for basic telephone service in high-cost areas.

20 **Q. SHOULD ANY CHANGES BE MADE TO THE FORMULA FOR**
21 **DETERMINING SUPPORT PER LINE?**

22 A. No. The current formula starts with the cost of basic telephone service and subtracts the
23 benchmark, as well as any federal universal service fund and/or loop support. This

1 methodology is reasonably straight forward to administer and has worked well in
2 maintaining affordable rates in high-cost areas by targeting calculated OUSF support
3 levels to high-cost wire centers.

4 **Q. SHOULD ANY CHANGE BE MADE TO HOW THE OUS FUNDS ARE**
5 **COLLECTED, FOR EXAMPLE, EXPANDING THE TYPES OF FIRMS**
6 **REQUIRED TO CONTRIBUTE TO THE FUND?**

7 A. As a policy matter, Frontier believes that all Oregon providers of voice communications
8 service should contribute to the OUSF, regardless of the type of technology they use to
9 provide that service. Frontier is aware that a statutory change would be needed to include
10 wireless service providers as contributors, but the Commission should take a close look at
11 whether, under current law, Oregon VoIP sales are subject to the OUSF surcharge.

12 **Q. SHOULD ANY CHANGES BE MADE TO THE WAY THE OUS FUNDS ARE**
13 **DISTRIBUTED?**

14 A. No. The funds should continue to be distributed to Commission designated eligible
15 carriers based on the costs of fulfilling basic telephone service carrier-of-last-resort
16 obligations in high-cost wire centers. Other carriers that are willing to take on these
17 obligations and provide service in the more rural and high costs areas would continue to
18 be eligible to begin and continue to receive OUSF support. This distribution
19 methodology continues to fulfill the goal of making affordable basic local service rates
20 available in high-cost areas and should not be changed.

21 **ISSUE: WHAT CHANGES SHOULD BE MADE TO THE EXISTING**
22 **OUSF RELATED TO HOW FUNDS ARE USED?**

1 **Q. SHOULD THE COMMISSION IMPOSE ANY NEW REQUIREMENTS AS TO**
2 **THE USE OF OUS FUNDS, I.E., (QUOTING THE ALJ'S AUGUST 29, 2012**
3 **RULING) "THE SPECIFICITY IN CRITERIA AND IDENTIFICATION OF**
4 **ELIGIBLE INVESTMENTS AND EXPENSES"?**

5 A. No. There is no need to impose new requirements as to the use of OUS funds. Under
6 established law and Commission regulatory oversight, ILECs' receipt of OUSF support
7 meets the Fund's purpose of ensuring the provision of affordable basic telephone service
8 in the high-cost areas of the state.

9 As ALJ Arlow noted in his August 29, 2012 Ruling on the issues to be addressed
10 in this phase of the docket (citing ORS 759.425), there are two statutory purposes of the
11 OUSF: (1) to "ensure basic telephone service is available at a reasonable and affordable
12 rate" and (2) to be a "competitively neutral and nondiscriminatory" source of financial
13 support to assist designated service providers to fulfill this purpose in high-cost service
14 areas. No additional reporting is needed to assure that ILECs are meeting the first
15 objective, and no reporting is needed to confirm implementation of the second objective.

16 The Commission sets the ILECs' rates for basic telephone service. Those rates
17 are, therefore, inherently reasonable and affordable within the meaning of the OUSF
18 statute. No new reporting needs to be imposed in order to confirm this fact.

19 Similarly, how well the OUSF meets the second purpose of being a
20 "competitively neutral and nondiscriminatory" source of financial support for providing
21 basic telephone service in high cost areas is within the Commission's control rather than
22 the companies'.

1 Furthermore, the Commission has already recognized that special ILEC reporting
2 is not needed and has exempted ILECs from including such information in their annual
3 federal Eligible Telecommunications Carrier (ETC) recertification reports, while non-
4 ILEC, Competitive ETCs are required to demonstrate that they are using support to
5 further the statutory objective. (See Order 06-292 in Docket UM 1217).

6 **ISSUE: WHAT CHANGES SHOULD BE MADE TO THE EXISTING OUSF**
7 **RELATED TO TRANSPARENCY AND ACCOUNTABILITY?**

8 **Q. WHAT CHANGES SHOULD BE MADE TO THE EXISTING OUSF RELATED**
9 **TO TRANSPARENCY AND ACCOUNTABILITY?**

10 A. There is no need to impose new reporting requirements on ILECs such as Frontier. As
11 noted in response to the prior issue, existing regulation and reports suffice to demonstrate
12 that ILEC are putting OUSF support to use in providing basic telephone service
13 throughout their service areas at reasonable and affordable rates. Therefore, the
14 negotiated interim reports that resulted from the Commission's Order No. 11-132 should
15 be discontinued. They are an unnecessary regulatory burden.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes.

**CERTIFICATE OF SERVICE
UM 1481**

I certify that on the 10th day of December 2012, I served the foregoing Direct Testimony of R. Kirk Lee on Behalf of Frontier Communications Northwest Inc. and Citizens Telecommunications Company of Oregon in Docket UM 1481, on the following persons via electronic mail with a hard copy to the PUC Filing Center;

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