

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 6, 2001**

REGULAR AGENDA **X** **CONSENT AGENDA** **EFFECTIVE DATE** **April 30, 2001**

DATE: February 27, 2001

TO: Bill Warren through Phil Nyegaard and Lance Ball

FROM: David Sloan

SUBJECT: Verizon Northwest Incorporated, Oregon Universal Service Revenue-Neutral Filing, Docket No. UT 153
Advice No. 719, Advice No. 720 and Advice No. 124PL
Reduction of annual revenues pursuant to Order No. 312, Docket No. UM 731

SUMMARY RECOMMENDATION:

Staff recommends the filing be suspended for investigation.

DISCUSSION:

On October 9, 2000, Verizon Northwest Incorporated (the Company) made its revenue-neutral filing pursuant to Commission Order No. 00-312, Docket No. UM 731, issued June 16, 2000. Commission Order No. 00-312 directed the telecommunications companies in Oregon to file revenue-neutral tariffs to offset universal service receipts. Order No. 00-312 further directed that the revenue-neutral tariffs filed by the companies be effective when the companies begin receiving universal service support payments from the fund Administrator.

In Order No. 00-312, the Commission stated "However, the best time to decide exactly what service rates should be changed will be when the companies make their tariff filings. They and other parties will have an opportunity to analyze the issues in depth and make their arguments during the rate-rebalancing process. That, in turn, will provide a more complete record on which we can make the most appropriate decisions."

Staff met with parties in Docket No. UM 731 on February 21, 2001. At this meeting Verizon presented the proposed price changes in its revenue-neutral filing. Staff understands that AT&T objects to the method and form of the revenue-neutral filing made by the Company. AT&T is also concerned that the Oregon Universal Fund (OUSF) may not be legally sufficient pursuant to current FCC guidance. Staff hopes to investigate the AT&T objections quickly and brief the legal issues before the Commission soon.

THE REVENUE-NEUTRAL FILING

The Company's revenue-neutral filing includes changes to its retail services tariff, PUC OR. No. 11, to its wholesale services tariff, PUC OR. No. 12, and to its Price List – Oregon. Please see the attached "Exhibit 1". Proposed changes to the Company's PUC OR. No. 11 were filed in its Advice No. 719 on October 9, 2000. The Company filed Supplement A to its Advice No. 719 on December 4, 2000, changing the effective date to April 30, 2001 and Supplement B on February 20, 2001 making minor housekeeping changes to the filing. Proposed changes to the Company's PUC OR. No. 12 were filed in its Advice No. 720 on October 9, 2000. Proposed changes to the Price List – Oregon were filed in Advice No. 124PL on February 27, 2001. The Company submitted confidential exhibits with its revenue-neutral filing demonstrating that the total annual revenue effect of its proposed changes to PUC OR. No. 11, PUC OR. No. 12 and to its Price List – Oregon would be to reduce the Company's annual revenues by \$17.5 million to offset the estimated \$17.5 million that the Company will receive from the OUSF. Please see the attached "Exhibit 2".

Advice No. 719, proposing changes to the Company's retail services tariff, PUC OR. No. 11, reduces the Company's retail prices for certain business services, with a focus toward basic services. The Company reduces annual revenues from Business One-Party Service and Business Trunk Service by \$6.1 million and \$3.1 million respectively. Annual revenues from Business EAS in the Portland Metro area are reduced by \$3.0 million and annual revenues from miscellaneous business services – Rotary Hunting, DID Trunk Termination, and DIOD Trunk Termination, is reduced by \$.8 million. Advice No. 720, proposing changes to the Company's wholesale services tariff, PUC OR. No. 12, reduces annual revenues from the Carrier Common Line Charge by \$4.2 Million. Advice No. 124PL proposes changes to the Company's Price List – Oregon reducing annual revenues from related contract business services by \$.3 million. The proposed changes in the Company's Price List – Oregon are to its rate-stabilization pricing schedules for Business One-Party, Trunk, and DID Trunk services.

RETAIL SERVICES TARIFF

Business One-Party Service – The Company introduces retail price deaveraging in its proposed Business One-Party Service rates. Business One-Party service is available as Basic Calling Service, Community Calling Service, and Premium Calling Service.

Basic Calling Service consists of basic access to the network coupled with usage-based pricing of outgoing local exchange and EAS calls. The proposed monthly rate for business One-Party Basic Calling Service is \$18.00 per month for all rate zones. The current statewide average monthly rate for business One-Party Basic Calling Service is \$18.00. This proposal will not result in a rate increase or a rate decrease for any business customer.

Community Calling Service consists of basic access to the network coupled with premium flat rate pricing for local exchange calling and usage-based pricing for all EAS calling. The proposed monthly rate for One-Party Community Calling Service is \$19.00 for Zone 1, \$24.00 for Zone 2 and

\$28.27 for Zone 3. These rates include the flat rate price for local exchange calling. The current monthly rate for Community Calling Service is \$28.27. This proposal will result in no increase or decrease in rates for One-Party business customers in Zone 3. However, One-Party business customers in Zone 2 will realize a 15.1 percent rate decrease and One-Party business customers in Zone 1 will realize a 32.8 percent rate decrease.

Premium Calling Service consists of basic access to the network coupled with premium flat rate pricing for local exchange calling and flat rate pricing for EAS. The proposed rate for One-Party Premium Calling Service is \$19.00 for Zone 1, \$24.00 for Zone 2 and \$28.27 for Zone 3. These rates include the flat rate price for local exchange calling but do not include the flat rate EAS charge. The current monthly rate for business One-Party Community Calling Service is \$28.27. This proposal will result in no increase or decrease in rates for One-Party business customers in Zone 3. However, One-Party business customers in Zone 2 will realize a 15.1 percent rate decrease and One-Party business customers in Zone 1 will realize a 32.8 percent rate decrease.

The total proposed annual revenue decrease for Business One-Party Service is \$6,068,738. Business One-Party Basic Calling Service customers will realize no rate change. Business One-Party Community Calling Service customers will realize a total annual decrease of \$295,582. Business One-Party Premium Calling Service customers will realize a total annual decrease of \$5,773,156.

Business Trunk Service - The Company introduces retail price deaveraging in its proposed Business Trunk Service rates. Business Trunk Service is also available as Basic Calling Service, Community Calling Service, and Premium Calling Service.

Basic Calling Service consists of basic access to the network coupled with usage-based pricing of outgoing local exchange and EAS calls. The proposed monthly rate for Trunk Basic Calling Service is \$18.00 per month for all rate zones. The current monthly rate for Trunk Basic Calling Service is \$18.00. This proposal will not result in a rate increase or a rate decrease for any business customer.

Community Calling Service consists of basic access to the network coupled with premium flat rate pricing for local exchange calling and usage-based pricing for all EAS calling. The proposed monthly rate for Trunk Community Calling Service is \$22.00 for Zone 1, \$27.00 for Zone 2 and \$31.20 for Zone 3. These rates include the flat rate price for local exchange calling. The current monthly rate for Trunk Community Calling Service is \$31.20. This proposal will result in no increase or decrease in rates for business Trunk customers in Zone 3. However, business Trunk customers in Zone 2 will realize a 13.5 percent rate decrease and business Trunk customers in Zone 1 will realize a 29.5 percent rate decrease.

Premium Calling Service consists of basic access to the network coupled with premium flat rate pricing for local exchange calling and flat rate pricing for EAS. The proposed rate for business Trunk Premium Calling Service is \$22.00 for Zone 1, \$27.00 for Zone 2 and \$31.20 for Zone 3. These rates include the flat rate price for local exchange calling but do not include the flat rate EAS charge. The current monthly rate for business Trunk Community Calling Service is \$31.20. This

proposal will result in no increase or decrease in rates for business Trunk Premium Calling Service customers in Zone 3. However, business Trunk Premium Calling Service customers in Zone 2 will realize a 15.1 percent rate decrease and business Trunk Premium Calling customers in Zone 1 will realize a 32.8 percent rate decrease.

The total proposed annual revenue decrease for Business Trunk Service is \$3,146,345. Business Trunk Basic Calling Service customers will realize no rate change. Business Trunk Community Calling Service customers will realize a total annual decrease of \$70,884. Business Trunk Premium Calling Service customers will realize a total annual decrease of \$3,075,461.

Business EAS – Portland Metro - The filing proposes a decrease in the Business EAS adder rates for the Portland metro wire centers. The monthly Business EAS adder rates for Aloha, Banks, Beaverton, Bull Mountain, Forest Grove, Gaston, Gresham, Hillsboro, Newberg, Orient, Scholls, Sherwood, Somerset West, Stafford, Tigard, Tualatin and Wilsonville (EAS Rate Group "Va") are decreased by 34.4 percent, from \$8.05 to \$5.28. The monthly Business EAS adder rates for Hoodland, Sandy, Sunnyside, Valleyview, Vernonia and Yamhill (EAS Rate Group "Vb") are decreased by 34.4 percent, from \$13.10 to \$8.60. The proposed Business EAS adder rates are above the rates for comparable residential EAS, a requirement of Commission Order No. 89-815.

The annual revenue effect from decreasing the EAS adder rates for the Portland metro wire centers is \$2,967,950.

Miscellaneous Business Services – Rate decreases are proposed for Rotary Hunting, Direct Inward Dialing (DID) Trunk Terminations and Direct Inward/Outward Dialing (DIOD) Trunk Terminations.

The filing eliminates the separate \$1.20 monthly rotary hunting charge for multi-line business services. The filing also eliminates the separate \$15.00 monthly charge for DID trunk terminations and reduces the monthly charge for DIOD trunk terminations from \$25.00 to \$10.00. This maintains the same \$10.00 differential between DID and DIOD trunk termination rates that exist in the current tariff. The Company reports that in today's digital switching environment, the DID trunk termination is not a significant cost consideration in the total cost of providing the service.

The annual revenue effect from elimination of the separate Rotary Hunting charge, elimination of the separate monthly charge for DID trunk termination and reduction of the monthly charge for DIOD trunk termination is \$773,114.

WHOLESALE SERVICES TARIFF

Carrier Common Line Charge (CCLC) – Advice No. 720 proposes the elimination of the Carrier Common Line charge. The annual revenue effect of the elimination of the Carrier Common Line charge is \$4,212,763.

PRICE LIST – OREGON

Contracted Business One-Party, DID Trunk and Trunk Services – The Company's Price List – Oregon includes rate stabilization rates for Business One-Party, DID Trunk and Trunk services for 1-year, 3-year and 5-year terms. The Company's proposed tariff PUC OR. No. 11 rates, along with the proposed EAS rate reductions in the Portland Metro area result in a lower monthly rate than the currently active service agreement for these services. Advice No. 124PL proposes to migrate customers on a currently active service agreement to the lower rates proposed in tariff PUC OR. No. 11. This proposal will result in an additional annual revenue decrease of \$119,795 for Business One-Party Service customers, an additional annual revenue decrease of \$148,660 for Business Trunk Service and an additional annual revenue decrease of \$75,675 for Business DID Trunk Service customers. The total annual revenue decrease applicable to contract customers for Business One-Party and Trunk Services is \$344,130.

STAFF ANALYSIS

The filing is consistent with established guidelines – the filing uses May 2000 line counts, the revenue reductions total to the agreed amount of \$17.5 million, all of the revenue reductions accrue to the Company's business customers with a focus toward basic services, the proposed deaveraged rate zones are consistent with Commission Order No. 00-481 in Docket No. UT 148, and the proposed decreased rates for business EAS remain in compliance with the Commission's EAS criteria as set out in its Order No. 89-815 in Docket No. UM 189.

STAFF RECOMMENDATION:

Staff recommends the filing be suspended for investigation. Staff understands that AT&T objects to the method and form of the revenue-neutral filing made by the Company. AT&T is also concerned that the OUSF may not be legally sufficient pursuant to current FCC guidance. Staff hopes to investigate the AT&T objections quickly and brief the legal issues before the Commission soon.

Attachments:

- Exhibit 1 – Proposed Rates
- Exhibit 2 – Proposed Revenue Change