

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: December 18, 2001

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** January 1, 2002

DATE: December 6, 2001

TO: Phil Nyegaard through Lance Ball

FROM: Jim Stanage

SUBJECT: CENTURYTEL OF OREGON, INC.: (Advice No. 229) Increases the Subscriber Line Charge (SLC) to \$5.00, pursuant to FCC Order 01-304.

STAFF RECOMMENDATION:

I recommend that the filed tariff be allowed to go into effect and that the waiver of the statutory notice requirement be granted.

DISCUSSION:

Centurytel Of Oregon, Inc., (Centurytel) proposes to increase the credit for Lifeline Service from \$3.50 to \$5.00 to comply with a recent Federal Communications Commission (FCC) order. This credit is used to offset the federal End User Subscriber Line Charge (EUSLC). This filing is necessary due to FCC's increase of the EUSLC from \$3.50 to \$5.00 in FCC's Multi-Association Group (MAG) Plan, in FCC 01-304, released November 8, 2001. The FCC order increases the Subscriber Line Charge (SLC) for small, local rural companies to the same rates that were established in the Coalition of Affordable Local and Long Distance Service (CALLS)¹ reforms for price-cap regulated carriers. The FCC rules also note that the Lifeline support to low-income customers must be increased in an amount equal to any SLC rate increase.

The filing complies with the FCC rules by increasing the Baseline Federal Lifeline Reduction to the amount of the new SLC rate of \$5.00, which will be effective January 1, 2002. The filing also notes possible increases [to \$6.00 and \$6.50 in July 2002 and 2003, respectively].

¹ In June 2000, the FCC adopted the Coalition of Affordable Local and Long Distance Service (CALLS) plan for access charge and Universal Service reform. The plan capped the Subscriber Line Charge for price-cap regulated companies at \$4.35 effective July 1, 2000 with an increase to \$5.00 in July 2001, to \$6.00 in July 2002 and to \$6.50 in July 2003. The 2002 and 2003 increases are subject to a cost review study by the FCC.

This FCC order modified the FCC's interstate access charge rules and universal service support system for rate-of-return incumbent local exchange carriers (LECs). This action, based upon pending Commission proposals and consideration of the Multi-Association Group (MAG) petition, is intended to bring all Americans, including those in rural and high-cost areas, the benefits of competition and choice. MAG is a coalition of associations representing rural carriers, including the National Rural Telecom Association (NRTA), the National Telephone Cooperative Association (NTCA), the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and the United States Telecom Association (USTA).

Rate-of-return carriers, as opposed to price cap carriers, are typically small, rural telephone companies concentrated in one geographical area, but they range in size from a few hundred lines to approximately one million. They generally have higher operating and equipment costs than price cap carriers due to lower subscriber density, smaller exchanges, and limited economies of scale. Rate-of-return carriers also rely more heavily on revenues from interstate access charges and universal service support. They number roughly 1,300 carriers and serve approximately eight percent of the nation's phone lines.

The FCC's order is designed to carry out the universal service policies embodied in the Telecommunications Act of 1996, and seeks to accomplish the following three goals:

1. Align the interstate access rate structure more closely with the manner in which costs are incurred by driving per-minute access charges towards lower, more cost-based levels.
2. Remove implicit support for universal service with explicit support that is portable to all eligible telecommunications carriers on a competitively neutral basis. This is intended provide a more equal footing for competitors in the local and long distance markets.
3. Provide certainty and stability for the small and mid-sized local telephone companies serving rural and high-cost areas by permitting these carriers to continue to set rates based on a rate-of-return of 11.25%, thereby encouraging investment in rural areas.

Through this order the FCC largely completes the interstate access charge and universal service support reforms it initiated following the passage of the Telecommunications Act.

PROPOSED COMMISSION MOTION:

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That the filed tariff be allowed to go into effect and that the company's request for a waiver of the statutory notice requirement be granted.

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