

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 18, 2002**

REGULAR CONSENT EFFECTIVE DATE July 1, 2002

DATE: June 11, 2002

TO: John Savage

FROM: Cynthia Van Landuyt through Phil Nyegaard

SUBJECT: OREGON EXCHANGE CARRIER ASSN.: (Advice No. 79) Updates the Switching, Transport, Special Access and Billing & Collection rates to reflect 2002 costs and demand for participating telecommunications companies.
OREGON EXCHANGE CARRIER ASSN.: (Advice No. 80) Updates the Carrier Common Line (CCL) and Oregon Customer Access Fund (OCAF) surcharge rates to reflect 2002 costs and demand for participating telecommunications companies.

STAFF RECOMMENDATION:

Staff recommends the Commission allow the June 10, 2002 revised filings, effective July 1, 2002 to go into effect.

DISCUSSION:

On March 15, 2002, the Oregon Exchange Carrier Association (OECA) filed Advice No. 79 in its Intrastate Access tariff and Advice No. 80 in its Intrastate Carrier Common Line tariff to be effective July 1, 2002. The filing was made under ORS 759.220, *Joint rates and classifications; procedure; considerations* and 759.225, *Applications of ORS 759.220 to unincorporated associations and cooperative corporations*. The purpose of the filing is to revise the Carrier Common Line (CCL), Traffic Sensitive and Oregon Customer Access Fund (OCAF) rates to reflect cost and demand at estimated 2002 levels. In addition, Advice No. 79 revises the Special Access Channel Termination and Transport rates, and the Bill Processing billing and collection rate to reflect special access and billing and collection cost and demand at estimated 2002 levels. It also revises company specific Special Access rates for one OCAF participant Local Exchange Carrier (LEC) and Billing and Collection rates for three OCAF participant LECs.

TARIFF FILINGS

The Commission, in Docket UM 384, issued Order 93-1133 which adopted the 1994 Oregon Customer Access Plan (OCAP).¹ Under the plan, the LECs charge a basic billing rate of 5 cents per access minute to Interexchange Carriers (IXCs or Long Distance Carriers) to originate and/or terminate toll calls to the LECs' end user customers. This 5-cent rate is a composite rate made up of three access elements: Carrier Common Line, Local Switching and Local Transport. The revenues derived from the 5-cent rate do not recover the participating LECs' intrastate access revenue requirement and a shortfall results. This shortfall or unrecovered revenue requirement is pooled under the plan and recovered through the Oregon Customer Access Fund (OCAF) rate. This rate is applied to all terminating-rated CCL minutes.

Advice Nos. 79 and 80 were revised on June 10, 2002, to reflect the following:

1. Changes to 2002 cost and demand estimates agreed to by the companies and staff following staff's review of the detailed work papers supporting the filing. The review included an analysis of the proposed budget, demand forecast, jurisdictional separations factors and allocation of costs to unregulated operations for each of the participating LECs.
2. Changes to company-specific rate additives for Canby Telephone Association, Cascade Utilities, Inc., Clear Creek Mutual Telephone, Colton Telephone, Eagle Telephone Systems, Inc., Molalla Telephone Company, Monitor Cooperative Telephone, Monroe Telephone Company, Nehalem Telephone and Telegraph, North State Telephone, Oregon Telephone Corporation, Oregon-Idaho Utilities, Inc., Pine Telephone Systems, Inc., Pioneer Telephone Cooperative, Scio Mutual Telephone Association and Trans-Cascades Telephone Company.

Cost Constraints and Rate Additives

The OCAP at Part VII.A states unless otherwise approved by the OPUC, increases in an LEC's projected switched access revenue requirement developed under Part IV will be limited to the percentage growth of its intrastate traffic sensitive access minutes from the prior year, or ten percent, whichever is less. If an LEC's minute growth for the prior year is negative, its projected intrastate switched access revenue requirement cannot exceed the amount included in the prior year's approved switched access revenue requirement.

¹ The Commission extended the OCAP indefinitely awaiting final resolution of the Federal Communications Commission's (FCC) Universal Service docket relating to rural Incumbent Local Exchange Carriers (ILECs).

Part VII.C states any LEC having increases in its switched access revenue requirement which exceeds the cost controls established in this Part, may at its discretion, file a company specific access rate additive to recover such amounts. Company specific rate additives will be subject to OPUC approval.²

Access minutes have declined in the past several years,³ limiting the increase in revenue requirement allowed for recovery from the OCAF pool to zero. For the past several years, an average of fifteen companies have filed rate additives annually. Usually these rates range from just under one cent to four cents per access minute. The LECs charge these rates to the IXCs in addition to the composite 5 cent per minute access charge rate and the OCAF rate of approximately 0.5 cents.

This year, Eagle Telephone (Eagle) computed its rate additive at 11.875 cents per minute. Eagle's intrastate switched access revenue requirement increased significantly due to application of the FCC Part 36 Separations rules resulting in a cost shift from the interstate to the intrastate jurisdiction. Eagle's 2002 total company revenue requirement increased 11.1 percent over 2001. However, its 2002 intrastate switched access revenue requirement increased 21.3 percent over 2001 due to separations rules applications.

Staff believes charging a rate additive above four cents, in addition to the 5.5 cent pool rates, increases pressure for IXCs to request either deaveraging of toll rates or discontinuing service to high cost exchanges. Staff proposes the Commission limit a company's specific rate additive to no more than four cents and allow the recovery of costs above that amount through the OCAF pool. There are two companies whose rate additive would be above four cents, Eagle Telephone and Monroe Telephone. Capping the rate additives at four cents adds \$99,209, or an increase of 0.5 percent to the overall pool revenue requirement. Applying the cap increases the OCAF rate from 0.544 cents to 0.552 cents.

ACCESS CHARGE ELEMENTS

The revenue impact for each of the access elements and associated proposed rates, as revised, will be discussed separately.

² Cost constraints and rate additives were included in the OCAP to place some measure of accountability on the companies for rising costs.

³ Customers are turning to cell phones or "voice over internet" to complete long distance calls thus decreasing wireline access minutes used to develop intrastate access charge rates.

Carrier Common Line

All Carrier Common Line (CCL) rates decrease as shown on Attachment 1, lines 1 through 4. The revenue impact is a decrease of \$92,669 (Attachment 1, line 5) in charges to IXCs for 2002.

Traffic Sensitive

The Local Switching rate decreases as shown on Attachment 1, line 6. The revenue impact is a decrease of \$269,720 in charges to IXCs for 2002. The Transport rate increases, as shown on Attachment 1, line 7, resulting in an increase of \$367,278 in charges to IXCs for 2002.

OCAF

The 2002 OCAF revenue requirement is \$7,321,932. This amount represents the shortfall after billing the 5-cent composite rate as discussed above. This translates to a rate of \$0.00552 per terminating-rated CCL minute which represents an increase of \$0.00158 from the current rate of \$0.00394. See Attachment 1, line 9.

The revenue impact is an increase of \$2,095,770 in charges to IXCs. See Attachment 1, line 9. The combined effect of the CCL, Traffic Sensitive, and OCAF rate changes is an increase of \$2,100,660 in charges to IXCs. See Attachment 1, line 10.

Special Access

The Special Access rates filed in the OECA PUC OR No. 2 tariff represent a composite rate for the small telephone companies participating in the optional Special Access and Billing and Collection (B&C) pools.

This filing decreases special access rates by approximately 10 percent. See Attachment 2, lines 1 through 17. The revenue impact is a decrease of \$118,962.

Billing and Collection

The Billing and Collection (B&C) Rating Service rate is unchanged, while Bill Processing increases by \$0.05045 cents per message. See Attachment 2, lines 19 and 20. The revenue impact is an increase of \$172,565. The B&C rates are charged on a per message basis. The message forecast in this filing also reflects the erosion effect on wireline minutes and messages discussed above regarding cellular phone and Internet use.

Staff Conclusions

Although the OCAF pool revenue requirement decreased by 1 percent from the August 2001 filing, the OCAF rate is increasing because of declining demand. Intrastate switched access minutes decreased 10.11 percent over the previous filing in August 2001. As seen in Attachment 1, line 10, the rate must increase to cover the pool revenue requirement of \$21,669,151. The 2002 demand forecast times the current rates produces revenues of only \$19,568,491, a shortfall of 10.73 percent.

In accordance with ORS 759.220(2), *Joint rates and classifications; procedure; considerations*, the Commission could suspend this filing for further investigation. Staff recommends the Commission accept the OECA revised access charge rates. These rates reflect a reasonable allocation of costs to nonregulated operations and follow the jurisdictional and access charge rules adopted by the Commission in previous orders.

PROPOSED COMMISSION MOTION:

OECA Advices 79 and 80, revising intrastate Switched, Special Access and Billing and Collection rates be allowed to go into effect July 1, 2002.

OECA, Advice Nos. 79 and 80

Attachment 1

Access Rate Elements	Current Rates	Revenues at Current Rates	Proposed Rates	Revenues at Proposed Rates	Rate Change	Revenue Change
CARRIER COMMON LINE						
1 Premium Terminating	\$0.03616	\$5,087,041	\$0.03573	\$5,026,548	(\$0.00043)	(\$60,493)
2 Non-Premium Terminating	\$0.02531	\$0	\$0.02501	\$0	(\$0.00030)	\$0
3 Premium Originating	\$0.01808	\$2,644,282	\$0.01786	\$2,612,106	(\$0.00022)	(\$32,176)
4 Non-Premium Originating	\$0.01266	\$0	\$0.01250	\$0	(\$0.00016)	\$0
5 TOTAL CCL (Note 1)		\$7,731,324		\$7,638,655		(\$92,669)
Composite CCL rate			\$0.02662			
TRAFFIC SENSITIVE						
6 LOCAL SWITCHING	\$0.01053	\$3,021,436	\$0.00959	\$2,751,716	(\$0.00094)	(\$269,720)
7 TRANSPORT	\$0.01251	\$3,589,569	\$0.01379	\$3,956,848	\$0.00128	\$367,278
8 TOTAL TS (Note 1)		\$6,611,006		\$6,708,564		\$97,558
9 OCAF (Note 2)	\$0.00394	\$5,226,162	\$0.00552	\$7,321,932	\$0.00158	\$2,095,770
10 TOTAL REVENUES		\$19,568,491		\$21,669,151		\$2,100,660

Note 1: CCL and TS revenues include OECA tariff participants only.

Note 2: OCAF revenues include all Oregon LECs and CLECs.

OECA, Advice No. 79

Attachment 2

	Current Rates	Revenues at Current Rates	Proposed Rates	Revenues at Proposed Rates	Rate Change	Revenue Change
Access Rate Elements						
SPECIAL ACCESS:						
Channel Terminations						
12-Wire	\$72.12	\$39,810	\$65.18	\$35,979	(\$6.94)	(\$3,831)
24-Wire	\$96.19	\$56,560	\$86.94	\$51,121	(\$9.25)	(\$5,439)
32.4 to 56k	\$116.90	\$164,128	\$105.66	\$148,347	(\$11.24)	(\$15,781)
4 High Cap DS1	\$752.10	\$478,336	\$679.78	\$432,340	(\$72.32)	(\$45,996)
5 High Cap DS3	\$5,914.28	\$0	\$5,345.33	\$0	(\$568.95)	\$0
6 Total Terminations		\$738,833		\$667,787		(\$71,046)
Transport Fixed						
7 2-Wire/4-Wire	\$14.60	\$19,272	\$13.20	\$17,424	(\$1.40)	(\$1,848)
8 2.4 to 65k	\$22.69	\$31,857	\$20.51	\$28,796	(\$2.18)	(\$3,061)
9 DS1	\$339.03	\$215,623	\$306.43	\$194,889	(\$32.60)	(\$20,734)
10 DS3	\$1,526.42	\$0	\$1,379.58	\$0	(\$146.84)	\$0
11 Total Transport Fixed		\$266,752		\$241,110		(\$25,642)
Transport Mileage						
12 2-Wire/4-Wire	\$3.71	\$41,270	\$3.35	\$37,265	(\$0.36)	(\$4,005)
13 2.4 to 65K	\$3.71	\$61,527	\$3.35	\$55,556	(\$0.36)	(\$5,970)
14 DS1	\$22.79	\$127,715	\$20.60	\$115,442	(\$2.19)	(\$12,273)
15 DS3	\$82.61	\$0	\$74.66	\$0	(\$7.95)	\$0
16 Total Transport Mileage		\$230,512		\$208,264		(\$22,248)
17 Bridging	\$7.34	\$264	\$6.63	\$239	(\$0.71)	(\$26)
18 TOTAL SPECIAL ACCESS		\$1,236,361		\$1,117,399		(\$118,962)
BILLING AND COLLECTION:						
19 Bill Processing	\$0.343969	\$1,176,621	\$0.394416	\$1,349,186	\$0.050447	\$172,565
20 Rating	\$0.024300	\$41,104	\$0.024300	\$41,104	\$0.000000	\$0
21 TOTAL B&C	\$0.368269	\$1,217,725	\$0.418716	\$1,390,290	\$0.050447	\$172,565