

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 20, 2002**

REGULAR X **CONSENT** _____ **EFFECTIVE DATE** August 21, 2002

DATE: August 13, 2002

TO: John Savage

FROM: John Wright through Phil Nyegaard and Cynthia Van Landuyt

SUBJECT: CENTURYTEL OF OREGON, INC.: (Advice No. 237) Changes deposit regulations.

STAFF RECOMMENDATION:

Staff recommends the Commission allow the August 12, 2002, revised Advice No. 237 to go into effect August 21, 2002.

PROCEDURAL HISTORY:

On July 12, 2002, CenturyTel of Oregon, Inc. (CenturyTel or Company) filed Tariff Advice No. 237 in its Intrastate Access Service Tariff Oregon P.U.C. AC-4.¹ The filing was made under ORS 759.175, *Filing Rate Schedules and Data with the Commission*. The purpose of the filing is to revise CenturyTel's existing tariff language covering access service security deposits.

Based upon its initial review of CenturyTel's July 12, 2002 filing, staff proposed several significant modifications. As a result, the Company extended the proposed effective date of August 5, 2002, and entered into discussions with staff. Tariff Advice No. 237, Supplement A, with a proposed effective date of August 21, 2002, features revised security deposit language that incorporates Staff's suggested modifications.²

DISCUSSION:

CenturyTel's existing tariff language allows the Company to require a two-month security deposit only if a customer (i.e., a carrier purchasing switched or special access) has a history of late payments or no established credit history at the initial establishment of service. In response to the financial distress currently experienced by many of its

¹ Customer's of CenturyTel's P.U.C. AC-4 are interexchange carriers (long distance carriers).

² Advice No. 237 applies only to access service and has no impact on the security deposit requirements applicable to local exchange service customers.

access service customers, the Company has proposed more stringent security deposit regulations to better manage the credit risk. The proposed language allows for the imposition of a security deposit under expanded and more well-defined circumstances including when an existing customer falls below "commercially acceptable creditworthiness". Assuming diligent credit monitoring on the part of CenturyTel, the proposed revised language allows the Company to impose a security deposit requirement on financially troubled customers before a potential bankruptcy filing or payment default.

A. FCC Activity on this Issue

CenturyTel's request for stricter access service security deposit requirements is the first of its type to be filed with the Oregon Commission. However, Bell South, Southwestern Bell (SBC), Verizon and the National Exchange Carriers Association (NECA) have all filed similar requests with the FCC in the past two months.³ Historically, security deposit tariff language at both the state and federal level have limited the ability of local exchange carriers to impose security deposit requirements on access service customers except in circumstances when an existing access service customer has a poor payment history or a new access service customer has no established credit. The large number of security deposit tariff filings by incumbent LECs at the FCC is a direct result of the limitations imposed by traditional access service tariffs in the face of increasing financial turmoil on the part of interexchange carriers throughout the industry - in particular the Chapter 11 bankruptcy filing of Worldcom on July 21, 2002.

As might be imagined, the proposed changes in security deposit tariff regulations have been the source of controversy with all of the federal filings and opposed by interexchange carriers. The multitude of objections posed by the interexchange carriers are too voluminous to discuss in this memorandum. However, one recurring theme is that the proposed tariff changes are unnecessarily vague and fail to use well-defined objective criteria for defining the credit worthiness of access service customers. This was Staff's primary objection to CenturyTel's original filing with the Commission and the reason Staff insisted on the extensive modifications incorporated in the Company's revised filing as discussed below.⁴ To date the FCC has not ruled on any of the

³ CenturyTel also filed a request with the FCC to revise its federal network access security deposit language. CenturyTel's filing with the FCC was similar to original Tariff Advice No. 237 filed with the Oregon Commission on July 12, 2002. The Company has since withdrawn its federal filing pending the outcome of FCC decisions on the Bell South filings, et al.

⁴ The majority of Staff's suggested modifications were based on SBC's proposed revisions to its federal access service security deposit requirements. SBC's proposed tariff language, filed with the FCC on August 2, 2002, can be characterized as far more detailed than similar filings by, for example, Bell South and NECA .

proposed tariff changes. At present, the Bell South, NECA and Verizon filings are in the reply comment phase of the FCC regulatory process.⁵

B. Basis for Staff's Recommendation

Staff's recommendation to approve CenturyTel's proposed revised security deposit regulations is based on the following key factors:

1. The current financial turmoil in the telecommunications industry has subjected all carriers, both local and interexchange, to significantly higher credit risk. It is appropriate for local exchange carriers to impose stricter security deposit requirements in an effort to better manage the credit risk posed by financially troubled interexchange carriers. CenturyTel of Oregon, had interstate and state access revenues of approximately \$12.9 million for the year ending December 31, 2001. Access revenues accounted for approximately 18.6 percent of the Company's total revenue of approximately \$69 million during this same period. Therefore, the magnitude of the potential problem is not insignificant.
2. As a result of Staff's suggestions, CenturyTel's proposed revised language features well-defined limits on the Company's ability to require security deposits from new and existing customers. Staff believes these limits strike a reasonable balance between the Company's need to reduce credit risk with the need of interexchange carriers to obtain switched and special access service under reasonable terms and conditions. The limits required by Staff that the Company incorporated in its proposed revised language include:
 - a. The inclusion of language that specifically defines "an established history of late payments" as a failure to pay two monthly bills by the bill due date within a 12-month period. Both CenturyTel's existing and originally proposed revisions provided no such definition.
 - b. A limitation of security deposit requirements to a maximum of two months. This requirement is unchanged from CenturyTel's existing regulations.
 - c. A detailed definition of "commercially acceptable credit worthiness" that references specific criteria used by nationally recognized credit rating

⁵ Verizon also filed a pleading with the FCC on July 24, 2002 styled as a "Petition for Emergency Declaratory Order and Other Relief" in which it asks the FCC to address issues regarding tariff revisions to ensure against nonpayment and the ability of local exchange carriers to obtain payment for services rendered to customers in bankruptcy. Initial comments associated with Verizon's petition are due on August 15, 2002 and reply comments are due on August 26, 2002.

organizations such as Standard & Poors and Dunn and Bradstreet. CenturyTel's originally proposed revisions contained no such definition.

- d. A requirement that existing customers who already provide a security deposit can only be required to increase that deposit if their actual monthly billings grow by a factor of 10 percent above the amount used to establish their existing security deposit. CenturyTel's originally proposed revisions contained no such definition.
- e. A requirement that CenturyTel give access service customers fourteen days to provide a security deposit when requested by the Company. CenturyTel is also required to explain the criterion used to determine when a customer has impaired credit worthiness. Neither of these items was contained in the Company's originally proposed revisions.
- f. Maintenance of the 30-day access service termination notice requirement as contained in tariff Sections 2.1.8(A) and 2.1.8(B). These regulations prevent CenturyTel from immediately terminating service if a customer does not pay a security deposit within fourteen days after being requested by the Company.

OPTIONS FOR COMMISSION ACTION:

The Commission has two basic options for action:

1. Approve CenturyTel's proposed access service tariff language as recommended by Staff. Such an approval will presumably cause CenturyTel's tariff language to serve as a model for other Oregon local exchange carriers who desire to make similar filings.
2. Investigate the issue in greater detail. This can be accomplished by suspending the filing under ORS 759.185, *Suspension of Rates Pending Hearing; Time Limitation; Revenue Collected Subject to Refund; Interim Rates*. This option will have the advantage of allowing the Commission to incorporate FCC regulatory actions into the Oregon decision making process. However, selecting this option has the potential to subjecting CenturyTel to an increased risk of uncollectible access service revenue from financially distressed interexchange carriers.

Given what Staff believes are the well-defined and reasonable requirements of CenturyTel's proposed tariff changes Option #1 is recommended.

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PROPOSED COMMISSION MOTION:

CenturyTel's August 12, 2002 revised Advice No. 237 be allowed to go into effect on August 21, 2002.

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