

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 7, 2003

REGULAR _____ CONSENT X EFFECTIVE DATE August 1, 2003

DATE: April 28, 2003

TO: John Savage

FROM: Tom Turner through Dave Booth and Phil Nyegaard

SUBJECT: OREGON CUSTOMER ACCESS PLAN: (Docket No. UM 384) Petition from the Oregon Exchange Carrier Association (OECA) to amend the Oregon Customer Access Plan (OCAP) pursuant to Commission Order No. 03-082 in Docket UM 1017

STAFF RECOMMENDATION:

Staff recommends the Commission adopt the amended 2003 OCAP attached as Exhibit 1 to this report.

DISCUSSION:

On March 20, 2003, the Oregon Exchange Carrier Association (OECA) filed a petition to amend the Oregon Customer Access Plan (OCAP). The petition and specific amendments to the OCAP were filed pursuant to the direction of the Commission in Order 03-082 (entered February 3, 2003) in Docket UM 1017.

The Commission adopted the original OCAP in Order No. 93-1133 (entered August 12, 1993) in Docket UM 384. The OCAP was effective January 1, 1994, and has remained in effect with little change up to the current time.¹ The OECA administers the OCAP under rules adopted by the Commission. See OAR 860-032-0100.

The 1994 OCAP established an Oregon Customer Access Fund (OCAF). The OCAF provides for "pooling" of carrier access costs and the development of a common access charge tariff. This arrangement reduces pressure for toll rate deaveraging by interexchange carriers (IXCs). Participation in the OCAF is optional.² The OCAP has

¹ Extensions of the original 4-year OCAP were granted in Orders 97-484, 98-533, 99-781, and 00-787. A minor modification was adopted in Order 03-106.

² Most rural Oregon incumbent local exchange carriers (ILECs) participate in the OCAF. Currently those choosing not to participate are Beaver Creek Cooperative, Malheur Home Telephone Company, and

an overall access charge rate cap of 5.0 cents per minute. The pooled cost in excess of the 5-cent cap is supported by an OCAF surcharge rate applied to all terminating intrastate carrier common line (CCL) toll/access minutes. The current surcharge rate is 0.552 cents per terminating CCL minute.

In UM 1017 (Order 03-082), the Commission adopted a stipulation by the industry to expand the Oregon Universal Service Fund (OUSF), and, under the rate rebalancing provisions of the stipulation, reduce the costs of the OCAF. The OUSF expansion provides for disbursement of universal service support payments to rural Oregon ILECs to mitigate the cost of providing basic telephone service in high-cost service territories.³ To maintain revenue neutrality, the parties agreed that the support payments received from the OUSF would be offset by rate reductions in other telecommunications services that have traditionally supported the provision of basic telephone service.⁴ As a first priority these reductions would go toward reducing the CCL access rates consistent with the priorities of the FCC on interstate carrier access. See Order 03-082, Stipulation at Provisions 29-33. This rate rebalancing will be coincident with the first OUSF rural distribution, which is currently expected to be on August 1, 2003. The OCAF component of the rate rebalancing will be incorporated in this year's access filing by OECA in Advices 82 and 83. Staff plans to separately address the rate rebalancing filings and OUSF surcharge requirements at the July 15, 2003, Public Meeting.

Before the rate rebalancing and reduction of carrier access rates can be considered, the Commission needs to approve changes to the OCAP. The OCAP changes allow recognition of OUSF credits against the cost of carrier access, eliminate the OCAF surcharge as a separate funding source, and eliminate processes in the OCAP that are no longer required. The changes are designed to make the OCAF self-sustaining without the need for outside funding (via the OCAF surcharge) by non-participating ILECs. Details of the changes are listed in OECA's petition at pages 2 and 3 and are consistent with the provisions of Order 03-082. OECA was directed to file an amended OCAP within 45 days of the OUSF expansion order. See Order 03-082, Stipulation at Provision 34. OECA filed the amended OCAP on March 20, 2003.

Staff reviewed the proposed 2003 OCAP and finds that it complies with the order and stipulation adopted by the Commission in UM 1017.

Sprint/United of the Northwest. In addition, neither Qwest nor Verizon (considered non-rural ILECs) participate in the OCAF. Non-participating ILECs separately file their own carrier access charge tariffs.

³ The OUSF support payments are portable to competitive local exchange carriers (CLECs) that have been designated by the Commission as an eligible carrier. See Order 03-082, Stipulation at Provisions 23-25.

⁴ Similar rate rebalancing was ordered for the non-rural ILECs in Docket UM 731. See Order 00-312, Issue 12.

On April 10, 2003, staff proposed certain minor clarifications and wording changes to the 2003 OCAP. On April 15, 2003, OECA accepted these changes with a further minor clarification.⁵ The amended and clarified 2003 OCAP is attached as Exhibit 1.

The effective date of the amended 2003 OCAP is August 1, 2003, coincident with the effective date OECA's Advices 82 and 83. Staff expects to finish its analysis in time to allow the OECA tariffs to go into effect on that same date, August 1, 2003.

PROPOSED COMMISSION MOTION:

An order be prepared adopting the amended 2003 OCAP attached as Exhibit 1 to this report.

Enclosure

UM 384: OECA Petition to Amend OCAP

⁵ The clarifications involved substituting "ILEC" for "LEC" in all provisions where "LEC" is used; adding a definition for ILEC in Part II of the OCAP; and adding a provision to the scope of the OCAP that exempts Qwest and Verizon from the revenue requirements method adopted in OCAP. Qwest and Verizon use economic cost methods rather than embedded cost methods for access pricing.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 384

In the Matter of)	
)	PETITION TO AMEND
An Investigation into Alternative)	OREGON CUSTOMER
Means of Intrastate Separations)	ACCESS PLAN
and Settlement)	
_____)	

**2003
Oregon Customer Access Plan
(OCAP)**

Part I: Scope:

- A. This Plan governs the provision and pricing of intrastate switched access services by incumbent local exchange carriers (ILECs).
- B. The plan becomes effective on August 1, 2003, or as ordered by the Oregon Public Utility Commission (OPUC), and shall remain in effect until revised.
- C. All Oregon ILECs shall be subject to the provisions of this Plan and shall maintain current approved individual or joint switched access tariffs on file with the OPUC.
- D. Nothing in the Plan shall require, sanction or constitute agreement by any ILEC to take any action with respect to rates or services not subject to the Plan.

E. The intrastate switched access revenue requirement method adopted in Part IV of the OCAP does not apply to Qwest or Verizon.

Part II: Definitions:

For purposes of this Plan, in addition to the definitions in ORS 759.005, the following definitions apply:

1. "Designated Carrier" (DXC) means a telecommunications utility having the obligation to carry all intraLATA message toll which originates from ILEC exchanges except in those cases where the ILEC is certified as a Primary Toll Carrier (PTC), or where the customer has, through dialing or presubscription, selected an IXC or PTC. Qwest Communications (Qwest) is the DXC. Nothing in the designation of Qwest as the DXC is intended to or shall limit the right of any IXC or PTC to participate in the Oregon intraLATA toll market. It is the responsibility of the DXC to:
 - (a) Design and develop intraLATA message toll service rates in compliance with OPUC orders and regulations.
 - (b) Design and develop its intrastate intraLATA interexchange network in cooperation with each ILEC's local exchange access network. Each party will use reasonable efforts to avoid imposing undue hardship or costs for the interconnection of such networks.
2. "Interexchange Carrier" (IXC) means an interexchange carrier that has a current approved certificate of authority as a Competitive Telecommunications Services Provider on file with the OPUC. (ORS 759.020)
3. "Incumbent Local Exchange Carrier" (ILEC) means a telecommunications utility as defined in ORS 759.005(1)(a) or a telecommunications cooperative certified under ORS 759.025(2), first granted to provide

telecommunications services in an exchange area or service territory designated by the OPUC, or who lawfully subsequently acquires such right from the existing ILEC. This definition is meant to apply only to the area the telecommunications utility or telecommunications cooperative is serving as the ILEC.

4. "Primary Toll Carrier" (PTC) means a telecommunications utility certified to provide intraLATA message toll services designated as such by the OPUC.

Part III: Objectives:

- A. To promote universal service ensuring affordable basic local exchange service for both urban and rural communities throughout the state.
- B. To ensure that each ILEC makes available nondiscriminatory access to certified IXCs, DXC(s), and PTCs at just and reasonable rates.
- C. To foster a telecommunications climate in the state that provides, to both urban and rural customers, a choice among competitive interexchange carriers and services at affordable prices through a balanced program of regulation and competition.
- D. To provide a simple, clearly defined and economically administered support mechanism for participating ILECs as required to maintain a reasonable level of switched access rates throughout the state.
- E. To provide incentives for ILEC cost controls through greater access price accountability, balanced cost allocations, and market incentives.
- F. To allow for added pricing innovations and incentives for reductions in carrier access charges that will bring about opportunities for reductions in message toll rates and stimulate utilization of the public switched network.

- G. To provide for the routine periodic preparation and filing of switched access charges and to expedite PUC review and approval of those filings to the extent feasible and consistent with regulatory responsibilities.
- H. To facilitate the identification and allocation of an appropriate level of costs to intrastate switched access services covered by this Plan.

Part IV: Intrastate Switched Access Revenue Requirements:

All ILECs (with the exception of Qwest and Verizon), for areas in which they are operating as the ILEC, whether participating in OECA pools or filing their own individual access rates, shall develop their intrastate switched access revenue requirements on a prospective basis in accordance with the Federal Communications Commission (FCC) Regulations provided in CFR Parts 32 (Uniform System of Accounts), 64 Subpart I (Cost Allocation between regulated and non-regulated activities), 36 (Cost Separations), and 69 (Access Charges) as modified by Appendix A to this Plan or by OPUC Rules or Orders. The rate of return used to compute the revenue requirement shall be 11.1 percent or such rate of return as the OPUC may, after hearing, approve. Average schedule ILECs will compute their switched access revenue requirements based on a representative sample of cost ILECs.

- A. Each ILEC will determine their total prospective switched access revenue requirements and their prospective switched and CCL minutes of use.
- B. To offset OUSF support each ILEC will reduce their CCL revenue requirement up to an amount not to exceed the estimated OUSF support distribution for the access filing test year. The estimated OUSF support distribution will be computed by multiplying the OUSF support per line per month times the estimated average number of basic common subscriber lines for the access filing test year times twelve.

- C. For ILECs that participate in the OECA Optional Pool, the CCL revenue requirement reduction will be submitted to OECA along with work papers for inclusion in the OECA access rate filing.
- D. For ILECs that do not participate in the OECA Optional Pool, the CCL revenue requirement reduction and associated work papers will be incorporated into the ILEC's access rate filing.
- E. If there is a residual balance of estimated OUSF support distribution remaining after the CCL revenue requirement reduction, the ILEC will either reduce prices of other services that provide implicit subsidies, or reduce its estimated OUSF support to maintain revenue neutrality.
- F. For ILECs that participate in the OECA Optional Pool, if any portion of a residual balance of estimated OUSF support distribution is used to reduce traffic sensitive access rates, the traffic sensitive revenue requirement reduction will be submitted to OECA along with work papers for inclusion in the OECA access rate filing.
- G. For ILECs that participate in the OECA Special Access Pool or the Billing & Collection Pool, if any portion of a residual balance of estimated OUSF support distribution is used to reduce special access and/or billing and collecting rates, the special access and/or billing and collecting revenue requirement reduction will be submitted to OECA along with work papers for inclusion in the OECA access rate filing.
- H. For ILECs that do not participate in the OECA Optional Pool, if any portion of a residual balance of estimated OUSF support distribution is used to reduce traffic sensitive access rates, the traffic sensitive revenue requirement reduction and associated work papers will be incorporated into the ILEC's access rate filing.
- I. For ILECs that do not participate in the OECA Special Access Pool or the Billing & Collection Pool, if any portion of a residual balance of estimated OUSF support

distribution is used to reduce special access and/or billing and collecting rates, the special access and/or billing and collecting revenue requirement reduction, and associated work papers will be incorporated into the ILEC's access rate filing.

Part V: OECA Pools

The purposes of the OECA pools are to alleviate pressure for geographic deaveraging of toll rates due to variations in access rates and to reduce the risk of excessive revenue fluctuations by allowing participating ILECs to bill a common set of switched access rates with revenue redistribution based on each ILEC's revenue requirement.

Part VI: Oregon Universal Service Fund (OUSF):

The universal service requirement for each rural ILEC is calculated and funded under the processes and methodologies of the OUSF created by Commission Orders in Docket UM 731 as supplemented by Order No. 03-082 in UM 1017.

Part VII: Optional Pooling and Filing Frequency:

- A. Participation in the OECA pools shall be optional for ILECs on a year to year basis. However, DXC(s), PTCs, and IXC are not eligible for participation. Any ILEC deciding not to participate for a future year shall notify the OPUC and OECA in writing of its decision by March 1 of the rate year in question. OECA shall provide notification to its telecommunications service list of those ILECs electing not to participate.
- B. For those ILECs participating in OECA Pools annual filings are required. The filings should be made not later than March 15. The OPUC, insofar as possible,

will act upon the filings so that the approved rates will be effective by July 1.

- C. For those ILECs not participating in OECA Pools, the maximum interval between access filings shall not exceed two years.

Part VIII: Amendments to the Plan:

- A. Any ILEC or interested party may at any time seek amendments to the Plan through the OECA docket process. Nothing in the Plan shall impede the right of the OPUC at any time to initiate an investigation into any aspect of the Plan or its operations.
- B. If the OPUC at any time authorizes operations by one or more PTCs, the relative rights of PTCs and Qwest under the Plan shall be as provided by the OPUC in the order authorizing entry of such PTC or PTCs into the intrastate toll market.

Part IX: Pool Administrator:

- A. The Oregon Exchange Carrier Association (OECA) is designated as Administrator of this Plan, except that the OUSF shall be administered under separate order.
- B. OECA, as Administrator, is responsible for the collection and distribution of the Pools and for the filing and administration of joint switched access tariffs consistent with this plan and OAR 860-32-0100.
- C. The Administrator is authorized to engage and determine the compensation of such professional and technical assistance as may, in its judgement, be necessary for proper administration of the Plan. Cost of administration for all optional pools shall be separately determined and borne by such pool.

- D. ILECs participating in the Pools, and the Administrator shall, as far as reasonably possible, coordinate all necessary information contemplated by the Plan on a single annual basis in a form permitting expedited OPUC and other interested parties review. This subsection shall not unreasonably restrict the right of independent action by a participating ILEC.
- E. All proposals for changes in rates or charges made in connection with the Plan shall remain subject to OECA docket procedures and subsequent OPUC review and approval.
- F. All ILECs, whether or not they are participating in the Pools, shall comply with the necessary information requests and tracking reports requested by the Administrator to carry out its responsibilities.
- G. The Administrator shall make such periodic reports of its administration of the Plan in accordance with OAR 830-32-0100(5) and as may be required by the OPUC.

Part X: Reserved Rights of Parties:

Nothing in this Plan shall preclude any ILEC from at any time:

- A. Seeking separate OPUC approval of changes in its authorized earning level;
- B. Seeking separate OPUC approval of or otherwise making revisions in its rates or charges for services not subject to the Plan;
- C. Price listing services in accordance with applicable statutes and the OPUC administrative rules;
- D. Seeking OPUC approval of alternative forms of regulation under applicable Oregon Statutes;

E. Seeking OPUC approval of its entry into the Oregon intrastate toll market as PTC.

**OCAP
APPENDIX A**

Intrastate Switched Access Revenue Requirement Development

All ILECs (with the exception of Qwest and Verizon), for areas in which they are operating as an ILEC, whether participating in the OCAF or OUSF or filing their own individual access rates, shall develop their intrastate switched access revenue requirements using FCC methods provided in CFR Parts 32 (Uniform System of Accounts), 64 Subpart I (Allocation of Costs), 36 (Cost Separations), and 69 (Access Charges) with exceptions and modifications as set forth below.

- I. **Part 64 Subpart I Exceptions** (Allocation of Costs):
Exceptions are codified in OAR 860-27-0052 and OAR 860-34-0394.

- II. **Part 36 Exceptions** (Cost Separations):
 - A. Separations factors shall reflect the impact of the frozen interstate factors, per the Report and Order in CC Docket No. 80-286, FCC 01-162 (released May 22, 2001). The intrastate jurisdiction shall be allocated between toll/access, EAS and local based on the current relative total (1 minus interstate) intrastate usage.

 - B. Local Switching Equipment - Cat 3 (CFR 36.125).
 - (1) The combined allocation of the local switch (Cat 3 Factor) to interstate and state toll/access operations shall not exceed 85 percent.

 - (2) Within the 85 percent constraint identified above, the intrastate toll/access Cat 3 Factor shall equal the unweighted toll/access DEM factor as adjusted for the impact of the frozen interstate weighted DEM (i.e. the actual relative use of the local switch).

C. Subscriber Line Circuit Equipment and Subscriber Line Cable and Wire Facilities - Cat 4.13 (CFR 36.126) and 1.3 (CFR 36.154) respectively.

(1) The combined allocation of subscriber plant (25 percent gross allocator per CFR 36.154 (c)) plus the Federal Universal Service Fund (USF) (CFR 36 Subpart F) (high cost loop) to interstate and state toll/access operations shall not exceed 85 percent.

(a) In cases where in the interstate SPF and Federal USF alone are greater than 85%, the intrastate toll/access SPF shall equal zero unless waived by the OPUC.

(b) For purposes of making this calculation, the Federal USF is converted to a percentage by dividing the expected USF distribution for the rate year by the unseparated loop cost as calculated consistent with CFR Part 36 using the intrastate access rate of return identified in Part IV of the Plan.

III. **Part 69 Exceptions** (Access Charges):

A. Application of Access Charges (CFR 69.1). Access charges will not be applied to residential customers having foreign exchange service as of December 31, 1983. See Order No. 83-869, pp. 22, 23.

B. Net Investment Definition (CFR 69.2, 69.302): Net Investment means Oregon allowable rate base. Generally, this includes Plant In Service, Accumulated Depreciation, Net Deferred Operating Income Taxes, Inventories, and PUC approved Acquisition Adjustments and the unfunded component of post-retirement benefits.

- C. Access Filings (CFR 69.3): Filing of access charges shall be in accordance with Oregon PUC rules and orders.
- D. Access Element Exceptions (CFR 69.4, 69.104, 69.115): End User Subscriber Line Charges and Special Access Surcharges are not applicable to Oregon intrastate access.
- E. Carrier Common Line (CCL) Charges (CFR 69.105): CCL charges shall be developed per the formula contained in Order No. 87-441, Appendix A.