

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 15, 2003**

REGULAR X **CONSENT** **EFFECTIVE DATE** August 1, 2003

DATE: July 8, 2003

TO: John Savage

FROM: Cynthia Van Landuyt through Phil Nyegaard

SUBJECT: OREGON EXCHANGE CARRIER ASSN.: (Advice No. 82) Updates the carrier common line charge for 2003 cost and demand and reflects changes to the Oregon Customer Access Plan as ordered in UM 1017, Order No. 03-082.

OREGON EXCHANGE CARRIER ASSN.: (Advice No. 83) Updates the traffic sensitive, special access and billing and collection rates for 2003 cost and demand and reflects changes to the Oregon Customer Access Plan as ordered in UM 1017, Order No. 03-082.

STAFF RECOMMENDATION:

Staff recommends the Commission allow the July 7 and 8, 2003 revised filings, effective August 1, 2003, to go into effect.

DISCUSSION:

On March 17, 2003, the Oregon Exchange Carrier Association (OECA) filed Advice No. 82 in its Intrastate Access tariff and Advice No. 83 in its Intrastate Carrier Common Line tariff to be effective July 1, 2003. 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 filing revises the Carrier Common Line (CCL) and Traffic Sensitive rates to reflect cost and demand at estimated 2003 levels. It also eliminates the Oregon Customer Access Fund (OCAF) rate, eliminates company specific rate additives and reflects the Oregon Universal Service Fund (OUSF) credits against the cost of carrier access.¹ In addition, Advice No. 82 revises the Special Access Channel Termination and Transport rates, and the Bill

¹ The Commission, in Order 03-294 (May 14, 2003) docket UM 384, adopted amendments to the Oregon Customer Access Plan (OCAP). The Commission directed the Oregon Exchange Carrier Association (OECA) to file the amendments in Order 03-083 (February 3, 2003) in docket UM 1017.

Processing billing and collection rate to reflect special access and billing and collection cost and demand at estimated 2003 levels. It also revises company specific Special Access rates for two OCAP participant Incumbent Local Exchange Carriers (ILEC) and Billing and Collection rates for four OCAP participant ILECs. On April 28, 2003, OECA requested to extend the effective date of Advices 82 and 83 to August 1, 2003, to allow time for additional analysis.

PLAN CHANGES

The Commission, in Docket UM 384, issued Order 93-1133 which adopted the 1994 Oregon Customer Access Plan (OCAP). Under the original plan, the ILECs charged 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 ILECs' end user customers.² The revenues derived from the 5-cent rate did not recover the participating ILECs' intrastate access revenue requirement and a shortfall resulted. This shortfall or unrecovered revenue requirement was pooled under the plan and recovered through the Oregon Customer Access Fund (OCAF) rate.

The original plan also included a cost constraint benchmark to place some measure of accountability on the companies for rising costs. Companies were constrained to a ten percent increase in costs or the prior year's percent growth in access minutes, whichever was less, as the benchmark for cost inclusion in the pool. Legitimate costs above that benchmark were recovered through a company specific rate additive. Each year, approximately 16 of the 28 participating ILECs filed rate additives.

In Order 03-082 (February 3, 2003), docket UM 1017, the Commission adopted a stipulation by the industry to expand the Oregon Universal Service Fund (OUSF) to include rural ILECs. Under the rate rebalancing provision of the stipulation, the ILECs must reduce the costs of other telecommunications services that have traditionally supported the provision of basic telephone service. The first priority is to reduce the Carrier Common Line (CCL) access rate.

In Order 03-294 (May 14, 2003), docket UM 384, the Commission granted OECA's petition to amend the OCAP. The OCAP amendments allow recognition of OUSF credits against the cost of carrier access, eliminate both the OCAF surcharge as a separate funding source and the cost constraint provisions of the original OCAP. The changes make the OCAF self-sustaining without the need for outside funding by non-participating LECs.

² This 5-cent rate is a composite rate made up of three access elements: Carrier Common Line, Local Switching and Local Transport.

On July 7 and 8, 2003, OECA revised Advice Nos. 82 and 83 to reflect the following:

1. Changes to 2003 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. Final agreed-upon OUSF credits applied against the cost of carrier access.

ACCESS CHARGE ELEMENTS

Carrier Common Line

The Carrier Common Line (CCL) rates decrease as shown on Attachment 1, lines 1 and 2. The 2003 total OCAF pool unadjusted CCL revenue requirement is \$11.312M. This CCL revenue requirement is offset by \$6.686M in OUS support for an adjusted total of \$4.626M.

Traffic Sensitive

The Local Switching and Transport rates increase as shown on Attachment 1, lines 3 and 4. Although the combined Traffic Sensitive revenue requirement decreased from \$10.013M in 2002 to \$8.671M in 2003, the changes in the plan result in rate increases. Under the original plan, a portion of the Local Switching and Transport revenue requirement was recovered through the OCAF rate. The revised plan eliminates the OCAF rate thereby increasing the amount of revenue requirement recovered through the Switching and Transport access rates.

OCAF and Company Specific Rate Additives

The revised plan eliminates the 5-cent composite cap on the access billing rate and the cost constraint benchmarks. As a result, the OCAF rate and the company specific rate additives are eliminated. The costs recovered previously through those rates are now recovered through the CCL, Local Switching and Transport rates.

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 pool.

This filing increases special access rates by approximately 35 percent. See Attachment 2, lines 1 through 14. The 2003 Special Access revenue requirement increased 30 percent over 2002 while demand overall decreased by about 7.5 percent.

Billing and Collection

The Billing and Collection (B&C) Rating Service rate is unchanged, while Bill Processing increases by 9.6 cents per message. See Attachment 2, lines 15 and 16. The 2003 revenue requirement increased 5.8 percent over 2002 while demand decreased by 17 percent. 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

The 2003 OCAF pool unadjusted revenue requirement decreased by 7.78 percent from the July 2002 filing. After the \$6.686M OUSF cost offset, the remaining pool revenue requirement is 38.6 percent lower than the July 2002 filing. This decrease represents a significant savings to long distance carriers operating in Oregon. Staff hopes the long distance carriers will pass these savings on to their Oregon customers.

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 implementation of the plan changes adopted in order No. 03-294 and the OUSF cost offsets as part of the UM 1017 ordered rate rebalancing (order No. 03-082). In addition, 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's Advices 82 and 83, revising intrastate Switched, Special Access and Billing and Collection rates be allowed to go into effect August 1, 2003.

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
CARRIER COMMON LINE			
1 Premium Terminating	\$0.035730	\$0.02417	(\$0.01156)
2 Premium Originating	\$0.017860	\$0.01208	(\$0.00578)
TRAFFIC SENSITIVE			
3 LOCAL SWITCHING	\$0.009590	\$0.01306	\$0.00347
4 TRANSPORT	\$0.013790	\$0.02086	\$0.00707
5 OCAF	\$0.005520	\$0.00000	(\$0.00552)

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
SPECIAL ACCESS			
Channel Terminations			
1 2-wire	\$65.18	\$88.03	\$22.85
2 4-wire	\$86.94	\$117.41	\$30.47
3 2.4 to 56k	\$105.33	\$142.70	\$37.37
4 High Cap DS1	\$679.78	\$918.06	\$238.28
5 High Cap DS3	\$5,345.33	\$5,345.33	\$0.00
Transport Fixed			
6 2-wire/4-wire	\$13.20	\$17.83	\$4.63
7 2.4 to 56k	\$20.51	\$27.70	\$7.19
8 High Cap DS1	\$306.43	\$413.84	\$107.41
9 High Cap DS3	\$1,379.58	\$1,379.58	\$0.00
Transport Mileage			
10 2-wire/4-wire	\$3.35	\$4.52	\$1.17
11 2.4 to 56k	\$3.35	\$4.52	\$1.17
12 High Cap DS1	\$20.60	\$27.82	\$7.22
13 High Cap DS3	\$74.66	\$74.66	\$0.00
14 Bridging	\$6.63	\$8.95	\$2.32
BILLING AND COLLECTION:			
15 Bill Processing	\$0.394416	\$0.490580	\$0.096164
16 Rating	\$0.024300	\$0.024300	\$0.000000