

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 20, 2003**

REGULAR X **CONSENT** **EFFECTIVE DATE** August 21, 2003

DATE: August 12, 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 28, 2003 revised filings, effective August 21, 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 and company specific rate additives.¹ In addition, Advice No. 82 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

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 03-082 (February 3, 2003) in docket UM 1017.

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. On July 28, 2003, OECA filed revised tariff sheets and extended the effective date of the tariffs to August 21, 2003.

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 cost and a shortfall resulted. This shortfall or unrecovered cost 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 03-294 (May 14, 2003), docket UM 384, the Commission granted OECA's petition to amend the OCAP.³ The OCAP amendments allow recognition of Oregon Universal Service Fund (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 ILECs. There are five ILECs not participating in the OCAF pool.⁴ Currently, these companies must charge long distance carriers the OCAF rate in addition to their company-specific access charge rates. The revenues associated with the OCAF rate are turned over to the pool administrator for distribution to the pool member companies. This requirement ends with the elimination of the OCAF rate in this filing.

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

³ OECA filed the petition in compliance with Order 03-082 in docket UM 1017.

⁴ The ILECs are Qwest, Verizon, Sprint/United, Malheur and Beaver Creek Cooperative.

OECA revised Advice Nos. 82 and 83 on July 7, 8 and 28, 2003. The revision reflects 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. No OUSF credits are applied against the cost of carrier access at this time. When the Commission determines the rural ILECs should be incorporated into the OUS fund and receive distributions, OECA will file to revise the access charge rates and apply the OUSF credits against the cost of access.

ACCESS CHARGE ELEMENTS

Carrier Common Line

The Carrier Common Line (CCL) rates increase as shown on Attachment 1, lines 1 and 2. Although the total CCL revenue requirement decreased from \$12.169 million in 2002 to \$11.459 in 2003, the changes in the plan result in rate increases. Under the original plan, a portion of the CCL revenue requirement was recovered through the OCAF rate. In addition, 2003 estimated access minutes, used to calculate the rates, are 9.27 percent less than 2002 minutes thus increasing the rates.⁵

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 \$10.698M in 2002 to \$8.7831M in 2003, the changes in the plan and decreases in access minutes increase the rates as discussed under CCL.

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 Optional Pool

⁵ Customers are turning to cell phones or "voice over internet" to complete long distance calls thus decreasing wireline minutes to develop intrastate access charge rates.

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 34 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 Optional Pool

The Billing and Collection (B&C) Rating Service rate is unchanged, while Bill Processing increases by 9.8 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

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. The OCAP calls for annual tariff filings to update cost and demand for the current year. These proposed filings comply with that requirement. Overall, these updates decrease the OCAF pool revenue requirement \$2.614 million or 11.44 percent.

In addition, these rates reflect implementation of the plan changes adopted in order No. 03-294 with the exception of the OUSF cost offsets. Also, 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 21, 2003.

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
CARRIER COMMON LINE			
1 Premium Terminating	\$0.03573	\$0.05878	\$0.02305
2 Premium Originating	\$0.01786	\$0.02939	\$0.01153
TRAFFIC SENSITIVE			
3 LOCAL SWITCHING	\$0.00959	\$0.01299	\$0.00340
4 TRANSPORT	\$0.01379	\$0.02075	\$0.00696
5 OCAF	\$0.00552	\$0.00000	(\$0.00552)

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
SPECIAL ACCESS			
Channel Terminations			
1 2-wire	\$65.18	\$87.56	\$22.38
2 4-wire	\$86.94	\$116.80	\$29.86
3 2.4 to 56k	\$105.33	\$141.94	\$36.61
4 High Cap DS1	\$679.78	\$913.22	\$233.44
5 High Cap DS3	\$5,345.33	\$7,180.92	\$1,835.59
Transport Fixed			
6 2-wire/4-wire	\$13.20	\$17.73	\$4.53
7 2.4 to 56k	\$20.51	\$27.55	\$7.04
8 High Cap DS1	\$306.43	\$411.66	\$105.23
9 High Cap DS3	\$1,379.58	\$1,853.33	\$473.75
Transport Mileage			
10 2-wire/4-wire	\$3.35	\$4.50	\$1.15
11 2.4 to 56k	\$3.35	\$4.50	\$1.15
12 High Cap DS1	\$20.60	\$27.67	\$7.07
13 High Cap DS3	\$74.66	\$100.30	\$25.64
14 Bridging	\$6.63	\$8.91	\$2.28
BILLING AND COLLECTION:			
15 Bill Processing	\$0.394416	\$0.492321	\$0.097905
16 Rating	\$0.024300	\$0.024300	\$0.000000