

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 22, 2004**

REGULAR CONSENT EFFECTIVE DATE July 1, 2004

DATE: June 15, 2004

TO: Lee Sparling through Phil Nyegaard

FROM: Cynthia Van Landuyt

SUBJECT: OREGON EXCHANGE CARRIER ASSN.: (Advice No. 86) Revises the Carrier Common Line rate to reflect cost and demand at 2004 levels offset by distributions from the Oregon Universal Service Fund.
OREGON EXCHANGE CARRIER ASSN.: (Advice No. 87) Revises the Switched Access, Special Access and Billing & Collection rates to reflect 2004 cost and demand and OUS distribution offsets.

STAFF RECOMMENDATION:

Staff recommends the Commission allow the June 11, 2004, revised filings, effective July 1, 2004, to go into effect.

DISCUSSION:

On March 15, 2004, the Oregon Exchange Carrier Association (OECA) filed Advice No. 86 in its Intrastate Carrier Common Line tariff and Advice No. 87 in its Intrastate Access tariff to be effective July 1, 2004. 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 filings revise the Carrier Common Line (CCL), Traffic Sensitive, Special Access and Billing and Collection rates to reflect 2004 cost and demand and the Oregon Universal Service Fund (OUSF) credits against the cost of carrier access. On June 11, 2004, OECA filed revised tariff sheets to reflect adjustments to individual company costs and demand agreed to by staff and the companies.

The Commission, in docket UM 384, issued Order 93-1133 which adopted the Oregon Customer Access Plan. In the Plan, Incumbent Local Exchange Carriers (ILECs) pool their intrastate access costs and charge statewide average access charge rates. These access charges recover the cost of the local loop (from the end user to the Central

Office), the switching equipment in the Central Office and the trunks used to transport the call from the end user making the call to the number called.

These costs are assigned to the intrastate jurisdiction as defined in FCC Separation Rules (47 CFR Part 36) and adopted by the PUC. All calls, whether local, extended area service (EAS), interstate long distance or intrastate long distance use the same network made up of the local loop, switching and transport. Through the Separation rules, costs are assigned to the local, EAS, interstate or intrastate toll/access jurisdiction for recovery through various rates. Access charge rates are paid by Interexchange Carriers (IXCs or Long Distance Carriers) to originate or terminate a toll call to the ILEC's end user customer. The rates OECA proposes in this filing recover ILEC costs for originating and/or terminating intrastate long distance calls.

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 CCL access rate.¹

ACCESS CHARGE ELEMENTS:

Carrier Common Line

The CCL rates recover the local loop costs assigned to the intrastate toll/access jurisdiction. The CCL rates increase slightly as shown on Attachment 1, lines 1 and 2. The 2004 total OCAF pool unadjusted CCL revenue requirement is \$11.262M. This CCL revenue requirement is offset by \$6.364M in OUS support for an adjusted total of \$4.899M.

Traffic Sensitive

The Local Switching and Transport rates decrease as shown on Attachment 1, lines 3 and 4. One pool company participant applied \$214,000 to offset its Local Switching and Transport revenue requirements.

Special Access

The Special Access rates² 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.

¹ The Carrier Common Line rate is recognized as an implicit subsidy to offset basic local service rates in high cost areas.

² Special Access service is a dedicated point-to-point service.

This filing increases special access rates by 18.2 percent for all rates except High Capacity rates which increased 25.7 percent³. A low cost company chose to exit the Special Access pool and file company-specific rates which were lower than the composite pool rates. As a result, the revised composite pool rate increased. See Attachment 2, lines 1 through 14. Two pool participating companies elected to apply a portion of their OUSF cost offset to their Special Access revenue requirement.⁴

Billing and Collection

The Billing and Collection (B&C) Rating Service and Bill Processing rates increased by thirty-six percent. Two low cost companies chose to exit the Billing and Collection pool and file company-specific rates which were lower than the composite pool rates. See Attachment 2, lines 15 and 16. Two pool participating companies elected to apply a portion of their OUSF cost offset to their B&C revenue requirement.⁵

OUS OFFSETS

All companies offset their Carrier Common Line revenue requirement by all or a portion of their calculated OUS support.⁶ Some companies receive OUS support which is greater than their CCL revenue requirement. Those companies can then apply the remaining amount to reduce other rates. Cascade Utilities, Inc. (Cascade), after applying the OUS support offset to its CCL, Local Switching, Transport and Special Access revenue requirements has a residual amount. The company chooses to forego the residual amount for the 2004-05 support year. The PUC's approved support per line for Cascade is \$6.48. The adjusted per line amount for the 2004-05 support year is \$5.51.

Staff Conclusions

The \$6.578M OUSF cost offset decreases the OCAF pool unadjusted revenue requirement by 33.2 percent. This decrease represents a significant savings to long distance carriers operating in Oregon.

³ The exception to these increases is the High Capacity DS1 Transport Fixed rate which increased 49 percent. In a previous filing, the incorrect rate of \$307.09 was filed rather than \$387.09. Had the correct rate been filed previously, the proposed increase in this filing would be 25.7 percent which is in line with the other High Capacity rate increases.

⁴ These companies first eliminated their CCL revenue requirement and applied a portion of the remaining cost offset to special access.

⁵ These companies first eliminated their CCL revenue requirement and applied a portion of the remaining cost offset to Billing and Collection.

⁶ The OUS support available for offset is calculated by multiplying the proposed 2004 average basic service access lines times the PUC approved support per line times 12.

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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.

PROPOSED COMMISSION MOTION:

OECA's Advices 86 and 87, revising intrastate Switched, Special Access and Billing and Collection rates be allowed to go into effect July 1, 2004. Cascade Utilities, Inc.'s OUS support per line for the 2004-05 support year is \$5.51 per line per month.

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
CARRIER COMMON LINE			
1 Premium Terminating	\$0.02417	\$0.02491	\$0.00074
2 Premium Originating	\$0.01209	\$0.01245	\$0.00036
TRAFFIC SENSITIVE			
3 Local Switching	\$0.01306	\$0.01301	(\$0.00005)
4 Transport	\$0.02087	\$0.01927	(\$0.00160)

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
SPECIAL ACCESS			
Channel Terminations			
1 2-wire	\$82.34	\$97.31	\$14.97
2 4-wire	\$109.83	\$129.80	\$19.97
3 2.4 to 56k	\$133.48	\$157.75	\$24.27
4 High Cap DS1	\$858.72	\$1,014.84	\$156.12
5 High Cap DS3	\$6,751.77	\$8,486.41	\$1,734.64
Transport Fixed			
6 2-wire/4-wire	\$16.68	\$19.71	\$3.03
7 2.4 to 56k	\$25.91	\$30.62	\$4.71
8 High Cap DS1	\$307.09	\$457.46	\$150.37
9 High Cap DS3	\$1,742.57	\$2,190.27	\$447.70
Transport Mileage			
10 2-wire/4-wire	\$4.23	\$5.00	\$0.77
11 2.4 to 56k	\$4.23	\$5.00	\$0.77
12 High Cap DS1	\$26.03	\$30.76	\$4.73
13 High Cap DS3	\$94.31	\$118.53	\$24.22
14 Bridging	\$8.38	\$9.90	\$1.52
BILLING AND COLLECTION:			
15 Bill Processing	\$0.438315	\$0.597905	\$0.159590
16 Rating	\$0.024300	\$0.033100	\$0.008800