

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 19, 2007**

REGULAR  X  CONSENT \_\_\_\_\_ EFFECTIVE DATE  July 1, 2007

DATE: June 12, 2007

TO: Public Utility Commission

FROM: Cynthia Van Landuyt

THROUGH: Lee Sparling through Dave Booth

**SUBJECT:** OREGON EXCHANGE CARRIER ASSOCIATION: (Advice No. 100)  
Revises the intrastate Access Charge pool Carrier Common Line rates to reflect 2007 cost and demand. It also revises the Carrier Common Line rate for Stayton Cooperative Telephone Company, a non-pool participating company to reflect 2007 cost and demand.  
OREGON EXCHANGE CARRIER ASSOCIATION: (Advice No. 101)  
Revises the intrastate Access Charge pool, special access pool and billing and collection pool rates to reflect 2007 cost and demand. It also revises the special access and billing and collection rates of seven non-pool participating companies to reflect 2007 cost and demand.

**STAFF RECOMMENDATION:**

Staff recommends the Commission allow the June 11, 2007, revised filings, effective July 1, 2007, to go into effect and grant the request for a waiver of statutory notice.

**DISCUSSION:**

On March 15, 2007, the Oregon Exchange Carrier Association (OECA) filed Advice No. 100 in its Intrastate Carrier Common Line (CCL) tariff and Advice No. 101 in its Intrastate Access tariff to be effective July 1, 2007. The filing was made under ORS 759.220, *Joint rates and classifications; procedure; considerations* and ORS 759.225, *Applications of ORS 759.220 to unincorporated associations and cooperative corporations*. The filings revise the Intrastate Access Pool's CCL, Traffic Sensitive, Special Access and Billing and Collection rates to reflect 2007 cost and demand. It also revises certain Switched Access, Special Access and Billing and Collection rates for non-pool companies. The filings also comply with Order 06-297 in docket UM 1017 regarding Oregon Universal Service Fund (OUSF) credits against the

cost of carrier access. On June 11, 2007, OECA filed revised tariff sheets to reflect adjustments to individual company costs and demand agreed to by staff and the companies. OECA also filed a Less than Statutory Notice (LSN) form as required.

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 Federal Communications Commission (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), also in docket UM 1017, the Commission adopted a stipulation by the industry to expand the OUSF to include rural ILECs. Under the rate rebalancing provision of the stipulation, the ILECs must reduce the rates of other telecommunications services that have traditionally supported the provision of basic telephone service. The first priority is to reduce the CCL access rate.<sup>1</sup>

In Order 06-297, the Commission: 1) accepted the Memorandum of Understanding (MOU) between staff, the Oregon Telecommunications Association (OTA) and the OECA; 2) approved revised OUSF support per line amounts and; 3) directed the OECA to apply the projected annual OUSF support, based on the revised support per line, as an offset first to the rural companies' CCL revenue requirements. These filings comply with that directive.

The switched access rates (CCL, Local Switching and Transport) are increasing significantly this year at an average of 21 percent. The combination of increasing revenue requirements and decreasing access minutes creates the present situation. For the past two to three years, revenue requirements decreased by about three to five

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<sup>1</sup> The CCL rate is recognized as an implicit subsidy to offset basic local service rates in high cost areas.

percent a year. For 2007, the CCL revenue requirement increased by 10.37 percent and Local Switching by 4.83 percent, while Transport decreased by 5.20 percent. The composite increase is 5.36 percent. Many of the pool participating companies are installing fiber facilities to offer an array of services to their customers including digital voice, Digital Subscriber Loop (DSL) and other Internet Protocol (IP) services. Through application of the FCC's separations rules, most of the increase is assigned to the loop and switching revenue requirements.

While revenue requirements are increasing, access minutes continue to decline. Over the past five years, minutes declined an average of 6.76% a year. In 2005, access minutes declined by 7.49 percent and in 2006 by 9.30 percent. The 2007 forecast, used to calculate the proposed rates, includes a decrease of 8.18 percent from the 2006 reported access minutes. Increasing cell phone use for long distance calling, line loss to competitors and phantom traffic<sup>2</sup> continue to erode intrastate access minutes.

#### **INTRASTATE POOL 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 37.8 percent as shown on Attachment 1, lines 1 and 2. The 2007 total OCAF pool unadjusted CCL revenue requirement is \$11.861M. This CCL revenue requirement is offset by \$6.141M in OUS support for an adjusted total of \$5.720M.

##### **Traffic Sensitive**

The Local Switching and Transport rates increase by 21.4 percent and 10.0 percent respectively as shown on Attachment 1, lines 3 and 4.

##### **Special Access**

The Special Access rates<sup>3</sup> 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.

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<sup>2</sup> Many calls bound for Oregon rural telephone companies' customers are routed through a Qwest tandem. Calls routed through a tandem do not include the originating carriers' information for billing purposes. The calls will often appear to be local or Extended Area Service (EAS) calls which are not subject to intrastate access charges. Many of these originating carriers are CLECs or wireless carriers terminating intrastate long distance calls. Qwest will not pay terminating charges for these calls because it is not the originating carrier. Rural carriers generally have difficulty entering into intercarrier compensation agreements with the CLECs and wireless carriers, thus rendering those access minutes associated with the calls unbillable.

<sup>3</sup> Special Access service is a dedicated point-to-point service.

This filing decreases special access rates by 4.54 percent. See Attachment 2, lines 1 through 14.

### **Billing and Collection**

The Billing and Collection (B&C) Rating Service and Bill Processing rates increased by 22.0 percent. 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.<sup>4</sup>

### **OUS OFFSETS<sup>5</sup>**

All companies offset their Carrier Common Line revenue requirement by all or a portion of their calculated OUS support.<sup>6</sup> 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. As noted above, some companies applied the remaining support to their billing and collection revenue requirements. Others used the remaining support to lower EAS or local rates.

### **NON-POOLING COMPANY FILINGS**

Stayton Cooperative Telephone Company (Stayton) exited the Intrastate Switched Access, Special Access, and B&C pools in 2005, filing company-specific rates. All of Stayton's rates are below the pool rates. In this filing, Stayton proposes to decrease its switched access rates by 14 percent, increase its special access and B&C rates by 2.2 percent and 10.8 percent respectively, reflecting 2007 cost and demand.

Besides Stayton, there are five companies that exited the Special Access pool and file company-specific special access rates. Three of the companies, Nehalem Telecommunications, Inc., Home Telephone and Pioneer Telephone Cooperative filed revised rates reflecting 2007 cost and demand.<sup>7</sup> The rates are below those charged by the Special Access pool.

In addition, there are seven companies that exited the B&C Pool and file company-specific B&C rates. Five of the companies filed revised rates reflecting 2007 cost and demand.<sup>8</sup> The rates are below those charged by the Billing and Collection pool.

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<sup>4</sup> These companies first eliminated their CCL revenue requirement and applied a portion of the remaining cost offset to Billing and Collection.

<sup>5</sup> The OUS offsets reflect the revised support per line set out in the MOU between staff, the OTA and the OECA.

<sup>6</sup> The OUS support available for offset is calculated by multiplying the proposed 2007 average basic service access lines times the PUC approved support per line times 12.

<sup>7</sup> The Commission does not require annual filings to update cost and demand for special access rates.

<sup>8</sup> The Commission does not require annual filings to update cost and demand for billing and collection rates.

### **Staff Conclusions**

The \$6.141M OUSF cost offset decreases the access charge pool unadjusted revenue requirement by 32.3 percent. This decrease represents a significant savings to long distance carriers operating in Oregon.

The net annual revenue effect of these revised rates is an increase of \$2.476M in switched access revenues. The proposed rates recover the companies' 2007 intrastate switched access revenue requirement net of OUSF offsets.

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 100 and 101, revising intrastate Switched, Special Access and Billing and Collection rates be allowed to go into effect July 1, 2007, with less than statutory notice.

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
<b>CARRIER COMMON LINE</b>			
1 Premium Terminating	\$0.02855	\$0.03935	\$0.01080
2 Premium Originating	\$0.01427	\$0.01967	\$0.00540
<b>TRAFFIC SENSITIVE</b>			
3 Local Switching	\$0.01050	\$0.01275	\$0.00225
4 Transport	\$0.02268	\$0.02495	\$0.00227

Access Rate Elements	Current Rates	Proposed Rates	Rate Change
<b>SPECIAL ACCESS</b>			
<b>Channel Terminations</b>			
1 2-wire	\$92.99	\$88.77	(\$4.22)
2 4-wire	\$124.03	\$118.40	(\$5.63)
3 2.4 to 56k	\$150.74	\$143.90	(\$6.84)
4 High Cap DS1	\$969.72	\$925.69	(\$44.03)
5 High Cap DS3	\$8,109.14	\$7,740.99	(\$368.15)
<b>Transport Fixed</b>			
6 2-wire/4-wire	\$18.84	\$17.98	(\$0.86)
7 2.4 to 56k	\$29.26	\$27.93	(\$1.33)
8 High Cap DS1	\$437.13	\$417.28	(\$19.85)
9 High Cap DS3	\$2,092.89	\$1,997.87	(\$95.02)
<b>Transport Mileage</b>			
10 2-wire/4-wire	\$4.78	\$4.56	(\$0.22)
11 2.4 to 56k	\$4.78	\$4.56	(\$0.22)
)12 High Cap DS1	\$29.40	\$28.07	(\$1.33)
13 High Cap DS3	\$113.26	\$108.12	(\$5.14)
14 <b>Bridging</b>	\$9.46	\$9.03	(\$0.43)
<b>BILLING AND COLLECTION:</b>			
15 Bill Processing	\$0.936814	\$1.143850	\$0.207036
16 Rating	\$0.051800	\$0.063200	\$0.011400