

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 25, 2008**

REGULAR _____ CONSENT X EFFECTIVE DATE July 1, 2008

DATE: June 16, 2008

TO: Public Utility Commission

FROM: Roger White

THROUGH: Lee Sparling through Dave Booth and Cynthia Van Landuyt

SUBJECT: OREGON EXCHANGE CARRIER ASSOCIATION: (Advice No. 102)
Revises the intrastate Access Charge pool Carrier Common Line rates to reflect 2008 cost and demand and revises the Carrier Common Line for Stayton Cooperative Telephone Company, a non-pool participating company to reflect 2008 cost and demand.
OREGON EXCHANGE CARRIER ASSOCIATION: (Advice No. 103)
Revises the intrastate Access Charge pool, Special Access pool and Billing and Collection pool rates to reflect 2008 cost and demand and also revises the Special Access and Billing and Collection rates of six non-pool participating companies to reflect 2008 cost and demand.

STAFF RECOMMENDATION:

Staff recommends the Commission allow the June 16, 2008, revised filings, effective July 1, 2008, to go into effect and grant the requests for a waiver of statutory notice for both the tariff and Stayton's request to return to the Optional Pool.

DISCUSSION:

On March 14, 2008, the Oregon Exchange Carrier Association (OECA) filed Advice No. 102 in its Intrastate Carrier Common Line (CCL) tariff and Advice No. 103 in its Intrastate Access tariff to be effective July 1, 2008. 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 2008 cost and demand. It also revises certain 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 16, 2008, 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.¹

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 changing only very slightly from last year: CCL is increasing by 1.4 percent while Local Switching is dropping by 9.6 percent and Transport is dropping by 1.2 percent. The combination of

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

declining revenue requirements and declining minutes produced this result. With the exception of 2007 where the revenue requirements increased by 10.4 percent, revenue requirements have been declining by three to five percent per year; 2008 saw a return to this trend as unadjusted² revenue requirements declined by 3.9 percent. For 2008, the unadjusted revenue requirement for CCL decreases by 3.1 percent, for Local Switching it decreases by 10.7 percent, and for Transport it decreases by 2.4 percent.

While revenue requirements are decreasing, access minutes also continue to decline. Over the past several years, minutes have declined in excess of 7 percent per year. This year's forecast is projecting a continuation of the trend; the rate of decline in minutes for 2008 is expected to be in excess of 7 percent.

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 1.4 percent as shown on Attachment 1, lines 1 and 2. This increase in the CCL rates is driven by a decline in Oregon Universal Service Support, which reduces revenue requirements. The 2008 total Access pool unadjusted CCL revenue requirement is \$11.488M. This CCL revenue requirement is offset by \$5.748M in OUS support for an adjusted total of \$5.740M.

Traffic Sensitive

The Local Switching and Transport rates decreased by 9.6 percent and 1.2 percent respectively as shown on Attachment 1, lines 3 and 4.

Special Access

The Special Access rates³ 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 2.5 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 25.8 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.⁴

² Unadjusted revenue requirements are revenue requirements before the OUS offset.

³ Special Access service is a dedicated point-to-point service.

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

OUS OFFSETS⁵

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. As noted above, some companies applied the remaining support to their B&C 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. In this filing, Stayton proposes to re-enter the OECA Optional Pool only while retaining company specific special access and B&C rates.

There are five companies that exited the Special Access pool and filed company-specific special access rates. Two companies, Stayton and Home Telephone, filed revised rates reflecting 2008 cost and demand.⁷ The rates for both of these companies 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 2008 cost and demand.⁸ The rates are below those charged by the B&C pool.

STAYTON REQUEST TO ENTER THE OECA OPTIONAL POOL

On May 2, 2008, Stayton Cooperative Telephone Company (SCTC) filed a letter with the P.U.C. requesting a waiver of Part VII.A. of the amended Oregon Customer Access Plan⁹ requiring a company to notify the P.U.C. and the Oregon Exchange Carriers Association (OECA) by March 1 of any change in pool participation. Stayton is requesting the waiver so it can re-enter the OECA Optional Pool this year; the company plans to use the Pool Switched Access rates while retaining its own rates for Special Access and B&C.

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

⁶ 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.

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

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

⁹ On May 7, 2003, the Commission adopted Staff's recommendation to amend the OCAP pursuant to Commission Order No. 03-082 in Docket UM 1017.

Stayton's entry into the pool results in a reduction of rates since its current rates are substantially below those of the pool. For this reason, it would be beneficial to allow Stayton to enter, even though they failed to notify OECA and the P.U.C. by the March deadline.

Staff Conclusions

The \$5.748M OUSF cost offset decreases the access charge pool unadjusted revenue requirement by 32 percent. This decrease represents a significant savings to long distance carriers operating in Oregon.

The net annual revenue effect of these revised rates is a decrease of (\$203,000) in switched access revenues. The proposed rates recover the companies' 2008 intrastate switched access revenue requirement net of OUSF offsets.

Granting Stayton their request for a waiver would reduce the access rates by blending Stayton's lower rates with the higher rates in the pool.

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 102 and 103, revising intrastate Switched, Special Access and Billing and Collection rates be allowed to go into effect July 1, 2007, with less than statutory notice. Stayton's request for a waiver to the March 1 deadline be granted.

	Access Rate Elements	Current Rates	Proposed Rates	Rate Change
	CARRIER COMMON LINE			
1	Premium Terminating	\$0.03935	\$0.03991	\$0.00056
2	Premium Originating	\$0.01967	\$0.01996	\$0.00029
	TRAFFIC SENSITIVE			
3	Local Switching	\$0.01275	\$0.01154	(\$0.0012)
4	Transport	\$0.02495	\$0.02466	(\$0.0003)

Access Rate Elements		Current Rates	Proposed Rates	Rate Change
SPECIAL ACCESS				
Channel Terminations				
1	2-wire	\$88.77	\$90.63	\$1.86
2	4-wire	\$118.40	\$120.87	\$2.47
3	2.4 to 56k	\$143.90	\$146.91	\$3.01
4	High Cap DS1	\$925.69	\$945.04	\$19.35
5	High Cap DS3	\$7,740.99	\$7,902.78	\$161.79
Transport Fixed				
6	2-wire/4-wire	\$17.98	\$18.36	\$0.38
7	2.4 to 56k	\$27.93	\$28.51	\$0.58
8	High Cap DS1	\$417.28	\$426.00	\$8.72
9	High Cap DS3	\$1,997.87	\$2,039.00	\$41.76
Transport Mileage				
10	2-wire/4-wire	\$4.56	\$4.66	\$0.10
11	2.4 to 56k	\$4.56	\$4.66	\$0.10
12	High Cap DS1	\$28.07	\$28.66	\$0.59
13	High Cap DS3	\$108.12	\$110.38	\$2.26
14	Bridging	\$9.03	\$9.22	\$0.19
BILLING AND COLLECTION:				
15	Bill Processing	\$1.143850	\$1.43440	\$0.29055
16	Rating	\$0.063200	\$0.079300	\$0.01610