

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 2, 2010**

REGULAR _____ CONSENT X EFFECTIVE DATE April 1, 2010

DATE: January 20, 2010

TO: Public Utility Commission

FROM: John Tatom

THROUGH: Lee Sparling, Bryan Conway, and Roger White

SUBJECT: OREGON UNIVERSAL SERVICE FUND: (Docket No. UM 731) Decrease in the Oregon Universal Service Fund surcharge and contribution rates.

STAFF RECOMMENDATION:

Staff recommends the Oregon Universal Service Fund (OUSF) end-user surcharge be lowered from 7.12 percent to 5.60 percent and the corresponding contribution rate be lowered from 6.65 percent to 5.30 percent.¹ If approved, the new surcharge will be assessed on intrastate telecommunications services billed to retail end users beginning March 1, 2010.² The new contribution rate will be effective for contributions paid to the OUSF for the quarter beginning April 1, 2010, payable on August 28, 2010.

DISCUSSION:

A. Background Information:

ORS 759.425 directed the Commission to establish and implement a competitively neutral, nondiscriminatory fund to ensure that basic telephone service is available at a reasonable and affordable rate; this fund is the OUSF, which commenced operation on September 1, 2000.

The OUSF collects money quarterly from more than four hundred certified telecommunications service providers (TSPs) based on their Oregon intrastate retail telecommunications revenues and distributes money monthly to twenty-six eligible telecommunications carriers (ETCs). Distributions are calculated using a wire center

¹ The surcharge and contribution rates differ because telecommunications service providers include OUSF surcharges received from end users as part of their contribution base. Therefore, the contribution rate must be less than the surcharge rate to ensure a one-for-one relationship between surcharges collected from end users and contributions paid to the OUSF.

² The OUSF Advisory Board approved this recommended surcharge and contribution rate decrease on November 18, 2010.

specific support per line multiplied times the number of basic service lines in the wire center. On a quarterly basis, the fund currently collects approximately twelve million dollars and disburses approximately eleven million dollars.

The following table shows the rate changes that have taken place since inception of the fund as well as the proposed new rates:

Order Number	Surcharge Rate	Contribution Rate	Effective Date	Notes
Initial Rate	2.35%	2.30%	Sep 1, 2000	³
Order 00-760	3.24%	3.14%	Jan 1, 2001	
Order 01-752	3.00%	2.91%	Oct 1, 2001	
Order 01-1063	5.50%	5.21%	Feb 1, 2002	⁴
Order 03-594	6.50%	6.10%	Jan 1, 2004	⁵
Order 04-437	6.00%	5.60%	Oct 1, 2004	
Order 05-1083	7.12%	6.65%	Jan 1, 2006	
Proposed Rate	5.60%	5.30%	Apr 1, 2010	⁶

B. OUSF Budget Forecast Assumptions and Rationale:

The fund administrator (Solix) submits a revised OUSF forecast to the OUS Advisory Board at each quarterly board meeting. At the November 2009 quarterly board meeting, the forecast included a proposal to reduce the surcharge and contribution rates in order to reduce the fund balance. The proposed reduction to rates was based on Staff's projections that both OUSF revenues and expenses will continue to decline, and that the revenue decline will continue to be at a faster pace than the expenditure decline. The OUS Advisory Board voted unanimously to approve the reduction in rates.

³ On June 16, 2000, the Commission issued Order No. 00-312 resolving issues raised in Phase IV of docket UM 731. In the July 10, 2000 public meeting, following the issuance of this Order, the Commission set the surcharge rate at 2.35% of total Oregon retail telecommunications sales.

⁴ As a result of a lawsuit filed by AT&T, settled by the USA District Court on October 18, 2001, in favor of AT&T, the revenue assessment base for the OUSF was changed from total Oregon retail telecommunications revenues to Oregon intrastate retail telecommunications revenues. The revised rate nearly doubled due to the change in the contribution base.

⁵ In Order 03-085 in UM 1017, the Commission ordered the expansion of the OUSF to include the service area of the rural telephone companies. The annual impact of this expansion was estimated to be a \$9.38 million increase in distributions from the fund. The rate was increased to accommodate this new requirement.

⁶ The comparable Federal Communications Commission USF proposed contribution rate for first quarter 2010 is 14.1 percent.

C. Rationale for Decreasing the Rates at this Time:

The fund is normally managed to stay between 3.5 and 4.0 equivalent months (the management band): the 3.5 equivalent months being the minimum level allowed by order.⁷ Beginning the first quarter of 2007, the fund level broke out of the management band and increased to a new level. After the initial jump, the equivalent months remained relatively stable throughout 2007, oscillating between 4.7 and 5.2 equivalent months. During this period there were several one-time events that obscured the underlying trends that drove the equivalent months out of the management band including a \$2.5 million reimbursement to Qwest and a subsequent \$728,000 payment, also to Qwest.

At the start of 2008, the equivalent months began a gradual but steady climb that has persisted through the end of 2009. No rate change action was taken by Staff or the Board because of the upcoming triennial review that was scheduled to take place in the first quarter of 2009. Based on the results of the 2006 triennial review, which ended with a memorandum of understanding (MOU) restricting the level of support increase to 15%, Staff felt that, without a similar MOU for the 2009 review, disbursements could increase substantially. Both Staff and the Board agreed that it was better to wait until the magnitude of this risk was resolved before considering a change in the surcharge rate.

At the end of the 2009 triennial review process, another MOU was signed by Staff and the participating companies, and approved by the Commission on June 16, 2009. The MOU froze the amount of support per line at 2006 levels for another 3 years. After investigations into the impact of broadband mapping on the fund and the potential effect of a VoIP contributor withdrawing from the fund, the Board decided at the November 18, 2009 board meeting to recommend a reduction in the surcharge and contribution rates.

The surcharge rate adopted by the Board is one that will gradually bring the equivalent months back down into the management band while addressing the potential, known risks to the fund.

⁷ Order 99-197 established the targeted OUSF reserve at three months. Subsequently, the OUS Advisory Board proposed and the Commission adopted the expansion of the reserve to three and one half months.

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PROPOSED COMMISSION MOTION:

An order be prepared in docket UM 731, authorizing the OUSF surcharge to decrease from 7.12 percent to 5.60 percent for intrastate retail telecommunications services billed beginning April 1, 2010 and authorizing the associated contribution rate to decrease from 6.65 percent to 5.30 percent for the contributions remitted to the OUSF for the period beginning April 1, 2010, payable on August 28, 2010.