

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL (DAPHNE HUANG)

FROM: DON HOWELL
DEPUTY ATTORNEY GENERAL

DATE: JULY 30, 2014

SUBJECT: OREGON-IDAHO UTILITIES' APPLICATION TO INCREASE ITS
MONTHLY RESIDENTIAL RATE FOR TELEPHONE SERVICE, CASE
NO. ORE-T-14-01

On July 17, 2014, Oregon-Idaho Utilities, Inc. filed an Application for authority to increase its residential rates for telephone service from the current monthly rate of \$15.77 to \$20.00. The Company requests that the rate increase be phased in over four years to coincide with the increase in the federal universal service threshold as required by the Federal Communications Commission (FCC). Application at 1. The FCC has set the rate floor for the Connect America Fund (CAF) at \$20.46 per month (for local service plus state regulated fees).

Oregon-Idaho serves four telephone exchanges in southeastern Oregon and southwestern Idaho that it purchased from Contel of the West in 1990. More specifically, the Company serves a total of 81 access lines in its Idaho service territory designated as the South Mountain exchange. This exchange covers 2,126 square miles. The Company maintains that approximately 30% of its Idaho customers have “no access to commercial power, rely on gas lamps, lanterns and/or low-grade solar for lighting and obtain heat via wood or oil burning stoves.” *Id.* at 2. The Company has not increased its Idaho residential rate since 1990. Application at 3.

THE APPLICATION

Oregon-Idaho currently receives federal high-cost support from the federal Universal Service Fund (USF – now known as the CAF) but does not participate in the Idaho USF. *Id.* at 3. In 2011, the FCC set out to reform the federal USF and created the Connect America Fund

(CAF).¹ In the *Transformation Order*, the FCC established a monthly rate floor “to ensure that States are contributing to support an advanced universal service and that consumers are not contributing to the fund to support customers whose rates are below a reasonable level.” *Transformation Order* at ¶ 238. The FCC concluded that the rate floor would be based upon “stand-alone voice service.”

On June 10, 2014, the FCC issued its Connect America Fund – Phase II Order (*CAF-II Order*)² which established the basis for providing federal high-cost support to rate-of-return carriers (such as Oregon-Idaho) and established a local monthly rate floor for carriers in order to maintain their eligibility for CAF-II funding. In its *CAF-II Order*, the FCC established the monthly rate floor for CAF-II funding at a rate of \$20.46 per month for local service as of June 1, 2017. *Id.* at ¶¶ 75, 80, 85 (excludes Lifeline customers (n.156)). Rather than immediately implement this new eligibility rate, the FCC chose a four-year transition period starting with a \$14.00 per month rate floor that went into effect on July 1, 2013. *Id.* at ¶¶ 80-81. Carriers that do not have monthly rates that meet or exceed the rate floor, will have their federal funds reduced proportionally. *Id.* at ¶ 75.

To maintain its future eligibility for federal high-cost support from the Connect America Fund, Oregon-Idaho is proposing to increase its single-party residential monthly rate. The proposed increase in the monthly residential rate is set out below:

DATE	RATE	PERCENTAGE INCREASE
Current Rate	\$15.77	
December 1, 2014	\$16.00	1.5%
June 1, 2016	\$18.00	12.5%
June 1, 2017	\$20.00	11%

Application at 5, Exh. No. 3.

The Company maintains that its proposed rate increases are “just and reasonable as contemplated by *Idaho Code* § 61-302.” Application at 6. The Company notes that the Commission recently found that the 2013 statewide average residential rate to be \$21.73 in Order

¹ *USF/ICC Transformation Order Connect America Fund; National Broadband Plan for Our Future, et seq., Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (2011) (the “*Transformation Order*”).

² *In the Matter of Connect America Fund, Report and Order, Declaratory Ruling, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Rulemaking*, FCC 14-54, 2014 WL 2599362 (June 10, 2014) (the “*CAF-II Order*”).

No. 32883. Consequently, the Company maintains that its proposed rates are also reasonable and in the public interest.

Based on the current number of residential lines, Oregon-Idaho projects that the proposed rate increase would generate approximately \$2,800 in annual revenues when the rate increase is fully implemented in 2018. Application at 6. Since Oregon-Idaho acquired its South Mountain exchange from Contel, it has moved many of its customers from multi-party service to single-party service. *Id.* at 3. The Company also states that it has upgraded its facilities and invested about \$8.4 million in its network. *Id.* The Company currently has 143.3 miles cable in Idaho of which 29.1 miles are fiber optic and 114.2 are metallic cable.

The Company states that it is notifying each of its customers about the proposed rate increase. *See* Exh. No. 3. The Company requests that this Application be processed under Modified Procedure.

STAFF RECOMMENDATION

Staff has reviewed the Company's Application and concurs with Oregon-Idaho's request that this case be processed under Modified Procedure. As set out above, the reason for these proposed increases is to ensure that the Company maintains its eligibility for federal high-cost funds. Staff recommends that the Commission issue a Notice of Application and set a 14-day deadline for intervention. Once the intervenors have been determined, then Staff recommends that it convene an informal scheduling conference with the parties to develop a schedule to process this case under Modified Procedure.

COMMISSION DECISION

1. Does the Commission wish to issue a Notice of Application and set a 14-day deadline for intervention?
2. After the Commission issues the Notice of Parties, does the Commission desire the Staff to convene an informal conference for the parties to develop a schedule for processing this case under Modified Procedure?
3. Anything else?



Don Howell
Deputy Attorney General

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