

DONALD L. HOWELL, II  
DEPUTY ATTORNEY GENERAL  
IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0312  
IDAHO BAR NO. 3366

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UTILITIES COMMISSION

Street Address for Express Mail:  
472 W. WASHINGTON  
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
OREGON-IDAHO UTILITIES, INC. TO	)	CASE NO. ORE-T-14-01
INCREASE ITS MONTHLY RESIDENTIAL	)	
RATE FOR TELEPHONE SERVICE	)	
	)	COMMENTS OF THE
	)	COMMISSION STAFF
	)	

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, and submits the following Comments in response to Order No. 33115.

### BACKGROUND

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 over a four-year period. The Company requests that the rate increase be phased-in to coincide with the increase in the federal universal service threshold established by the Federal Communications Commission (FCC). Application at 1. The FCC has established annual rate floors necessary for a carrier's continued eligibility to receive funding from the Connect America Fund (CAF) that started in 2012.

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. *Id.* at 3.

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 program. *Id.* at 3. In 2011, the FCC set out to reform the federal USF and created the CAF.<sup>1</sup> In the *Transformation Order*, the FCC established a monthly rate floor “to ensure that states are contributing to support and advance 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 (emphasis omitted). 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*)<sup>2</sup> which established the basis for providing federal high-cost support to rate-of-return carriers (such as Oregon-Idaho) and established a minimum local monthly rate (the “rate floor”) that carriers must maintain to continue their eligibility for full CAF-II funding. In its *CAF-II Order*, the FCC established the monthly rate floor for CAF-II funding at a rate of \$14.00 per month as of July 1, 2014. *Id.* at ¶ 80. During a four-year period, the rate floor will increase to a rate of \$20.46 per month for local service as of July 1, 2017. *Id.* at ¶¶ 80, 85 (excludes Lifeline customers (n.156)). Carriers that do not have monthly residential rates that meet or exceed the rate floor will have their federal funds reduced proportionally on a dollar-for-dollar basis. *Id.* at ¶ 75; Application at 5.

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 corresponds to the CAF minimum floor and is set out below:

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<sup>1</sup> *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*”).

<sup>2</sup> *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*”).

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.

Oregon-Idaho states 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 the 2013 statewide average residential rate to be \$21.73 in Order No. 32883. Consequently, the Company maintains 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. *Id.* 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.

#### STAFF ANALYSIS

Staff completed an audit of the Oregon-Idaho financial records for 2013. A reasonable revenue requirement range may be calculated depending on several factors, including return on equity, allocation variables between Oregon and Idaho functions, expense levels, and prudence of all investments. Using the Company supplied allocation factor, Staff calculated a reasonable revenue requirement to be between \$365,741 and \$372,792. The Staff calculate the Company’s 2013 Idaho revenues at \$371,226. Thus, the 2013 revenues fall within the zone of reasonableness.

Staff also noted that the Company’s access rates are declining over the next five years as required by the FCC’s *Transformation Order* and by 2016 those revenues will be eliminated and transitioned to a “bill and keep” arrangement between carriers. Currently the Company’s access revenues account for over fifty percent of its total revenues. With declining access revenues, the proposed residential rate increase will help off-set the decline in access revenues and provide some stability to possibly avoid a need to seek assistance from the Idaho Universal Service Fund (USF).

The proposed rate on June 1, 2017 of \$20.00 is lower than the 2013 statewide average residential rate of \$21.73 for USF. Staff determined that the Company-proposed increases will not create a substantial over earning situation during the phase-in period. Consequently, Staff supports the Company's proposal to gradually increase the rates over a period of four years so as to avoid rate shock for the customers.

Because Oregon-Idaho Utilities operates in both Idaho and Oregon, Staff had some allocation concerns. Staff contacted the Oregon Public Utilities Commission Staff regarding any similar rate increase case for the Company. The Oregon Staff indicated that they have no rate regulation for companies with fewer than 50,000 lines. After reviewing the current Oregon rates, it appears that Oregon-Idaho's residential rates in Oregon are in compliance with the current rate floor requirements for this year.<sup>3</sup> Oregon Staff anticipates that the Company may seek a rate increase next year so that the Company will remain in compliance with the FCC's CAF requirements in the future.

## **CUSTOMER RELATIONS**

The Company's press release and customer notice were included in the application. The press release and customer notice did not include all information required by the Commission's Rules of Procedure (IDAPA 31.01.01). More specifically, the notice and press release did not provide the dollar amount requested, or inform customers that they could file comments with the Commission and subscribe to the Commission's RSS feed to receive periodic updates via email about the case. See Rules 125.01 and 125.04. The Company mailed a second customer notice to customers that informed customers that they could file comments with the Commission, request a hearing, and subscribe to the Commission's RSS feed. This second notice informed customers that comments could be filed no later than October 10.

Several of the Commission's Rules of Procedure addressing customer notice were revised recently, and became effective on February 14, 2014. Staff recommends that the Company review the updated Rules of Procedure and include all required information in its future customer notices and press releases.

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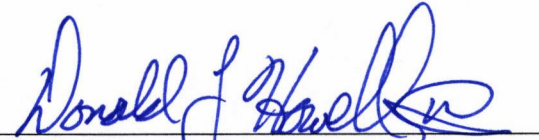
<sup>3</sup> The Company's Oregon rate structure has three zones. Including the assessed fees, the monthly residential rates are: Zone 1 \$14.60; Zone 2 \$16.35; and Zone 3 \$21.60. The monthly Business zone rates are: \$23.35; \$26.35; and \$31.35, respectively.

The original customer notice was mailed to customers July 17 and the press release was issued on July 30. The second customer notice was mailed to customers on September 8, 2014. As of October 9, the Commission has not received any public comments.

#### **STAFF RECOMMENDATION**

Staff recommends that the Commission approve Oregon-Idaho's proposed rate increase in residential rates to preserve its CAF funding.

Respectfully submitted this 9<sup>th</sup> day of October 2014.



Donald L. Howell, II  
Deputy Attorney General

Technical Staff: Carolee Hall  
Joe Terry  
Daniel Klein

umisc/comments/oret14.1dhchjtdk comments

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9<sup>TH</sup> DAY OF OCTOBER 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. ORE-T-14-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DOUG MUSGRAVE  
OREGON-IDAHO UTILITIES  
PO BOX 1880  
NAMPA ID 83653  
E-MAIL: [doug.musgrave@oiutelecom.net](mailto:doug.musgrave@oiutelecom.net)

DEAN J MILLER  
McDEVITT & MILLER LLP  
420 W BANNOCK ST  
BOISE ID 83702  
E-MAIL: [joe@mcdevitt-miller.com](mailto:joe@mcdevitt-miller.com)

KENNETH R McCLURE  
MICHAEL C CREAMER  
GIVENS PURSLEY LLP  
601 W BANNOCK ST  
BOISE ID 83702  
E-MAIL: [krm@givenspursley.com](mailto:krm@givenspursley.com)  
[mcc@givenspursley.com](mailto:mcc@givenspursley.com)

  
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SECRETARY

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