ORDER NO. 16 093

ENTERED: MAR 04 2016

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1481
Phase III

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation of the Oregon Universal Service Fund.	ORDER

DISPOSITION: STIPULATIONS ADOPTED

In this order, we adopt two stipulations filed by the parties in this case. Adopting the terms of the stipulations will reduce the size of the Oregon Universal Service Fund (OUSF), provide clarity for the next several years, and strengthen reporting and information requirements for non-rural carriers. We intend to revisit the core questions regarding the OUSF that gave rise to this Phase III when more information is available.

I. PROCEDURAL HISTORY

This Phase III was initiated by Order No. 13-162 to address the following three issues:

(a) Accountability for non-rural companies. Identify methods for accurately estimating how OUSF funds are directed to operating expenses in claimed high-cost areas.
(b) Consideration of a methodology to allocate Incumbent Local Exchange Carriers (ILEC) network costs between basic telephone and other services.
(c) Consideration of a methodology, applicable to all current OUSF recipients, for identifying areas of unsubsidized competition and whether OUSF support should continue to be provided there.

The parties to this case have twice attempted to resolve these issues through stipulation. In Order No. 15-005, we declined to adopt the first proposed settlement based on our decision on the need for more review of the issues relating to the need for and administration of the OUSF. Following a Commission workshop, the parties then refiled the stipulation with a revised explanatory brief. In Order No. 15-365, we again declined to adopt the stipulation. We encouraged the parties to develop a new proposed resolution and instructed any proposal should continue further reductions to the overall size of the OUSF and be consistent with the parameters outlined in Order No. 15-365.

In response to our directive, the parties have now submitted two new stipulations for our consideration. On January 29, 2016, Qwest Corporation, dba CenturyLink QC and Frontier Communications Northwest Inc. filed a "Phase IIIa Stipulation" proposing to resolve issue (a) above. On the same day, CenturyLink,[1] Frontier,[2] the Oregon Cable Telecommunications Association (OCTA),[3] the Oregon Telecommunications Association (OTA), Verizon,[4] and Warm Springs Telecommunications Company filed a "Revised Phase III Stipulation" proposing to resolve issues (b) and (c) (Revised Stipulation). The stipulations are attached to this order as appendices.

II. STIPULATIONS

The "Phase IIIa Stipulation" modifies the reporting and filing requirements for CenturyLink and Frontier Northwest for their expenses in areas that are eligible for OUSF support. The purpose is to address accountability concerns raised by Staff and the Commission.

The "Revised Phase III Stipulation" adopts an eight and one-half percent cap on the contribution surcharge for the five-year term of the stipulation. It does not extend the plan detailed in the Revised Stipulation beyond 2021. The stipulated phase-down of the OUSF receipts will result in a 27.5 percent reduction in OUSF support for non-rural companies and a 15.2 percent reduction for rural companies according to a capped disbursement schedule. Attachments to the stipulation outline the methodology for the pro rata support reduction process and rural ILEC support reallocation process. In their explanatory brief, the parties conclude that these reductions accomplish the goal of issues (b) and (c) by controlling the size of the OUSF.

The Revised Stipulation also recommends the Commission initiate a new proceeding in 2019 to review the OUSF and issue a final order prior to the end of the term of the Revised Stipulation.

The parties urge that by approving the Revised Stipulation, the Commission will continue to provide support for universal service, provide carriers with clarity and certainty about funding levels for a five-year period, and stabilize the financial burden on Oregon consumers that contribute to the program.

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[1] The CenturyLink companies that are parties to this docket are Qwest Corporation d/b/a CenturyLink QC; United Telephone Company of the Northwest, d/b/a CenturyLink; CenturyTel of Oregon, Inc.; and CenturyTel of Eastern Oregon, Inc.

[2] Frontier Communications Northwest Inc. and Citizen's Telecommunications Company of Oregon.

[3] OCTA signed the stipulation on behalf of its members other than Charter and BendBroadband.

[4] The Verizon affiliates that are parties to this proceeding are MCImetro Access Transmission Services LLC, d/b/a Verizon Access Transmission Services; MCI Communication Services, Inc., d/b/a Verizon Business Services LLC; TTI National, Inc.; Verizon Long Distance LLC; and Verizon Select Services, Inc.

III. RESOLUTION

The Phase IIIa Stipulation and the Revised Stipulation generally address our immediate concerns. We acknowledge it is important for the public and the ILECs to have reasonable certainty as to the contributions that will be required to meet the goals of the OUSF. Consequently, we approve the stipulations, recognizing there is a need for certitude and these stipulations satisfy that need on an ongoing, temporary basis and will allow the companies and the public to plan appropriately. Most importantly, the parties have responded to our concern about maintaining the existing surcharge rate. While some of the core questions giving rise to this docket and raised in our prior orders are not fully resolved, we will address those issues in this proceeding at a future date.

We find that adopting the stipulations will directly reduce the amounts distributed to carriers by the OUSF, while maintaining customer surcharges at current levels. We also find that the terms in the stipulations will provide the Commission with the flexibility to address previously-raised issues in the near future.

We therefore conclude that the terms of the stipulations will result in just and reasonable rates and adopting the stipulations is in the public interest.

IV. ORDER

IT IS ORDERED that:

1. The Revised Phase III Stipulation between CenturyLink QC, et al; Frontier Communications Northwest, Inc., and the Citizens Telecommunications Company of Oregon; the Oregon Cable Telecommunications Association; the Oregon Telecommunications Association[5]; Verizon, et al; and Warm Springs Telecommunications Company, filed on January 29, 2016, attached hereto as Appendix A, is adopted.

2. The Phase IIIa Stipulation between Qwest Corporation, dba CenturyLink QC and Frontier Communications Northwest Inc., filed on January 29, 2016, attached hereto as Appendix B, is adopted.

[5] On behalf of its member companies other than Charter and BendBroadband.

3. The Staff of the Public Utility Commission of Oregon and the Administrator of the Oregon Universal Service Fund shall take such steps as necessary to effectuate changes to the collection and distribution of funds between January 1, 2017 and December 31, 2021, as set forth in the Revised Phase III Stipulation.

Made, entered, and effective MAR 04 2016.

Susan K. Ackerman
Chair

John Savage
Commissioner

Stephen M. Bloom
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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1) Except to the extent expressly provided herein, this Stipulation has a five year term which will begin on January 1, 2017 and end on December 31, 2021. As a result, for rural companies, *see* footnote 2, the term of the UM 1481 Phase II Stipulation adopted in Order No. 13-162 is modified accordingly and OUSF support for said companies in 2016 shall be as set out in Paragraph 5, below.

2) Consistent with the discussion in Commission Order No. 15-365, the Parties agree that the OUSF surcharge will not exceed eight and one half percent (8.5%) during the term of the Stipulation and that, to the extent required, the OUSF support amounts agreed upon for the Non-Rural Companies[1] set forth in paragraphs 3 and 4, below, for the Rural Companies[2] set forth below in Paragraphs 5 and 6, below, and for Warm Springs Telecommunications Company, set forth in paragraph 13, below, shall be reduced on a pro rata basis in order to maintain a surcharge of no greater than eight and one half (8.5%).[3] Any pro rata reductions shall be determined for the Rural Companies in aggregate and for the Non-Rural Companies and Warm Springs Telecommunications Company individually. The adjusted aggregate support amount for the Rural Companies will be allocated to them based on their relative shares of support received to the total adjusted support amount.

3) Subject to any additional reductions required pursuant to Paragraph 2, above, beginning with the 2016 OUSF funding level of $17.5 million of annual OUSF support for Non-Rural Companies, consisting of $10.5 million for Qwest Corporation and $7.0 million for Frontier Northwest, funding for the Non-Rural Companies will be reduced in five equal annual steps. Over the life of the stipulation this will result in a reduction of no less than twenty-seven and one-half percent (27.5%). Non-Rural Companies' OUSF receipts will not be affected by line counts.

4) Subject to any additional reductions required pursuant to Paragraph 2, above, the phase-down of OUSF support for the Non-Rural Companies will occur each January according to the following schedule[4]:

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[1] The Non Rural Companies are Qwest Corporation d/b/a CenturyLink QC and Frontier Communications Northwest Inc. ("Frontier Northwest").

[2] Asotin Telephone Company d/b/a TDS Telecom, Beaver Creek Cooperative Telephone Company, Canby Telephone Association d/b/a Canby Telecom, Cascade Utilities, Inc., d/b/a Reliance Connects, CenturyTel of Oregon, Inc., d/b/a CenturyLink, CenturyTel of Eastern Oregon, Inc., d/b/a CenturyLink, Citizens Telecommunications Company of Oregon, Clear Creek Mutual Telephone Company, Colton Telephone Company d/b/a ColtonTel, Eagle Telephone System, Inc., Gervais Telephone Company, Helix Telephone Company, Home Telephone Company, Molalla Telephone Company d/b/a Molalla Communications Company, Monitor Cooperative Telephone Company, Monroe Telephone Company, Mt. Angel Telephone Company, Nehalem Telecommunications, Inc., d/b/a RTI Nehalem Telecom, North-State Telephone Co., Oregon-Idaho Utilities, Inc., Oregon Telephone Corporation, People's Telephone Co., Pine Telephone Systems, Inc., Pioneer Telephone Cooperative, Roome Telecommunications Inc., St. Paul Cooperative Telephone Association, Scio Mutual Telephone Association, Stayton Cooperative Telephone Company, Trans-Cascades Telephone Company d/b/a Reliance Connects, and United Telephone Company of the Northwest d/b/a CenturyLink.

[3] There is an open legal question of whether the Commission can mandate a cap on the OUSF surcharge. However, that question is avoided by the Parties voluntarily agreeing to a cap and the subsequent effects of that cap.

[4] Payments will be 1/12th the annual amount specified herein for a given year and will begin with the January OUSF support payment.

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Annual OUSF Support

	Phase II Stipulation	Phase III Stipulation				
	2016	2017	2018	2019	2020	2021
Frontier Northwest	$7,000,000	$6,615,000	$6,230,000	$5,845,000	$5,460,000	$5,075,000
Qwest Corporation	$10,500,000	$9,922,500	$9,345,000	$8,767,500	$9,190,000	$7,612,500
Total	$17,500,000	$16,537,000	$15,575,000	$14,612,500	$13,650,000	$12,687,500

5) Subject to any additional reductions required pursuant to Paragraph 2, above, beginning with the 2016 calendar year OUSF funding level of $14,431,170 of annual OUSF support for Rural Companies, the funding will be reduced in five equal steps, taking effect annually. Over the life of the Stipulation this will result in a reduction of no less than fifteen and two-tenths percent (15.2%). Rural Companies' OUSF receipts will not be affected by line counts, per Order No. 13-162 in Docket UM 1481 Phase II dated May 2, 2013, page 4.

6) Subject to any additional reductions required pursuant to Paragraph 2, above, the phase-down of OUSF support for the Rural Companies will occur each January according to the following schedule:

Annual OUSF Support

	Phase II Stipulation	Phase III Stipulation				
	2016	2017	2018	2019	2020	2021
Rural Companies	$14,431,170	$13,991,643	$13,552,115	$13,112,587	$12,673,059	$12,233,531

7) By way of illustration only, and based upon available projections[5] of the retail telecommunications service revenue base subject to the OUSF surcharge, the potential impact of the agreed upon eight and one half percent (8.5%) OUSF surcharge cap imposed by agreement of the Parties pursuant to Paragraph 2, above, on the support amounts of the Non-Rural Companies and the Rural Companies would be:

Capped Disbursements Based on Phase III Shares

	2017	2018	2019	2020	2021
Contributions (8.5%)	$30,000,000	$27,600,000	$25,500,000	$23,500,000	$21,600,000
Qwest	$9,177,404	$8,322,819	$7,567,104	$6,850,508	$6,172,341
Frontier	$6,118,269	$5,548,546	$5,044,736	$4,567,005	$4,114,894
Total Non-Rurals	$15,295,673	$13,871,365	$12,611,840	$11,417,513	$10,287,235
Total Rurals	$12,940,989	$12,069,749	$11,317,287	$10,600,353	$9,919,149
Total CLECs	$1,763,338	$1,658,886	$1,570,873	$1,482,135	$1,393,616
Total	$30,000,000	$27,600,000	$25,500,000	$23,500,000	$21,600,000

[5] The projections utilized are the projections provided by Commission Staff to the OUSF Advisory Committee. Obviously, projections are only the current estimates based on recent history and are subject to change.

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These projected reductions reflect a reduction in overall OUSF support that is approximately ten and one half million dollars ($10.5M) greater than the reductions agreed upon by the Parties in the Stipulation filed with and rejected by the Commission in Order Nos. 15-005 and 15-365.

8) In light of the five-year term of this Stipulation, the Parties request that the Commission cancel any directions to perform a triennial review that may be contained in its prior orders. *See, e.g.*, Order No. 03-082 in Docket UM 1017.

9) Although not a party to the Stipulation, Commission Staff was given the opportunity to review the Stipulation in draft stage. Commission Staff made two requests. The first was that the Stipulation include a description of how pro-rata reductions would occur. The Parties agreed to include the description, which is set out in Attachment 1, and is incorporated into this Stipulation by this reference.

10) The second request made by Commission Staff was to include provisions in the Stipulation that would result in biennial reviews by Commission Staff for the purpose of possible re-allocation of OUSF support. The rural companies initially objected to this position. However, after strenuous negotiations, it was agreed to include a re-allocation process as part of the Stipulation in a manner that was acceptable to Commission Staff. That re-allocation process is described in Attachment 2, and is incorporated into this Stipulation by this reference.

11) This Stipulation resolves the following issues:

(a) Consideration of a methodology for allocation of ILEC network costs between basic telephone service and other services.

(b) Consideration of a methodology for identifying areas in which there is unsubsidized competition and whether OUSF support should be provided in such areas.

(c) Any other issues reasonably related to issues (a) through (B), above.[6]

12) For the period January 1, 2017 through December 31, 2021, a qualified CLEC that is designated as an ETC for purposes of OUSF will draw at the ILEC per-line amount for the area it serves. The ILEC per line support amount will begin with the base per-line support value contained in the "Base Per Line Support Amounts," which is found on the PUC website. The per-line amount will be adjusted to reflect the percent reduction that has occurred for the specific Non-Rural Company that owns the wire center between 2016 and the date the support amount is being calculated. This reduction method does not apply to the Warm Springs wire center.

13) It is recognized that the Warm Springs Telecommunications Company is in a unique situation as it builds a new network to serve the Confederated Tribes of Warm Springs Reservation and surrounding area. Pursuant to Order No. 13-162, Warm Springs Telecommunications Company will be capped at $1,500,000 per year from the OUSF. Beginning with the calendar year 2017 and

[6] A separate stipulation between Staff, CenturyLink QC and Frontier Communications resolves the issue of accountability for the non-rural ILECs.

each year thereafter for a period of five (5) years, Warm Springs Telecommunications Company's adjusted cap will be calculated by reducing the $1,500,000 cap by three percent (3%) per year, subject to any additional reductions required pursuant to Paragraph 2, above.

14) The companies represented by the signing parties and those companies' subsidiaries or parents, currently collecting the OUSF surcharge, as applicable, will collect the OUSF surcharge based on the company's intrastate retail revenues (including but not limited to revenues from Voice over Internet Protocol) and pay that amount to the OUSF.

15) The Parties recommend that the Commission commence no later than 2019 a proceeding to review the OUSF in order to issue a final ruling prior to the end of the 5 year term of the Stipulation regarding any and all aspects of the OUSF, without excluding any options available under Oregon law.

16) The parties recommend that the Commission continue to have its Staff perform the following functions: 1) monitor company quarterly OUSF filings of intrastate retail telecommunications service revenues to ensure the reporting of such information is correct and that the companies are applying the surcharge appropriately; and 2) continue to investigate company filings where there appear to be discrepancies.

17) In Order 00-312 in Docket UM 731, Non-Rural Companies were directed to use OUSF support to ensure that basic telephone service is available at a reasonable and affordable rate. In Order 03-082 in Docket UM 1017, Rural Companies were ordered to use OUSF support for the same purpose. The Parties agree to recommend to the Commission that the Commission modify the purpose for which OUSF support is to be used, pursuant to the powers granted to it by ORS 759.425. Beginning January 1, 2017, the use of the OUSF funds will be for the following purpose: investment, construction, operation, maintenance, and repair to ensure that basic telephone service is available at reasonable and affordable rates. The use of the funds will be restricted geographically to the non-rural high-cost areas established in Order No. 12-065 for reporting purposes and to the areas served by the Rural Companies.

18) The Parties agree that any Party may file a petition to request Commission review of this Stipulation if there is a substantive change in Oregon law that materially affects the terms of this Stipulation or there is a substantive change in federal law or Federal Communications Commission precedent that materially affects the terms of the Stipulation. The Parties further agree that the Stipulation will not automatically terminate merely because a Party has filed a petition as described above, but will continue until the Commission issues a final order that grants, denies or takes other appropriate final action upon the petition. Finally, each Party reserves the right to make whatever arguments it deems appropriate in any docket resulting from the filing of the aforementioned petition.

GENERAL PROVISIONS

19) The Parties understand that this Stipulation is not binding upon the Commission unless and until it is approved by the Commission.

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20) This Stipulation does not preclude a Party from explaining, as a factual matter, what the Parties agreed to in this Stipulation.

21) The Parties agree that this Stipulation represents the entire agreement of the Parties and that it supersedes any and all prior oral or written understanding, agreements or representation related to this Stipulation, if any, and no such prior understanding, agreement or representations shall be relied upon by any Party.

22) The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and cooperate in supporting this Stipulation throughout the Commission's consideration of the Stipulation.

23) The Parties enter into this Stipulation to avoid further expense, inconvenience, uncertainty and delay. By executing this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Stipulation. Nor shall any Party be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except to the extent expressly set forth in this Stipulation.

24) This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document. A signed signature page that is faxed or emailed is acceptable as an original signature page signed by that Party.

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This Stipulation is entered into by each Party as follows:

Qwest Corporation d/b/a CenturyLink QC,
CenturyTel of Oregon, Inc. d/b/a
CenturyLink,
CenturyTel of Eastern Oregon, Inc.
d/b/a CenturyLink,
United Telephone Company of the
Northwest d/b/a CenturyLink

By: ______________________
Stacey Goff

Executive Vice President &
Corporate Administration Officer
Legal & Corporate Administration

Date: 1/11/16

Frontier Communications
Northwest
Inc.,
Citizens Telecommunications
Company of Oregon

By: ______________________
George Baker Thomson, Jr.

Associate General Counsel

Date: 1/11/2016

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This Stipulation is entered into by each Party as follows:

Oregon Telecommunications Association

By: ____________________
Richard A. Finnigan
Attorney for OTA

Date: 1/11/16

Oregon Cable Telecommunications Association*

By: ____________________
Mark Trinchero
Of Attorneys for OCTA

Date: 1/11/16

***OCTA is signing on behalf of its member companies other than Charter and BendBroadband**

Warm Springs Telecommunications Company

By: Marsha Spellman
Marsha Spellman, JD

Regulatory Director for Warm Springs Telecommunications Company

Date: January 11, 2016

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This Stipulation is entered into by each Party as follows:

MCI Communications Services, Inc. d/b/a Verizon Business Services,
MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services,
TTI National, Inc.,
Verizon Select Services Inc.,
Verizon Long Distance LLC

By: Jesús G. Román

Jesús G. Román

Date: January 11, 2016

DWT 28718646v1 0106080-000145

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ATTACHMENT 1
Pro Rata Support Reduction Process

- **Increasing the Minimum Balance:**

To avoid potentially frequent changes in support to the companies, Staff has proposed and the Parties agree to raise the minimum balance that it uses as a target from 1 month to 1.5 months. Doing this allows for some error in forecasting that arise as a result of quarter-to-quarter fluctuations in the contribution base erosion rate. Raising the minimum balance will result in reductions being taken earlier, but will also provide a buffer so there are fewer reductions.

- **Adopting the following Process:**

1. Quarterly fund status report be disseminated to a wider audience:

Currently a rolling forecast is produced on a monthly basis and the fund status is reported to the OUSF board at its quarterly meeting. This fund status report includes an estimate of the timing of any fund deficit as well as a detailed look at the percentage decline in the contributions. Staff plans to distribute this status report to all companies receiving money from the fund and all signatories to the Revised Stipulation.

2. Disbursement reductions:

If the monthly forecast for six months out indicates that the fund balance will go below 1.5 times the projected monthly disbursement, a reduction notice will be sent to all companies receiving disbursements. The notice will cover the current as well as all remaining years of the stipulation; however, the reductions will only be applied to the current year. Subsequent years will be addressed on a year-by-year basis.

3. Basis for the proposed reduction:

The proposed reduction will be based on the forecasted contributions, which will take into account any historic rate of decline. The rate of decline will also be projected forward.

4. Implementation date:

The reduced disbursement amounts will go into effect the quarter before the revenue shortfall is expected to occur.

Process initiation date:

The process of reducing the disbursements will begin 3 months prior to when the shortfall is expected to occur. Three months' notice will give ample time for notification and agreement on the reduced amounts and will provide time for any internal PUC procedures, such as Public Meeting memos, to be completed. Notification will include a calculation of the reduction as a total and on a company level. As per the stipulation, the disbursement amounts will be reduced on a pro rata basis.

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ATTACHMENT 1 (Continued)
Pro Rata Support Reduction Process

ILLUSTRATIVE EXAMPLE:

In this example we are showing how the process would work if the contributions continue to decline by 2% per quarter from 2016 onwards and the stipulated disbursement amounts are adopted. As contributions are lower than disbursements, the fund balance will decline until the fund is no longer to make payments. Staff would intervene 6 months prior to this occurrence and would issue a reduced disbursement schedule for agreement. Because of the increased minimum balance, unless the rate of decline in contributions was substantially greater than expected, further reductions would not be expected within the duration of the stipulation.

- Contributions decrease by 2% per quarter from 2016 onwards:
- The fund is forecast to have a cash balance which will be below 1.5 X the required monthly disbursement in January 2018.
- The process to reduce the disbursements will begin in April 2017 when Staff will issue a revised disbursement schedule. Once agreed the disbursement schedule will be implemented in October 2017.

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Attachment 2
Re-Allocation Process

Commission Staff has requested that a re-allocation process be included in the Stipulation as part of Commission Staff's oversight responsibilities during the life of the Stipulation. Commission Staff has described the re-allocation process as occurring on a biennial basis during the five-year life of the Stipulation. The first re-allocation process review would occur in 2016 to be effective January 1, 2017. The second re-allocation process review would occur in 2018 to be effective January 1, 2019. The third re-allocation process review will occur in 2020 to be effective January 1, 2021.

Commission Staff has described the re-allocation review process to include the following elements: (1) The total support that the rural companies are receiving at the start of the re-allocation process; (2) The company specific support each company is receiving at the start of the re-allocation process; and (3) The projected amount of support that each rural company would receive based on a current run of the UM 1017 embedded cost model previously adopted by the Commission. Commission Staff describes the re-allocation process as a means to ensure efficient use of the limited resources of the state universal service fund and to be sure that support is being provided where it is most needed.

This re-allocation process is a multi-step transition process that takes companies from what they are currently receiving from the fund towards what the UM 1017 model defines as their need (which can shift over time). Commission Staff believes that this process will provide relative funding stability in the interim period.

If there is a surplus of monies provided by the fund, it will be used to reduce the size of the surcharge rather than providing further support to individual companies.

The process for the re-allocation would be that the Commission Staff would provide its analysis of the appropriate re-allocation for each company by the end of the second quarter of the year in question (2016, 2018 and 2020). Companies would then have until the end of the third quarter of the year in question to bring any objections that they have about the process or the results to the Commission's attention if the matter cannot be resolved through discussions and negotiations between and among the rural companies and Commission Staff. The Commission would resolve the dispute, if any, and the re-allocation would proceed as authorized by the Commission. In addition, if there are questions about or proposed modifications to the UM 1017 embedded cost model, they will be brought before the Commission for resolution.

Parties recognize that potential re-allocation may affect individual company planning, budgeting and the recovery of investments already made to provide service to customers. As a result of these considerations the re-allocation process has the constraint that no company will have its support reduced by more than twenty percent over the life of the Stipulation as a result of the re-allocation process and no more than seven percent per allocation through the re-allocation process. The methodology that will be used in the re-allocation process is the methodology prepared by Commission Staff as the model based allocation derived through the waterfall process, which is described below.

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ATTACHMENT 2 (Continued)
Re-Allocation Process

Waterfall Approach

Overview: This method starts with the unconstrained support that each company would receive under the UM 1017 embedded cost model which is used to determine the percentage share of the rural OUSF support a company may receive. If any company has support less than what is allowed by the reduction constraint described above, that company's support is adjusted to the minimum allowed by the constraint. New percentage shares are calculated for the remaining companies which are then applied against the remaining rural OUSF support. This process of calculating new percentage shares and new remaining support amount is repeated until no support amount needs to be reset based on the UM 1017 model results. No company shall receive more support than produced by the UM 1017 embedded cost model as adopted by the Commission or, if modified by the Commission, as so modified.

Work Steps:

Step 1) Calculate an adjusted OUSF distribution ratio as described above.

Step 2) Determine the amount of Rural ILEC OUSF support by multiplying the OUSF distribution ratio by the total amount of Rural ILEC OUSF support available.

Step 3) Compare the amount obtained in step (2) above with the current OUSF support for each company identifying any company that realizes a reduction in OUSF support that is greater than any applicable reduction constraint imposed.

Step 4) Companies identified in Step (3) adjust the OUSF support within the applicable reduction constraint.

Step 5) Recalculate the OUSF distribution ratio for each company not identified in Step (3) by dividing the UM 1017 Model based support for each company by the total sum of model based support calculated for each remaining ILEC that was not identified in Step (3) above.

Step 6) Deduct the total sum of the adjusted OUSF support determined in Step (4) above from the total amount of Rural ILEC support available.

Step 7) Repeat Step (2-6) above until no company realizes a reduction in OUSF support greater than the applicable reduction constraint.

Step 8) Determine the support for all companies remaining by multiplying the OUSF distribution ratio by the remaining total sum of available OUSF support for rural ILECs.

UM 1481 Phase IIIa Stipulation

1. The Parties to this Stipulation are Qwest Corporation d/b/a CenturyLink QC and Frontier Communications Northwest, Inc..

2. The purpose of the reporting that the Parties agree to under this Stipulation is to modify current reporting of information regarding CenturyLink QC and Frontier Northwest Inc. ("Reporting Parties") expenses in areas that are eligible for Oregon Universal Service Fund (OUSF) support. Both Reporting Parties currently provide their investment activities and expenses by wire center in the areas eligible for support. The Stipulation modifies the reporting of expenses.

3. **Reporting.** The reporting under this Stipulation for the Reporting Parties will be as depicted in the attached Oregon Universal Service Fund Accountability Report. The report data will be retained for a period of three years and it will be made available for Staff to audit upon request.

4. **Filing.** The Parties agree that the Reporting Parties and Staff, at the time any of the report data is submitted to the Commission, may submit to the Commission an explanation regarding which set of data from the report reflect the appropriate method to estimate how OUSF funding is being directed to operating expenses in high cost areas. The Oregon Universal Service Fund Accountability Report, being dependent upon Form O data, will be submitted annually no later than June 1st or approximately 60 days following the submission of the Form O.

5. **Applicability.** The Parties agree that the data provided in the report cannot be used to change the non-rural OUSF support amounts agreed to in the stipulation in Phase II of this proceeding, approved by the Commission in Order 13-162, or the non-rural OUSF support amounts agreed to in the stipulation in Phase III of this proceeding.

6. **Term.** This Stipulation will have the same termination date as the stipulation settling Parts IIIb and IIIc of this proceeding.

GENERAL PROVISIONS

7. The Parties understand that this Stipulation is not binding upon the Commission unless and until it is approved by the Commission.

8. This Stipulation does not preclude a party from explaining, as a factual matter, what the Parties agreed to in this Stipulation.

9. The Parties agree that this Stipulation represents the entire agreement of the Parties and it supersedes any and all prior oral or written understandings, agreements or representation related to this Stipulation, if any, and no such prior understanding, agreement or representation shall be relied upon by any Party.

10. The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and cooperate in supporting this Stipulation throughout the Commission's consideration of the Stipulation.

11. The Parties enter into this Stipulation to avoid further expense, inconvenience, uncertainty and delay. By executing this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Stipulation. Nor shall any Party be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except to the extent expressly set forth in this Stipulation.

12. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document. A signed signature page that is faxed or emailed is acceptable as an original signature page signed by that Party.

This Stipulation is entered into by each Party as follows:

CenturyLink QC

By:____________________

William E. Hendricks

Senior Corporate Counsel

Date: 1/29/2016

Frontier Communications

By:____________________

George Thompson

Associate General Counsel

Date:____________________

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This Stipulation is entered into by each Party as follows:

CenturyLink QC	**Frontier Communications**
By:________________	By: [signature]
William E. Hendricks	George Baker Thomson, Jr.
Senior Corporate Counsel	Associate General Counsel
Date:________________	Date: 1/29/16

OREGON UNIVERSAL SERVICE FUND ACCOUNTABILITY REPORT
Company:

Expenses by Supported Wire Center

Report 1:

Supported Wire Centers	CLLIS	Estimated Plant Related Expenses calculated on tracked Technician Hours by Wire Center x Loaded Labor Rate (Column A)
Total Supported WCs		

Report 2:

Estimated Network Expense: Plant Related Expenses Allocated to Wire Centers Using Technician Hours and Access Lines (Column A)	Estimated Network Expense: Provisioning & Network Operations Expenses Allocated to Wire Centers Using Access Lines (Column B)	Estimated Other Operating Expenses Allocated to Wire Centers Using Access Lines (Column C)	Estimated Depreciation Expense Allocated to Wire Centers Using Plant in Service (Column D)	Total of Columns A, B, C, and D (Column E)
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Report 1:

Column A: Amounts estimated using actual work hours by wire center multiplied by a loaded labor rate.

Report 2:

Column A: Network related Costs: Based on booked expenses recorded in accounts 621X, 623X and 64XX reported in Form O. Amounts by wire center developed using tracked technician hours by wire center to allocate expenses.

Column B: Network related Costs: Based on booked Provisioning and Network Operations expense recorded in accounts 6512 and 653X reported in Form O. Amounts by wire center developed using expenses in these accounts allocated to wire centers based on access lines.

Column C: Based on booked expenses recorded in expense accounts 6110-6114, 6120-6124, 6610-6613, 662X, 672X and 7240 (Property Tax only) reported in Form O. Amounts by wire center developed using expenses in these accounts allocated to wire centers based on access lines.

Column D: Based on booked amounts recorded in accounts 6561 excluding subaccounts not tracked in Plant in Service report (e.g. Gen Purp Computers, Furniture, Office Equip, Tools & Oth Work Equip, Vehicles, Amortizable assets). Amounts by wire center developed based on Plant in Service balances.

ORDER NO. 16 093