

**COMPETITIVE TELECOMMUNICATIONS PROVIDERS:
ANNUAL REPORT TO THE LEGISLATURE
2015**

Staff Report

Public Utility Commission of Oregon

December 2015

EXECUTIVE SUMMARY

ORS 759.050(9) requires the Public Utility Commission of Oregon (OPUC) to annually report to the Legislative Assembly on the status of competition in the Oregon local exchange market. This report provides information about the following: (1) the number of competitive zones; (2) the number of competitive providers; (3) the number and type of competitive services; and (4) the number of consumer comments on competitive telecommunications services.

At the end of 2014, there were approximately 1,435,000 switched access lines in the state of Oregon. This figure includes residential, business, and wholesale lines. It represents a de minimis drop from the approximate 1,437,000 switched access lines in 2013. In 2014, 32 incumbent local exchange carriers (ILECs) or telecommunications utilities served approximately 780,842 lines in 268 exchanges in Oregon. The number of switched access lines has steadily declined from its peak of 2,459,000 in 2001. The reduction can be attributed to the continuing rise of wireless service as a single source of telecommunications in the home and as an alternative to a second line. The reduction may also be a result of some customers dropping a second line in favor of DSL, or customers shifting their landline telephone service to fixed VoIP telephony services.

Mergers in the telecommunications industry have not substantially reduced the number of ILEC operating companies.¹ The four largest ILECs, Qwest Corporation dba CenturyLink QC (Qwest), Frontier Communications Northwest Inc. (Frontier), CenturyTel of Oregon and Eastern Oregon, and United Telephone Company, retain their individual ILEC operating status. Each of the four ILECs has historically served 50,000 lines, or more. For 2014, the four largest ILECs reported 718,318 switched access lines, comprising 50 percent of the combined ILEC and competitive local exchange carrier (CLEC) market. Twenty-eight rural ILECs serve an additional 62,524 switched access lines in 64 exchanges. This equals 8 percent of all ILEC switched access lines and 4.4 percent of total ILEC and CLEC switched access lines. CLECs served 654,993 lines in Oregon or 45.6 percent of the combined ILEC and CLEC market.

The OPUC divides telecommunications services into two major groupings, dedicated private line services and switched services. The dedicated private line services are non-switched and may carry voice or data communications. They are offered in many data speeds ranging from 56 kbps to 100 mbps.² The second grouping, switched services, includes the basic transmission of voice, vertical services like Call Waiting or Caller ID, enhanced services such as Voice Mail, and ancillary services such as operator assistance, directory assistance, and directory listings.

Private line service and switched service can be offered as either intraexchange or interexchange service. Intraexchange services are services that originate and terminate within the same local exchange. Local exchanges are defined geographic areas filed with and

¹ Midvale Telephone Exchange, Inc. was acquired by Oregon Telephone. Malheur Home Telephone Co. was consolidated with CenturyLink.

² kbps means thousand bits per second, mbps means million bits per second.

approved by the OPUC. Interexchange telecommunications services cross local telephone exchange boundaries. Interexchange voice service is long distance or toll service. Oregon law provides for different regulation of competition in the interexchange (long distance) market compared to regulatory procedures for competition in the intraexchange (local exchange) market.

OPUC procedures for granting certificates of authority differ between interexchange and intraexchange services. Applications for authority to provide interexchange service, both private line and switched services, are considered under ORS 759.020. Applications for authority to provide Shared Telecommunications Service to residential and business buildings or complexes of buildings are also considered under ORS 759.020.

Applications for authority to provide intraexchange service are considered under the Competitive Zone law, ORS 759.050. This applies to private line service as well as switched service. When the OPUC grants an application to provide intraexchange service to a competitive provider under ORS 759.050, the affected telephone exchanges of the ILECs are designated competitive zones for services authorized for the new competitor. However, price and service competition within the meaning of ORS 759.052 may not be deemed to exist solely by virtue of the establishment of a competitive zone. ORS 759.050 establishes conditions by which an ILEC, or any interested party, may petition the OPUC to exempt, in whole or in part, from regulation ILEC services within competitive zones. Findings by the OPUC may lead to ILEC pricing and service flexibility for corresponding competitive zones.

A competitive zone is an area defined by two characteristics: (1) local exchange boundaries and (2) the type of service considered to be competitive, such as private line or switched services. As an example, an applicant may be granted a certificate of authority to provide private line service in the Medford exchange resulting in price flexibility for Qwest private line services in the exchange. However, the Medford exchange does not become a competitive zone for switched (dial-tone) services because the applicant did not request authority to provide switched services. Other exchanges would not be impacted by the Medford competitive zone designation characteristics. Each exchange is considered separately.

An electronic copy of this report is available on the PUC website at:

<http://www.puc.state.or.us/Pages/telecom/telerpts2.aspx>

A paper copy can be obtained by contacting Armando Fimbres at 503-378-6665.

COMPETITIVE PROVIDERS LEGISLATIVE REPORT

OPUC Response to ORS 759.050(9) (a) - (d):

A. ORS 759.020 and 759.050(9)(a) Number of Competitive zones:

A competitive zone is created when a certificate of authority to provide telecommunications is issued to a competitive provider for a particular exchange, thereby permitting telecommunications competition in that area. In 2000, the first certificates were issued for statewide intraexchange competitive telecommunications service. There are now 268 competitive zones for switched telecommunications service (dial-tone) and private line service. These competitive zones are in all telephone exchanges of every incumbent telephone provider in Oregon. This includes the small utilities and the cooperative corporations, as well as the four large ILECs.

Pricing flexibility for private line service is granted with the development of a competitive zone and does not require an exchange of traffic. However, before an incumbent can be granted pricing flexibility for switched service within a competitive zone, there must be an actual exchange of traffic between the incumbent provider and a competitive local exchange provider. The incumbent must notify the OPUC when the exchange of traffic occurs and then the OPUC grants pricing flexibility. Qwest has pricing flexibility for switched service in all of its 68 exchanges. Frontier has pricing flexibility for switched service in all of its 44 exchanges. The small utilities and cooperative corporations already have pricing flexibility because of their regulatory status.

B. ORS 759.020 and 759.050(9)(a)(b) Number of competitive providers:

New applications for certificate and offsetting cancellations resulted in a slight decrease in competitive providers over the past year. At year-end 2013, there were 365 competitive providers. As of October 2015, that number dropped to 351 active providers. Of those, 218 companies are certificated to provide local exchange service. In addition, not all providers are actually operating and providing services, but they maintain a certificate for business purposes. Of the 206 CLECs reporting Form L information for 2014, only 153 were operational. Many CLECs have authority to provide interexchange service in addition to local service.

- 351:** Number of competitive telecommunications providers with certificates of authority to provide service in Oregon.
- 345:** Number of competitive providers authorized to provide interexchange toll, interexchange private line, alternate operator services, or inmate pay telephones.
- 8:** Number of competitive providers authorized to provide Shared Telecommunications Service to residential and business buildings and complexes of buildings.
- 218:** Number of competitive providers authorized to provide intraexchange dial-tone service and private line service. Pursuant to ORS 759.050, competitive zones are created when these providers receive certificates of authority.
- 133:** Number of competitive providers authorized to provide only interexchange service.

C. ORS 759.050(9)(c) Number and type of competitive services:

The OPUC divides telecommunications service into two major groupings, private line service and switched service. Applicants specify whether they are requesting authority to provide private line and/or switched service on their applications, without giving more specifics. The OPUC uses general categories so competitors, both ILECs and CLECs, can respond to market demands and innovate or add new services without having to amend their certificates of authority.

Private line services include all bandwidths, or equivalent data speeds from very slow (16 kbps) to voice grade (56 kbps) to very high speeds (10 Gbps). Private lines may be analog or digital service. The transmission medium may be copper wire, co-axial cable, microwave, or fiber optic.

Switched service includes basic voice transmission service. It also includes associated features such as Call Forwarding, Call Waiting, Caller ID, Automatic Call Rejection, and Call Trace, as well as enhanced services such as Voice Mail, and ancillary services such as operator services, collect calling, directory assistance, and directory listings. The OPUC requires all local exchange carriers to provide access to E9-1-1 as part of switched local exchange service.

Each year the OPUC conducts a survey of services provided by Oregon's incumbent and competitive local exchange carriers. The OPUC prepares an annual report summarizing the results of each year's survey. The latest is the Local Telecommunications Competition Survey 2015 Report. The OPUC is providing the 2015 Report to the Legislative Assembly along with this memorandum to meet the requirements of ORS 759.050(9)(c). The 2015 Report will be posted on the OPUC's website.

D. ORS 759.050(9)(d) Consumer Comments:

Competitive interexchange (long distance) carriers and Shared Telecommunications Service providers have been authorized in Oregon for over 20 years. CLECs have been authorized to provide private line service for many years. CLECs that offer switched (dial-tone) service have been authorized since January 1996.

The OPUC received a number of consumer contacts in 2015, as indicated below. Figures for prior years are shown for comparison. Contacts include: (a) inquiries which may or may not have an element of a complaint behind them; (b) informal complaints; and (c) registered complaints. Very few of the complaints progress to the formal, docketed complaint stage.

	<u>CONSUMER CONTACTS</u>			
	<u>2015³</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
CLEC Providers	1,141	1,035	1,168	1,550
Large ILEC Provider⁴	2,476	1,621	1,776	1,832
Small ILEC Providers⁵	36	69	53	103
Wireless	537	640	512	580

	<u>CONSUMER CONTACTS</u>			
	<u>Per 10,000 Lines^{6,7}</u>			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
CLEC Providers	21.5	17.3	33.7	43.7
ILEC Providers	32.2	20.2	20.2	19.0
Wireless⁸	*	*	*	*

The majority of regulated utility complaints in 2015 were for billing, service quality, customer service, and cramming; the incidence of slamming continues to decline. The OPUC also takes complaints about wireless and internet services, although we do not actually have jurisdiction over these providers. The companies providing these services

³ For 12 months ending 11/16/2014.

⁴ As defined in ORS 759.005 and OAR 860-021-0008.

⁵ As defined in ORS 759.040 and OAR 860-034-0010.

⁶ The statistics are based on total line count for each category.

⁷ 2015 & 2014 include lines for major cable companies; prior years do not include lines for major cable companies.

⁸ The number of lines needed to make this calculation is not available.

work with us voluntarily. Complaints about wireless service declined slightly in 2015. Complaints about internet services are also on the increase due to the expansion of broadband networks (availability, service quality, early termination fees).

Competitive providers include interexchange toll carriers, Shared Telecommunications Service providers, and CLECs. Consumer inquiries and complaints regarding services of these providers cover many issues, such as:

- (a) Rates
- (b) Customer service
- (c) Slamming (unauthorized change of carrier)
- (d) Cramming (unauthorized services provided and added to bill)
- (e) Quality of service
- (f) Disconnect
- (g) Competitive options

As the types of telecommunications services and the number of providers increase, consumer issues become far more complex and resolving issues becomes more challenging. Telecommunications complaints now often involve multiple providers instead of a single utility.

The Federal Communications Commission (FCC) deregulated pay telephone service, including payphone service provided by incumbent telephone utilities. As a result of FCC preemption, the OPUC, like other state regulatory agencies, cannot regulate pay telephone rates. Also, pursuant to state law, the OPUC cannot regulate radio common carriers, such as wireless companies. However, AT&T, Verizon Wireless, and Sprint have unique status and are under an Assurance of Voluntary Compliance administered by the OPUC for the Department of Justice.