

**COMPETITIVE TELECOMMUNICATIONS PROVIDERS:
ANNUAL REPORT TO THE LEGISLATURE
2014**

Staff Report

Public Utility Commission of Oregon

December 2014

EXECUTIVE SUMMARY

ORS 759.050(9) requires the Public Utility Commission (PUC) to report annually to the Legislative Assembly regarding competition in the telecommunications industry in Oregon. This report provides information about the number of: competitive zones, competitive providers and competitive services, in addition to complaints and feedback to the PUC from consumers. At the end of 2013, there were a total of approximately 1,436,706 access lines in the state of Oregon. This figure includes residential, business and wholesale lines. It represents a 6.8% drop in total lines from the previous year. There are 32 incumbent local exchange carriers (i.e., ILECs or telecommunications utilities) serving, in total, approximately 838,130 lines in 268 exchanges in Oregon. The number of circuit-switched subscriber lines has steadily declined since its peak of 2,458,630 in 2001. The reduction can be attributed to the continuing rise of cellular telecommunications as a single source of telecommunications in the home. The reduction may also be a result of some customers dropping a second line in favor of DSL, or customers migrating their landline telephone service to fixed VoIP telephony services provided by cable companies.

While there has been consolidation in the telecommunications industry through merger activity, the mergers have not reduced the number of ILEC operating companies. The four largest ILECs, Qwest Corporation dba CenturyLink QC, Frontier Communications Northwest Inc. (Frontier), CenturyTel of Oregon and Eastern Oregon, and United Telephone Company, retain their individual ILEC operating status. Each of these ILECs serves more than 50,000 lines and thus are fully regulated utilities. In total, they serve 751,548 lines, comprising 52.3% of the total market. The other 28 incumbent carriers serve 86,582 lines, (or 10.3% of all ILEC lines, and 6% of total switched access lines) in 64 exchanges. Competitive Local Exchange Carriers (CLECs) provide 598,576 lines in Oregon and 41.7% of the switched access landline market. While the number of access lines for all ILECs continues to drop, the rate of access line loss appears to be slowing, and their percentage of market share varied little over the past year.

The PUC divides telecommunications services into two major groups. One group consists of private line services, also called non-switched, point-to-point, or dedicated transmission services. These services may carry voice or data communications. They are offered in many bandwidths, or equivalent data speeds such as 56 kbps, 1.544 mbps, 10 mbps, 45 mbps, and 100 mbps (kbps means thousand bits per second, mbps means million bits per second).

The other major group consists of switched services, also called dial-tone services. Switched services include 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 intra-exchange or interexchange service. Intra-exchange telecommunications services are within a local exchange, i.e., communication originates and terminates within the same exchange. Local exchanges are geographic areas defined by maps filed with and approved by the Commission. Interexchange telecommunications services are between local telephone exchanges. Interexchange voice service is also called 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 intra-exchange (local exchange) market.

PUC procedures for granting certificates of authority differ between interexchange and intra-exchange services. Applications for authority to provide interexchange (long distance) telecommunications service, both private line and switched services, are considered under ORS 759.020. Applications for authority to provide Shared Telecommunications Service (STS) to residential and business buildings or complexes of buildings are also considered under ORS 759.020.

Applications for authority to provide intra-exchange (local exchange) service are considered under the Competitive Zone law, ORS 759.050. This applies to private line service as well as switched (dial-tone) service. When the Commission grants an application to provide intra-exchange service to a competitive provider under ORS 759.050, the affected telephone exchanges of the incumbent LECs are designated competitive zones for services authorized for the new competitor. The PUC may then grant the incumbent LEC pricing flexibility for services in the competitive zones.

There are two facets to a competitive zone. One is geographic, represented by local exchange boundaries. The other is the type of service, e.g., private line or switched. As an example, consider the case of an applicant that requests a certificate of authority to provide private line service in the Medford exchange. Qwest is the incumbent LEC that serves Medford. If the Commission grants the request for certification, it may also grant Qwest pricing flexibility for private line services in the Medford exchange. The Medford exchange does not become a competitive zone for switched (dial-tone) services based solely on this application because the applicant did not request authority to provide switched services. Nor do other exchanges, such as Jacksonville, become competitive zones. Each exchange is a separate competitive zone.

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 calling Mitch Moore at 503-378-6635.

COMPETITIVE PROVIDERS LEGISLATIVE REPORT

PUC 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 intra-exchange 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 Commission when the exchange of traffic occurs and then the Commission grants pricing flexibility. Qwest has pricing flexibility for switched service in all of its 68 exchanges. Frontier has pricing flexibility for switched service in 43 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 and offsetting cancellations resulted in a slight decrease in competitive providers over the past year. At year-end 2013, there were 365 competitive providers. For 2014 that number dropped to 353 providers. Of those, 203 companies are certified to provide local exchange service. In addition, not all providers are actually operating and providing services, but they maintain a certificate for business purposes. Out of the 203 CLECs in Oregon, only 130 are operational. Many CLECs have authority to provide interexchange service in addition to local service.

- 353:** Number of competitive telecommunications providers with certificates of authority to provide service in Oregon.
- 346:** Number of competitive providers authorized to provide interexchange toll, interexchange private line, alternate operator services (AOS), or inmate pay telephones.
- 10:** Number of competitive providers authorized to provide Shared Telecommunications Service (STS) to residential and business buildings and complexes of buildings.
- 203:** Number of competitive providers authorized to provide Shared Telecommunications Service (STS) to residential and business buildings and complexes of buildings.

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

The PUC 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 PUC uses general categories so competitors, both incumbent LECs and competitive providers (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 Commission requires all local exchange carriers to provide access to E9-1-1 as part of switched local exchange service.

Each year the Commission conducts a survey of services provided by Oregon's incumbent and competitive local exchange carriers. The Commission prepares an annual report summarizing the results of each year's survey. The latest is the Local Telecommunications Competition Survey 2013 Report. The Commission is providing the 2013 Report to the Legislative Assembly along with this memorandum to meet the requirements of ORS 759.050(9)(c). The 2013 Report will be posted on the Commission's web site.

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

Competitive interexchange (long distance) carriers and Shared Telecommunications Service (STS) providers have been authorized in Oregon for twenty years. Competitive local exchange carriers (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 Public Utility Commission received a number of consumer contacts in 2014, as indicated below. Prior years' figures 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>2014¹</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Competitive telecommunications providers	1,035	1,168	1,550	1,118
Fully regulated telecommunication utilities²	1,621	1,776	1,832	1,607
Partially regulated utilities and cooperatives³	69	53	103	472
Wireless	640	512	580	512

	<u>CONSUMER CONTACTS</u>			
	<u>Per 10,000 Lines⁴</u>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Competitive telecommunications providers	17.3⁵	33.7	43.7	28.6
Incumbent Local Exchange Carriers (Large Utilities and Rural LECS)	20.2	20.2	19.0	18.5
Wireless⁶	*	*	*	*

¹ For 12 months ending 11/30/2014.

² As defined in ORS 759.040 and OAR 860-021-0008.

³ As defined in ORS 759.040(4) and OAR 860-034-0010.

⁴ Based on total line count for each category.

⁵ Includes line counts for Comcast and Charter; in previous years line counts for these companies were not included.

⁶ Number of lines not available.

The majority of regulated utility complaints in 2014 were for billing, service quality, customer service, and cramming; the incidence of slamming continues to decline. The PUC also takes complaints about wireless and internet services, although we do not actually have jurisdiction over these providers. The companies providing these services work with us voluntarily. Complaints about wireless service increased again in 2014. Complaints about internet services are also on the rise due to the expansion of broadband networks (availability, service quality, early termination fees).

Competitive providers include interexchange toll carriers, STS providers, and competitive local exchange carriers (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 deregulated pay telephone service, including payphone service provided by incumbent telephone utilities. As a result of FCC preemption, the Oregon PUC, like other state regulatory agencies cannot regulate pay telephone rates. Also, pursuant to state law, the PUC 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 PUC for the Department of Justice.