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Background Brief on...

Telecommunications Industry Restructuring

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Background

The largest provider of telephone services in Oregon is Qwest, which merged with US WEST in March of 2000. Qwest is a national telecommunications company headquartered in Denver, Colorado with more than one million Oregon customers.

Until the end of 1999, US WEST/Qwest, and Oregon's other three large telecommunications utilities, had been regulated in Oregon by the Public Utility Commission (PUC), which regulates all privately owned utility companies in Oregon to ensure that customers receive safe, reliable services at reasonable rates. The four largest companies (Qwest, Verizon, Sprint, and CenturyTel) were subject to a "rate-of-return" regulatory structure, with PUC regulating the company's profits.

During the 1999 legislative session, Qwest lobbied for deregulation, seeking an end to state controls on its rate-of-return and profits.

Changed Regulatory Structure

Senate Bill 622 (1999) authorized an end to rate-of-return regulation for Oregon's four largest telecommunications companies. Senate Bill 622 allowed the companies the option of choosing a new regulatory structure. The new structure replaces rate-of-return regulation with price caps and price floors on services, giving the company more flexibility in pricing. Under the provisions of SB 622, the PUC no longer regulates a company's profits, but rather its prices.

To date, Qwest is the only one of the four eligible companies to opt into the provisions of Senate Bill 622, beginning in December 1999. The other three large companies remain under traditional rate-of-return regulation, while the balance of Oregon's 24 regulated telecommunications utilities continue to be regulated by the PUC depending on their classifications as small commercial companies or cooperatives. None of the other telecommunications providers (wireless, long distance, competitive local exchange carriers) are regulated by the PUC. Senate Bill 622 also directed the PUC to create a "Universal Service Fund" with a surcharge on all customers' telephone bills to help subsidize basic services in high-cost, generally rural, areas. This surcharge is currently 6.5 percent on intrastate retail telecommunications services.

Senate Bill 622 also provided for Qwest to fund the School Technology Fund, with \$50 million for the Department of Education School Technology Account (in 2000 and 2001) and the Telecommunications Infrastructure Account with \$69,851,844 for rural telecommunications projects (2000 through 2003). All Qwest Senate Bill 622 projects have been completed and all Telecommunications Infrastructure Account funds have been expended.

Telecommunications Infrastructure Account

The purpose of the Telecommunications Infrastructure Account, as stated in Senate Bill 622, is to provide route diversity, broadband, and advanced services for Oregon citizens and improved connectivity among Oregon communities. The account is administered by the Oregon Economic and Community Development Department (**OECD**) and decisions on projects and budgets are made by the Oregon Economic and Community Development Commission, with assistance from the Connecting Oregon Communities Advisory Board.

The commission approved a total of fourteen telecommunications infrastructure improvement projects. Deployment began in mid-2002, and all the projects were completed by the end of 2003.

The approved projects included five telecommunications network, self-healing, fiber-optic rings. Each ring serves multiple counties, encircling large portions of the state. Self-healing rings prevent telephone and data service interruptions caused when

equipment fails or optical fibers are cut or damaged. The self-healing rings instantly reroute voice and data transmissions over alternate back-up optical fibers, assuring the uninterrupted continuation of service even if an accident or other action destroys primary network fiber-optic cables or their associated remote area electronics.

Other projects included the deployment of high-speed digital Internet service by installing digital-subscriber-line (DSL) equipment in fifty-eight communities, installing Asynchronous Transfer Mode (ATM) equipment to deliver high-capacity bandwidth digital services throughout the state, and three self-healing mini rings. In addition, fiber optic cable routes for increased capacity and reliability were deployed in a Portland-area project, central-office-based voice messaging services were deployed in nineteen communities, fiber connections were established to several business parks, and improved connections were established between Qwest's network and other local telephone companies.

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