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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

Extended Area Service Dockets
Phase II

In the Matter of the Petitions for Extended Area)
Service Filed by the Following Telephone Exchanges:)
CRATER LAKE (UM 980), CHEMULT (UM 981),) ORDER
DETROIT (UM 983), IONE (UM 998),)
VENETA (UM 1005), and)
DAYS CREEK (UM 1018).¹)

DISPOSITION: EAS TARIFFS APPROVED; EAS PETITIONS GRANTED.

SUMMARY

In this order, the Commission grants six petitions for Extended Area Service (EAS). All six petitions, which involve nineteen local telephone exchanges around the state, have completed Phase II (Tariff Analysis), in which the Commission reviewed the proposed tariffs filed by the telephone companies serving the affected exchanges. The tariffs are approved, subject to the terms of this order. The telephone companies serving the exchanges may implement the toll-free calling at EAS rates as soon as they coordinate the deployment with other connecting carriers, but must do so no later than by August 3, 2002.

Based on the record developed in these dockets, the Commission makes the following:

FINDINGS OF FACT AND CONCLUSIONS

The Commission has long recognized the problem with out-dated telephone exchange boundaries. In many parts of the state, original exchange territories no longer relate to community boundaries. Improved roads and highways, changes in local economies, and the growth or decline of cities and towns have greatly modified what local residents view as their community.

To address this problem, the Commission allows telephone customers to request EAS to other nearby exchanges to increase their toll-free calling area. EAS is important to many customers, because it allows them toll-free access to family, neighbors, and

¹ One other petition originally included in this consolidated proceeding, Newport (UM 979), was bifurcated from this proceeding and approved in Order No. 02-125.

businesses, as well as emergency, medical, educational, and governmental services, not located in their local calling area.

EAS is not a cost-free service, however. EAS merely changes the way telephone companies are compensated for interexchange telephone service. Per-minute toll charges are replaced with a flat or measured EAS rate. Large toll charges faced by a relatively small number of customers are replaced with smaller charges to many customers. The implementation of new EAS routes, therefore, may create new problems as telephone companies try to recover lost toll revenues. To recover these and other EAS costs, telephone companies may increase local rates, threatening the goal of universal service that every citizen has affordable access to a telephone. Because telephone companies charge averaged local rates on a statewide basis, increases are passed to all customers, even those customers who receive no new service. Shifting costs from high-volume to low-volume telephone users creates the potential for inequity.

Applicable Law

Due to these competing concerns, the Commission has established a two-step review process designed to balance the need to avoid rate increases on low volume users with the benefits customers may desire from toll-free rates. In an EAS investigation, the Commission must first determine that a legitimate need exists for the service that warrants the shifting of costs and the potential for an increase in local exchange rates. For this reason, the Commission starts with a Phase I review, which requires that a community of interest exist between the petitioning exchange and target exchange(s). A community of interest exists where there is a “social, economic, or political interdependence between two areas, or where there is a heavy dependence by one area on another area for services and facilities necessary to meet many of its basic needs.” *See Forest Grove EAS Investigation*, Order No. 87-309, at 8.

The Commission determines whether a community of interest exists between exchanges based on a review of demographic, economic, financial, or other evidence.² The Commission has identified the following relevant factors:

- (1) geographic and demographic information;
- (2) location of schools;
- (3) governmental and jurisdictional issues;
- (4) emergency services;
- (5) social services;
- (6) medical and dental providers;
- (7) employment and commuting patterns;
- (8) business and commercial dependence or interdependence;
- (9) transportation patterns;
- (10) calling pattern data between exchanges; and
- (11) other factors deemed relevant by the Commission. *See* Order No. 93-1045.

² Under prior rules, the Commission deemed that a community of interest automatically existed if there was sufficient calling volume and calling distribution placed between the exchanges. However, due to the decreasing reliability of calling data and for other reasons, the Commission eliminated this so-called “objective calling criteria test” in docket UM 957, Order No. 00-644.

The Commission generally limits a community of interest finding to contiguous exchanges. The Commission considers exchanges to be contiguous if they either share a common exchange boundary or if they are connected to one another by an unbroken sequence of common exchange boundaries. The only exception to this contiguity requirement is where petitioners establish that the proposed EAS route is necessary to meet their critical needs due to the lack of essential services in their own exchange or neighboring exchange. In evaluating critical needs, the Commission considers the customers' access to emergency, dental, medical, professional, business, educational, and governmental services. *See* Order No. 99-038.

In the second stage of an EAS investigation, Phase II, the Commission directs the phone companies to file proposed tariffs and cost studies for the new EAS routes. The Commission requires that all EAS routes be revenue neutral, so that the phone companies' profits remain unchanged. The Commission wants to ensure that the phone companies recover the costs of EAS, but do not profit from the conversion. All EAS rates must also meet certain rate design criteria to ensure they are in the public interest. Phase II concludes with public comment hearings in petitioning exchanges to allow customers to comment on proposed rates and to ask questions about the new service.

PHASE I – COMMUNITY OF INTEREST (COI)

In this consolidated investigation, customers of six local telephone exchanges filed petitions requesting EAS to neighboring telephone exchanges. Following a review of petition signatures, the Commission docketed each petition for investigation. A list of the dockets, including an identification of the petitioning exchange and target exchange(s), is contained in Appendix A.

The Commission conducted evidentiary hearings in each petitioning community to allow the petitioners the opportunity to establish that a community of interest exists by means of demographic and other information. Following a review of the evidence submitted at those hearings, the Commission concluded that a community of interest existed and that each petition should proceed to Phase II.

Based on the record developed in these proceedings, the Commission concluded that each of the interexchange routes listed in Appendix A satisfied the requirements of Phase I. A list of Commission orders, which are incorporated by reference, is contained in Appendix A.

PHASE II – TARIFF ANALYSIS

Upon successful completion of Phase I, these six EAS petitions were grouped together for a Phase II Tariff Analysis. A total of five local exchange companies (LECs) provide service to the nineteen telephone exchanges affected by this investigation. The companies are: CenturyTel, Citizens Telecommunications Company of Oregon (Citizens),

Qwest Corporation (Qwest), United Telephone Company of the Northwest (Sprint), and Verizon Northwest, Inc. (Verizon).

Customer Notification and Public Hearings

At the Commission's direction, the LECs filed proposed tariffs for the EAS routes. The companies also notified their customers of the proposed rates and the dates of public hearings. During March and April, 2002, Administrative Law Judges Michael Grant, Allen Scott, and Ruth Crowley held public comment hearings at various locations around the state. At each hearing, Staff members Lance Ball, Jim Stanage, and/or Dave Sloan made an informational presentation explaining the rate criteria and the tariff analysis in these dockets. Staff also prepared and distributed a handout explaining the companies' proposed EAS rates. Representatives of the local telephone companies also appeared.

The hearings were well attended and testimony was received from members of the public. A significant majority of those testifying felt that the proposed rates were reasonable and supported EAS implementation. Those speaking in support of the proposals typically viewed the proposed rates as providing them with a desirable and affordable alternative to the large toll charges previously incurred for calling within their community of interest area.

Stipulations

Staff reviewed the LECs' proposed tariffs and, after conducting discovery and the exchange of information, entered into a stipulation with each company. The stipulations are set forth in Appendices B through F. No party filed an objection to the stipulations. The stipulated EAS rates for each of the five LECs are set out in Appendices G through K.

Rate Design Criteria

In Order No. 89-815, the Commission adopted ten rate design criteria for EAS conversion. The stipulated rates for all five LECs meet or substantially comply with those rate design criteria by containing the following features:

1. Flat EAS rates for unlimited calling;
2. A measured rate option for low-volume customers;
3. A combination of flat local exchange service and a measured EAS;
4. Asymmetrical rates between exchanges to reflect the differences in the number of subscriber lines;
5. A flat rate option that incorporates all available EAS;

6. A residential/business differential under which business customers pay a higher flat rate;
7. The same measured rate for both business and residential customers;
8. Rates that recover EAS costs and make a contribution to common overhead and the cost of the local loop;
9. Rates that first make up revenue shortfall from company-wide EAS rates, then from company-wide local exchange rates; and
10. EAS tariffs that are revenue neutral.

Based on the entire record in this proceeding, the Commission concludes that the EAS routes should be implemented as proposed. The stipulated rates for all five LECs satisfy the rate design criteria for EAS conversion and are just and reasonable. Accordingly, the Commission adopts the stipulated rates and other provisions included in the stipulations between Staff and the five LECs, subject to the terms of this order.

ADDITIONAL ISSUES

Customer Notification

Customer notification is a critical part of any EAS implementation. Customers have the right to receive adequate information in an understandable format so that they can make informed decisions. The minimum requirements adopted by the Commission in Order No. 91-1140, accomplish that goal. The Commission will require the LECs to comply with those requirements, under which the companies shall, at a minimum, provide their customers the following:

1. Customers shall be permitted to change EAS options for a six-month period following implementation of EAS without incurring a fee for the change in service.
2. A brochure with complete information about the company's EAS options and the rates for each shall be mailed to affected customers prior to the date of implementation of service and once more 90 days after the EAS conversion.
3. The brochure should include:
 - a. The date of the EAS conversion.
 - b. A simple, non-technical explanation of how to calculate which option is to the customer's advantage, including a statement of the "break-even" point, *i.e.*, the number of

minutes of EAS calling under measured service that would exceed the company's flat rate.

- c. A description of at least two methods for choosing the best option: (1) changing service and comparing bills; and (2) keeping a log and estimating minutes of use. A sample log and worksheet should be included.
- d. The brochure shall notify the customers that service can be changed at no charge for six months from implementation.
- e. The phone number of the company office that can provide customers with additional assistance or information.
- f. A map depicting existing EAS exchanges and new exchanges for which EAS will become available.
- g. An explanation of the "default service." Customers should be informed of the type and cost of the EAS they will receive if they take no action.

It is important to note that the foregoing notification requirements do not apply to exchanges where EAS rates change, but no new EAS is implemented. For such exchanges, the LECs should follow ordinary procedures for notifying customers of rate changes. The LECs are strongly encouraged, however, to provide basic EAS information in these exchanges as well.

Default Service

Customers receiving new EAS will have the option of selecting either flat or measured EAS for the applicable interexchange routes. In order to help facilitate EAS implementation, local phone companies should provide a "default service" in the event that a customer fails to choose one of the EAS options.

The Commission declines to mandate any particular type of default service for those exchanges that have no pre-existing EAS. Rather, the Commission concludes that the LECs may choose any approach, provided that the companies inform their customers in advance regarding the default service. However, for exchanges with pre-existing EAS, the Commission concludes that customers should be defaulted according to their current EAS. In other words, customers who have flat EAS at the time of conversion should be defaulted to flat rate EAS, while customers who have measured EAS at the time of conversion should be defaulted to measured EAS.

CONCLUSIONS

Based on the record developed in these dockets, the Commission concludes that the proposed EAS routes identified in Appendix A are in the public interest. The public

comment and testimony on these requests reflect a significant demand for EAS. Calling pattern data or demographic evidence established a community of interest between the affected exchanges. The proposed EAS rates are in compliance with the Commission's rate design criteria for EAS conversion. Because the stipulated rates are reasonable and in the public interest, all six petitions should be granted.

ORDER

IT IS ORDERED that:

1. The six petitions for Extended Area Service between the specified interexchange routes, listed in Appendix A, are granted.
2. The stipulations entered between Staff and the five local exchange telephone companies, set forth in Appendices B through F, are approved.
3. The local exchange companies may implement the EAS routes as soon as they coordinate the deployment with other connecting carriers, but must do so no later than August 3, 2002.
4. The local exchange companies shall, at a minimum, provide their customers with notification of new EAS as described above.
5. For exchanges that have pre-existing EAS, customers who do not select an EAS option shall be defaulted to the type of EAS they have at the time of conversion. For exchanges that do not have pre-existing EAS, the local exchange companies may choose either flat or measured EAS as the default service, or default customers to the type of service that corresponds to the customer's local exchange service, provided that they notify their customers in advance of the default policy.

Made, entered, and effective _____.

Roy Hemmingway
Chairman

Lee Beyer
Commissioner

Joan H. Smith
Commissioner

ORDER NO. 02-327

A party may request rehearing or reconsideration of this order pursuant to 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 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

**EAS PETITIONS
AND
COMMUNITY OF INTEREST DETERMINATIONS**

Docket	Petitioning Exchange	Target Exchange	Phase I COI Determination
UM 980	Crater Lake	Chiloquin, Fort Klamath, and Klamath Falls	Order No. 01-288
UM 981	Chemult	Gilchrist, Chiloquin, and Klamath Falls	Order No. 01-324
UM 983	Detroit	Mill City, Lyons, Stayton, and Salem	Order No. 01-412
UM 998	Ione	Hermiston and Boardman	Order No. 01-687
UM 1005	Veneta	Junction City	Order No. 01-534
UM 1018	Days Creek	Riddle and Roseburg	Order No. 01-773