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**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1061

|                                      |   |       |
|--------------------------------------|---|-------|
| In the Matter of                     | ) |       |
|                                      | ) | ORDER |
| SOUTHERN OREGON EXTENDED             | ) |       |
| AREA SERVICE REGION                  | ) |       |
|                                      | ) |       |
| Investigation to determine whether a | ) |       |
| Southern Oregon EAS Region should be | ) |       |
| established.                         | ) |       |

**DISPOSITION: REGION BOUNDARIES ADOPTED**

At the end of Phase I of the Southern Oregon Extended Area Service (EAS) Region investigation, the Commission tentatively adopted the Southern Oregon Advisory Task Force's recommended boundaries for the proposed Region. *See* Order No. 03-148. After proposed rate filings by the telephone companies and extensive hearings and opportunities for public comment, the Commission adopts these proposed boundaries as the designated area for the proposed Southern Oregon EAS Region, without change, to apply to the remaining proceedings in this docket.

**Proposed Boundaries**

The Southern Oregon Advisory Task Force (Task Force), comprised of fourteen individuals representing community and business development organizations in the area, was designated by the Commission to assist in developing the Southern Oregon EAS Region. *See* Order No. 02-682. The Task Force considered a very large area and ultimately pared it down to 18 exchanges. It recommended that the Region should include the following exchanges: Glendale, Wolf Creek, Grants Pass, Selma, Cave Junction, O'Brien, Murphy-Provolt, Rogue River, Gold Hill, Central Point, Medford, Jacksonville, Phoenix-Talent, Ashland, White City, Shady Cove, Butte Falls, and Prospect. This area encompasses Grants Pass, Medford, Ashland, and outlying areas. The Commission adopted the recommendations of the Task Force, found a community of interest among the 18 exchanges, and marked those exchanges as the proposed boundaries of the Region. *See* Order No. 03-148. A map of the proposed region is attached as Appendix A.

The Commission then began a two-step process to determine the final boundaries of the exchange. First, the Commission directed the telephone companies serving the 18 designated exchanges to file proposed rates for the EAS region. Second, the Commission conducted a substantial public outreach program to inform customers of the proposed rates, and to solicit comments regarding the designated Region.

To determine the final boundaries of the Region, the Commission must "balanc[e] the interests of any exchange that wishes to opt out against the needs of the Region as a whole" in order to properly "consider the value of adding each exchange to the Region against the relative expense for customers of that exchange." Order No. 03-608 at 4-5. The Commission considers a variety of factors in determining the final boundaries, including the difference between new rates for the current EAS routes and the rates for the EAS Region, the value of an exchange to the Region, and public comments made at hearings, and by e-mail, telephone, and letter.

### **Proposed Rates**

Four different phone companies serve the Region's customers, and each company proposed a different rate for regional EAS. The United Telephone Company of the Northwest dba Sprint (Sprint) serves the Prospect, Shady Cove, Butte Falls, and White City exchanges; Citizens Telecommunications Company (Citizens) serves the Selma, Cave Junction, O'Brien, Wolf Creek, and Glendale exchanges; and Verizon Northwest, Inc. (Verizon) serves the Murphy/Provolt exchange. Qwest Corporation (Qwest) serves the remaining exchanges. Pursuant to Commission policy, each company proposed both a flat monthly rate for unlimited EAS calling and a measured rate for each minute billed.

As the rates were filed, Commission Staff analyzed them for compliance with Commission policy and fairness to consumers. Staff worked with the telephone companies to ensure that the rates would be revenue neutral, that is, the telephone companies would be able to recover the cost of implementing the Region, but not profit from it.

During that analysis, Sprint proposed a change in its matrix for calculating EAS flat rates. Previously, Sprint calculated its EAS flat rates by determining the traffic along each EAS route and pricing each route accordingly. As Sprint described it, "The new matrix applies EAS rates on an access line basis, rather than a usage basis. An access line approach is more consistent with the Commission's EAS rate guidelines \* \* \* [and] also mitigates the rate increases associated with the new routes." For instance, the monthly flat residential EAS rate for Prospect to Shady Cove, White City, and Medford was formerly calculated by the average number of minutes per line that a customer in Prospect called a phone number in those exchanges, \$3.20. Now, the average EAS rate will be calculated according to how many access lines are available to that customer in Prospect; under the current number of lines available in Shady Cove, White City, and Medford, a Prospect customer would pay \$8.56. Therefore, with

the change to Sprint’s EAS pricing policy, Prospect customers would still see an EAS rate increase if they chose to opt out of the Region.<sup>1</sup>

Staff supported the new matrix, noting its roots in Commission Order No. 89-915, which expressed the Commission policy preference for asymmetrical rates between exchanges. Staff also stated that the new matrix is similar to that used by Qwest and CenturyTel. Under the new matrix, some exchanges would see increases and others would see decreases in EAS rates, but rates would generally be more even among exchanges. Public notice and opportunity to comment was provided in exchanges that would see increases due to the new matrix; one response was received. The Commission approved the new matrix in Order No. 04-093.

The flat residential EAS rates for exchanges without the Region and for unlimited calling in the proposed Region are as follows:<sup>2</sup>

| Exchange        | Residential Rates |           |
|-----------------|-------------------|-----------|
|                 | No Region         | In Region |
| Prospect        | \$8.56            | \$9.00    |
| Shady Cove      | \$8.56            | \$9.00    |
| Butte Falls     | \$8.56            | \$9.00    |
| White City      | \$8.56            | \$9.00    |
| Central Point   | \$2.03            | \$2.20    |
| Medford         | \$2.03            | \$2.20    |
| Phoenix/ Talent | \$2.03            | \$2.20    |
| Ashland         | \$2.03            | \$2.20    |
| Jacksonville    | \$2.03            | \$2.20    |
| Gold Hill       | \$2.03            | \$2.20    |
| Rogue River     | \$2.03            | \$2.20    |
| Grants Pass     | \$1.28            | \$2.20    |
| Murphy/ Provolt | \$5.00            | \$5.60    |
| Selma           | \$11.08           | \$11.74   |
| Cave Junction   | \$1.94            | \$3.37    |
| O'Brien         | \$6.71            | \$8.98    |
| Wolf Creek      | \$9.77            | \$12.04   |
| Glendale        | \$3.79            | \$4.36    |

<sup>1</sup> Sprint’s EAS pricing change reveals the inequity of the current EAS rates paid by Prospect and Butte Falls customers. Butte Falls residential customers currently pay a monthly flat rate of \$6.85 for EAS to two exchanges: Medford and White City. In contrast, Prospect residential customers currently pay a monthly flat rate of just \$3.20 for EAS to three exchanges: Medford, White City, and Shady Cove. The new formula, similar to the one used by Qwest, more equitably distributes costs among customers.

<sup>2</sup> Customers can also pay for EAS by selecting a measured rate for each minute of calling. See discussion on page 5.

Each telephone company calculated the proposed EAS rates by determining the increased costs and spreading the cost over its customers throughout the state of Oregon. For instance, Qwest has more customers in Oregon than Sprint does; therefore customers in Qwest exchanges generally had a lesser proposed increase than customers in Sprint exchanges. EAS rates for each exchange were set using "rate bands." Each company has a set of statewide rate bands. Customers in a given rate band pay an EAS rate determined by the number of access lines they can call.

Most exchanges face relatively minor increases. According to Staff analysis, more than 94 percent of the customers in the proposed Region would see increases of less than \$1.00 for regional EAS access. Only 1.06 percent of the customers in the Region would see an increase of more than \$1.65 for regional EAS access. The customers that would see the largest increase are in the outlying areas, where customers have told us that they often incur long distance charges to call within the Region.

The increases in business rates largely mirror the increases in residential rates, but business rates are higher to reflect the higher level of traffic. Proposed business rates for the Region are as follows:

| Exchange        | Business Rates |           |
|-----------------|----------------|-----------|
|                 | No Region      | In Region |
| Prospect        | \$14.12        | \$14.85   |
| Shady Cove      | \$14.12        | \$14.85   |
| Butte Falls     | \$14.12        | \$14.85   |
| White City      | \$14.12        | \$14.85   |
| Central Point   | \$3.05         | \$3.27    |
| Medford         | \$3.05         | \$3.27    |
| Phoenix/ Talent | \$3.05         | \$3.27    |
| Ashland         | \$3.05         | \$3.27    |
| Jacksonville    | \$3.05         | \$3.27    |
| Gold Hill       | \$3.05         | \$3.27    |
| Rogue River     | \$3.05         | \$3.27    |
| Grants Pass     | \$1.95         | \$3.27    |
| Murphy/ Provolt | \$8.00         | \$8.50    |
| Selma           | \$22.16        | \$23.48   |
| Cave Junction   | \$3.88         | \$6.74    |
| O'Brien         | \$13.42        | \$17.96   |
| Wolf Creek      | \$19.45        | \$24.08   |
| Glendale        | \$7.58         | \$10.80   |

Customers can also pay for EAS by using a measured rate. Instead of the flat EAS rate, a customer could pay a measured rate, which is a certain number of cents per minute. Sprint and Citizens customers would pay 6 cents per minute for EAS within the Region, and Qwest and Verizon customers would pay 4 cents per minute for EAS within the Region. Qwest, Verizon, and Sprint offer time-of-day discounts for customers using the measured rate to call during off-peak hours. A customer who pays a flat rate for the currently available EAS routes would have to choose whether to pay all measured rates or just one flat rate for all EAS routes available if the Southern Oregon EAS Region is approved. A customer cannot choose to access some exchanges at flat rate EAS and access others at measured rate EAS. For a customer who rarely calls out of his exchange, measured rate EAS may be the best choice.

### **Public Outreach**

To determine public opinion regarding the proposed EAS Region boundaries, the Commission conducted a substantial public outreach program. On November 13, 2003, Commission Chairman Lee Beyer held a press conference in Medford to publicize future hearings. Additional staff members involved with various aspects of the EAS process also attended and answered questions. Numerous regional newspapers printed articles about the EAS Region process.

The Commission worked with the telephone companies to develop a one-page flyer to be sent to every customer in each of the 18 exchanges, including information on rates, hearing locations, and how to make comments on the record. Dozens of letters sent to the Commission were tallied. E-mails sent to the Commission and the Task Force were also included in the written record, as were notes from telephone calls made to the Commission.

Finally, seven open house meetings were held in Southern Oregon to gauge citizen response to the proposed Region. Commissioners Beyer, Savage, and Baum attended the first meeting in Medford and held a public hearing during which citizens spoke regarding the proposal. Additional open house meetings were held in Grants Pass, Wolf Creek, Shady Cove, Eagle Point, Cave Junction, and Applegate. One open house hearing was held in the single Verizon exchange, and two open house hearings were held in every other telephone company's territory to get a broad customer response.<sup>3</sup> At least three staff members attended every hearing, along with representatives of the telephone company and members of the Task Force. The public commented by filling out comment cards and leaving comments with a court reporter.

Of the comment cards, four opposed the Region, three asked questions, and 90 supported the inclusion of their exchange in the EAS Region. Those who were opposed lived in

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<sup>3</sup> At the open house meetings, preliminary rates were presented as they had been evaluated at that time. Staff subsequently evaluated the rates further and made additional adjustments. Staff submitted testimony on April 14, 2004, describing proposed rates after all Staff analysis. This order is based on the rates described in Staff testimony and rates may not be the same as those presented at the open house meetings. Most rates went down; only the business rates for Wolf Creek went up by 9 cents per month.

the Sprint or Citizens exchanges and were concerned that they had to pay higher rates than those who lived in exchanges served by other telephone companies. Many of the positive responses indicated that they would save money due to reduced long distance charges, that it would enhance business prospects, and that the proposal was "long overdue."

In a similar vein, most of the letters, e-mails, and phone calls supported including every exchange in the Region. A few felt that increased EAS access was not necessary at any price, but many saw it as an improvement. Business owners wrote to say that it would increase the area from which they could seek customers. One business owner wrote, "In some cases, I can actually spend less gas money driving to my business clients than I would spend on a phone call." Residential customers also commented on the benefits of local calling to nearby neighbors who are on the other side of an exchange boundary.

Ballots were also used in Sprint exchanges. Initially, the Commission directed Sprint to send ballots to customers in its exchanges because rates would dramatically increase from their current level if those exchanges were to join the Region. For instance, Prospect customers now pay \$3.20 for EAS each month; Shady Cove customers now pay \$7.35; Butte Falls customers now pay \$6.85; and White City customers now pay \$8.45. If every exchange were included in the Region, customers in those exchanges would all pay \$9.00 for EAS each month. The results revealed mixed feelings in that area about joining the EAS Region: Eagle Point ballots were 1354 to 792 in favor of the proposal; Shady Cove was 365 to 303 in favor; and Butte Falls was 109 to 34 in favor. Only Prospect, which faces the largest rate increase, opposed the measure by 44 in favor to 132 opposed.

The initial balloting appeared to give customers a choice between their current rates and the \$9.00 rate under the new matrix. However, under Order No. 04-093, Sprint's new matrix would change the rates for those exchanges even if they did not join the Region. Because Prospect customers opposed joining the Region with a \$5.80 increase, Sprint was directed to re-ballot that exchange with the more correct choice: between \$8.56 for current EAS routes or \$9.00 for the Region. The results were overwhelmingly in favor of joining the Region, 141 in favor, 22 opposed, and 6 other.

### **Conclusions**

There is little controversy regarding including every exchange in the new Southern Oregon EAS Region. Most residential customers in the Qwest exchanges will see an increase of only 17 cents per month for a much larger calling area. In addition, the largest cities in the Region, Grants Pass, Medford, and Ashland, among others, are in the Qwest exchanges, and customers throughout the Region have expressed interest in calling businesses in those cities to purchase goods or seek employment. We conclude that the Qwest exchanges shall be included in the proposed Southern Oregon EAS Region.

We also conclude that the Murphy/Provolt exchange, which is served by Verizon, should be included in the Region. That exchange is divided between Josephine and Jackson counties. Currently, residential customers pay \$5.00 for EAS to Grants Pass alone, which serves Josephine County. However, an extra 60 cents per month flat rate will provide toll-free calling to the entire Region, including Medford, which provides many county services for Jackson County. The response in Murphy/Provolt was uniformly positive.

The exchanges served by Citizens face a slightly larger increase in rates. Residential customers in Cave Junction will see an increase of \$1.43 per month; Glendale rates will increase by 57 cents per month; and rates in Selma will go up 66 cents per month for flat rate EAS. Wolf Creek and O'Brien would both see increases of \$2.27 per month. But residential customers in O'Brien already pay \$6.71 for EAS to only Cave Junction; Wolf Creek pays \$9.77 for EAS to Glendale, Grants Pass and Azalea. The benefit of being able to call the wider area outweighs the increase in rates. Customers in the region expressed a similar sentiment and provided largely positive comments to the Commission.

Concurrent investigations were held into the possibility of Cave Junction having a separate EAS route to Grants Pass, and O'Brien having separate EAS routes to Selma and Grants Pass. The rates for those separate routes were not significantly lower than the Region rates, so the Citizens exchanges should be included in the Region as a whole. Therefore, the concurrent investigations, docketed as UM 1116 and UM 1117, should be closed.

Sprint has fewer customers among whom to spread the costs than the other telephone companies, so Sprint's rates are higher. Because the White City, Shady Cove, Butte Falls, and Prospect exchanges are rural and sparsely populated in comparison with other exchanges, the expense of serving these exchanges is higher, which also drives up rates. Based on the original designation of exchanges, these areas are still less populated and more expensive to serve, thereby resulting in higher rates than rates offered by, for example, Qwest. However, the postcard balloting and comment cards received at the open houses indicated that customers in Sprint exchanges supported joining the region. Consequently, based on these comments and other supporting information, we conclude, for the difference of 44 cents, the interest of the customers in Prospect, as well as other Sprint exchanges, would be best served by inclusion in the Southern Oregon EAS Region.

Many senior citizens and others on fixed incomes commented that they do not make many long distance calls and need to keep their costs down. They also were under the impression that flat rate EAS is mandatory and an inevitable rising cost. We are aware that a flat rate increase could be a hardship for some customers. For these reasons, we emphasize that more must be done to publicize the measured rate option, particularly in the Sprint exchanges facing EAS flat rate increases. The measured rate was discussed in the one page flyer sent to all telephone customers in the Region and at the open house meetings. We will continue to seek other opportunities to make customers aware of this option, as we have with implementing the new EAS rates.

**ORDER**

IT IS ORDERED that:

1. The concurrent investigations into individual EAS routes between Cave Junction and Grants Pass, and O'Brien and Selma and Grants Pass, docketed as UM 1116 and UM 1117, are closed.
2. The boundaries of the proposed Southern Oregon EAS Region include the following exchanges: Glendale, Wolf Creek, Grants Pass, Selma, Cave Junction, O'Brien, Murphy/Provolt, Rogue River, Gold Hill, Central Point, Medford, Jacksonville, Phoenix/Talent, Ashland, White City, Shady Cove, Butte Falls, and Prospect.
3. These boundaries will apply to the Southern Oregon EAS Phase II docket.

Made, entered, and effective \_\_\_\_\_.

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**Lee Beyer**  
Chairman

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**John Savage**  
Commissioner

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**Ray Baum**  
Commissioner

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.