

ORDER NO. 04-312

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1089

In the Matter of)	
)	
EXTENDED AREA SERVICE)	
)	ORDER
Approval of the Petition by the Bandon)	
exchange for Extended Area Service to the)	
Coquille exchange.)	

**DISPOSITION: EAS TARIFFS APPROVED; EAS PETITION
GRANTED**

In this order, the Commission grants the petition for Extended Area Service (EAS) by Bandon to the Coquille exchange. In Phase I, the Commission found that a community of interest existed between these exchanges. See Order No. 03-503. In Phase II, the Commission analyzed the proposed tariffs and the effect on consumers. After consideration, the tariffs are approved, subject to the terms of this order. With approval of these petitions, toll-free calling at EAS rates will be available for the interexchange routes at issue in this proceeding no later than October 2, 2004.

Phase I – Community of Interest Determination

The Commission has long recognized the problem of out-dated telephone exchange boundaries. To address this problem, the Commission allows telephone customers to request EAS to other nearby exchanges to increase their toll-free calling area. However, EAS is not cost-free; it merely changes the way telephone companies are compensated for interexchange telephone service. To balance whether the benefits of EAS service outweigh the costs, the Commission establishes whether a community of interest exists between the exchanges in the first phase.

To determine whether a community of interest exists between exchanges, the Commission examines whether "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 UM 116, Order No. 87-309 at 8. In this examination, the Commission analyzes a variety of factors to determine the extent to which the exchanges share business, social, governmental, educational, medical, and other links.

In Order No. 03-503, the Commission found that services in Bandon and Coquille are intertwined. Bandon has many recreational facilities that employ Coquille residents and that are used by Coquille residents. Both cities are located in Coos County, but the governmental services are located in Coquille. Some doctors work in hospitals in both cities, and some medical services are offered only in the Coquille hospital. For these reasons, the Commission found a community of public interest between Bandon and Coquille in Order No. 03-503.

Phase II – Tariff Analysis

After Phase I was completed, the Commission analyzed the proposed company tariff in Phase II of the EAS process. Verizon serves both exchanges and proposed a tariff to provide the EAS routes under consideration.

Customer Notification and Public Hearings

Verizon sent notices to affected customers telling them of an open house meeting held March 29, 2004, at the Bandon Community Center in Bandon to explain the proposed EAS routes and gauge customer sentiment. Commission Staff and a Verizon representative participated in the meeting. Nearly 25 customers attended, and comments strongly favored approving the proposed EAS route.

Stipulations

Staff reviewed the telephone company's proposed tariff and after conducting discovery and exchanging information, entered into a stipulation with Verizon. There was no objection to the stipulation, which is set forth in Appendix B. The stipulated EAS rates are set out in Appendix C.

Rate Design Criteria

In the generic EAS docket, UM 189, the Commission adopted ten rate design criteria for EAS conversion. The stipulated rates for Verizon meet those criteria by containing the following features:

EAS Criterion 1: Flat EAS rates must be available for all EAS routes.

The stipulated EAS rates for Verizon comply with Criterion 1. Verizon has a flat rate available for all EAS routes, existing and proposed.

Criterion 2: A measured rate option must be available for all EAS routes.

The stipulated rates for Verizon comply with Criterion 2. Verizon has an existing measured rate option and has not proposed to change its measured EAS rate. The measured EAS rate is consistent with measured rates charged by other telecommunications utilities and with Commission guidelines.

Criterion 3: A combination of flat local exchange service and measured EAS must be offered.

The stipulated rates for Verizon comply with Criterion 3. It currently provides a combination of flat rate local exchange service and measured rate EAS.

Criterion 4: Flat EAS rates should be asymmetrical between exchanges to reflect differences in the number of subscriber lines.

The stipulated rates for Verizon comply with Criterion 4. Verizon has developed a company-wide matrix of EAS rates, which satisfies Criterion 4. It proposes to retain its current matrix style, but to increase existing rates in three of its EAS rate bands. This will raise rates in the Bandon and Coquille exchanges from \$5.00 to \$5.50 for residential EAS rates and from \$8.00 to \$8.40 for business EAS rates.

Criterion 5: One flat rate option should incorporate all EAS available to the customer.

The stipulated rates for Verizon comply with Criterion 5. Verizon provides a flat rate option that incorporates all EAS routes available to customers in each exchange.

Criterion 6: Flat EAS rates must include a residential/business differential under which business customers pay a higher flat rate.

The stipulated rates for Verizon comply with Criterion 6. It charges a higher flat EAS rate to their business customers than to their residential customers.

Criterion 7: Measured EAS rates must be the same for business and residential customers.

The stipulated rates for Verizon comply with Criterion 7. Verizon charges the same measured EAS rate to both residential and business customers.

Criterion 8: EAS rates must recover the costs of switching and transport and make a contribution to common overhead and the cost of the local loop.

The stipulated rates for Verizon comply with Criterion 8. The proposed EAS revenues substantially recover traffic sensitive costs, such as the distributed costs of switching and transport, plus they provide a contribution to the cost of the local loop.

Criterion 9: Revenue shortfalls due to new EAS routes must be made up first from company-wide EAS rates, then from company-wide local exchange rates.

The stipulated rates for Verizon comply with Criterion 9. It has not proposed to increase local exchange rates in this proceeding.

Criterion 10: EAS tariff proposals should be revenue neutral.

The stipulated rates for Verizon substantially comply with Criterion 10. Under Criterion 10, the additional EAS revenues proposed should equal the sum of the cost shift attributed to the EAS conversion plus any additional costs for EAS. Verizon's deviation from revenue neutrality is less than \$600, a variation of less than half of one percent of the cost shift.

Resolution -- Phase II

The Commission concludes that the EAS routes should be implemented as proposed. The stipulated rates for Verizon 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 stipulation between Staff and Verizon, 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 on October 2, 2004, 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 each customer prior to the date of implementation of service and once more 90 days after the EAS conversion.
3. The brochure should include:

- a. 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.
- b. 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.
- c. The brochure shall notify the customer that service can be changed at no charge for six months from implementation.
- d. The phone number of the company office, which can provide customers with additional assistance or information.
- e. A map depicting existing EAS exchanges and new exchanges for which EAS will become available.
- f. An explanation of the "default services." 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, Verizon should follow ordinary procedures for notifying customers of rate changes. Verizon is strongly encouraged, however, to provide basic EAS information in these exchanges as well.

CONCLUSIONS

Based on the record developed in these dockets, the Commission concludes that the proposed EAS route identified in Appendix A is in the public interest. The public comment and testimony on this request reflects a significant demand for EAS. Calling pattern data or demographic evidence establishes that there is a community of interest between the affected exchanges. The proposed EAS rates are reasonable and in compliance with the Commission's rate design criteria for EAS conversion. The petition is granted.

ORDER

IT IS ORDERED that:

1. The petition for Extended Area Service between the Bandon and Coquille exchanges is granted.
2. The stipulation entered between Staff and Verizon, set forth in Appendix B, is approved.
3. Verizon shall, at a minimum, provide their customers with notification of new EAS as described above.
4. Customers who do not select an EAS option shall be defaulted to the type of EAS they have at the time of conversion.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

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.