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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1075

In the Matter of)	
)	
EXTENDED AREA SERVICE)	ORDER
)	
Approval of the Petition by the South)	
Beach exchange for Extended Area Service)	
to Lincoln City, Gleneden Beach, Depoe)	
Bay, and Toledo exchanges.)	

DISPOSITION: EAS TARIFFS APPROVED; EAS PETITION GRANTED

In this order, the Commission grants the petition for Extended Area Service (EAS) by South Beach to the Lincoln City, Gleneden Beach, Depoe Bay, and Toledo exchanges. In Phase I, the Commission found that a community of interest existed among these exchanges. *See* Order No. 03-489. 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. 03-489, the Commission found that South Beach residents rely on Lincoln City, in conjunction with Newport, for social services, businesses, and suppliers. *See id.* at 7. South Beach and Toledo residents commute between exchanges for work opportunities at the Georgia-Pacific mill in Toledo and the Coast Aquarium and Hatfield Marine Science Center in South Beach. *See id.* In addition, the Commission declared a community of interest with Depoe Bay and Gleneden Beach because those two exchanges provide a direct link between South Beach and Lincoln City, along U.S. Route 101. *See id.* at 8. However, little evidence was provided to show a link between South Beach and Siletz, or between South Beach and Chitwood. Consequently, no community of interest was found between those exchanges and the petition for EAS as to those exchanges is no longer under consideration. *See id.* A map of the proposed routes is attached as Appendix A.

Phase II – Tariff Analysis

After Phase I was completed, the Commission analyzed the proposed company tariffs in Phase II of the EAS process. Four different local exchange carriers (LECs) provide service to the five exchanges for which a community of interest was found: Qwest Corporation (Qwest) serves Toledo; United Telephone Company of the Northwest dba Sprint (Sprint) serves Lincoln City; CenturyTel of Oregon, Inc. (CenturyTel) serves Gleneden Beach and Depoe Bay; and Pioneer Telephone Cooperative (Pioneer) serves South Beach. Each LEC proposed tariffs to provide the EAS routes under consideration.

Customer Notification and Public Hearings

Lincoln City customers were first notified of a potential change in EAS service through notice by Sprint that it was proposing a new method of calculating EAS charges. Sprint proposed changing its method of calculation to a matrix system resembling those used by other telephone companies. Because that would result in higher rates for several exchanges throughout the state, including Lincoln City, Sprint notified customers in those exchanges and solicited public input. After due consideration, the Commission approved Sprint's new matrix. *See* Order No. 04-093.

Customers in exchanges involved in the proposed EAS routes were further notified by the LECs of an open house meeting held March 30, 2004, at Newport High School in Newport to explain the proposed EAS routes and gauge customer sentiment. Commission Staff and representatives from each of the LECs participated in the meeting. Attendance was sparse, but comments were received from ten customers in favor of approving the proposed EAS routes.

Stipulations

Staff reviewed the telephone companies' proposed tariffs and after conducting discovery and exchanging information, entered into a stipulation with each company. No party filed an objection to the stipulations, which are set forth in Appendices B through E. The stipulated EAS rates for each of the four LECs are set out in Appendices F through I.

Rate Design Criteria

In the generic EAS docket, UM 189, the Commission adopted ten rate design criteria for EAS conversion. The stipulated rates for each LEC 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 each LEC comply with Criterion 1. Each LEC 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 each LEC comply with Criterion 2. The carriers have an existing measured rate option and have not proposed to change their measured EAS rates. All of the measured EAS rates proposed by the companies are consistent with measured rates charged by the other telecommunications utility and with Commission guidelines.

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

The stipulated rates for each LEC comply with Criterion 3. Each carrier 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 each LEC comply with Criterion 4. Each of the LECs has developed a company-wide matrix of EAS rates, which satisfies Criterion 4. All companies, except Sprint, propose to maintain their current EAS matrix style. Sprint proposes to use the EAS matrix recently approved by the Commission. *See* Order No. 04-093. Both Qwest and CenturyTel propose to charge for expanded EAS service based on its existing EAS matrix style, with no change in matrix rates for exchanges in this docket. Pioneer proposes to retain its current matrix, but because it is a cooperative, the Commission does not have the authority to regulate EAS charges as of January 1, 2002.

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

The stipulated rates for each LEC comply with Criterion 5. All of these companies provide 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 each LEC comply with Criterion 6. All of these companies charge 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 each LEC comply with Criterion 7. All of these companies charge 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 each LEC substantially 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 each LEC comply with Criterion 9. No Company has proposed to increase local exchange rates in this proceeding.

Criterion 10: EAS tariff proposals should be revenue neutral.

The stipulated rates for each LEC 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. Deviations from revenue neutrality are either very small or the result of a LEC's decision to accept a net revenue loss.

Resolution -- Phase II

The Commission concludes that the EAS routes should be implemented as proposed. The stipulated rates for each of the 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 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 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, 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.

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 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 South Beach and the Lincoln City, Gleneden Beach, Depoe Bay, and Toledo exchanges is granted, as indicated by the map at Appendix A.
2. The stipulations entered between Staff and the four local exchange telephone companies, set forth in Appendices B through E, are approved.
3. The local exchange companies 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.