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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 916

In the Matter of)
)
 EXTENDED AREA SERVICE)
)
 Approval of the Petition by the)
 Government Camp exchange for Extended)
 Area Service to the Portland Extended Area)
 Service Region.)

ORDER

DISPOSITION: EAS TARIFFS APPROVED; EAS PETITION GRANTED

In this order, the Commission grants the petition for Extended Area Service (EAS) by the Government Camp exchange to the Portland EAS Region. In Phase I, the Commission found that a community of interest exists. See Order No. 03-313. 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. 03-313, the Commission found that Government Camp failed to meet traditional calling volume and distribution criteria. However, Government Camp residents rely heavily on commercial services located in the Portland EAS Region, such as banking, accounting, legal, and insurance services, as well as groceries, hardware and building supplies, automotive parts and maintenance, and consumer goods. Timberline Lodge and Mt. Hood Skibowl are the main employers in the Government Camp exchange; most employees live in other exchanges in the Portland EAS Region. Students living in Government Camp attend schools in exchanges in the Portland EAS Region. In addition, government services, emergency responders, and medical providers for the Government Camp exchange are located in exchanges in the Portland EAS Region. Government Camp is completely encircled by exchanges in the Portland EAS Region, but callers must still pay long-distance toll charges to call the Portland Region, as indicated on the map attached as Appendix A. For these reasons, the Commission found that the Government Camp has established a community of interest with the Portland EAS Region.

Phase II – Tariff Analysis

After Phase I was completed, the Commission analyzed the proposed company tariffs in Phase II of the EAS process. Ten different local exchange carriers (LECs) provide service to the Portland EAS Region and the Government Camp exchange, 33 exchanges in all. CenturyTel of Oregon, Inc. (CenturyTel) serves the Government Camp exchange and three other exchanges in the Portland EAS Region. Also serving exchanges in the Portland EAS Region are Qwest Corporation (Qwest), United Telephone Company of the Northwest dba Sprint (Sprint), Verizon Northwest Inc. (Verizon), Beaver Creek Cooperative Telephone (Beaver Creek), Colton Telephone & Cable TV (Colton), Clear Creek Telephone & Television (Clear Creek), Cascade Utilities (Cascade), Canby Telephone Association (Canby), and Molalla Communications (Molalla). Each LEC proposed tariffs to provide the EAS routes under consideration.

Customer Notification and Public Hearings

Customers in every affected exchange were further notified by the LECs of an open house meeting held March 25, 2004, at the Mt. Hood Museum in Government Camp to explain the proposed EAS routes and gauge customer sentiment. Commission Staff and a representative from Sprint participated in the meeting. More than a dozen local residents attended the meeting, and every comment that was submitted favored approval of the proposed EAS to the Portland Region.

Many customers inquired about the effect of EAS on toll blocking. Their telephone service offers a feature where originating long distance calls could be blocked for an additional fee. Customers that had rental homes often used this feature to prevent

unexpectedly high telephone bills initiated by vacationing renters. Those customers asked what effect approving the EAS route to the Portland Region would have on toll blocking.

In response to an inquiry from Administrative Law Judge Smith, Qwest and Sprint submitted letters explaining that exchanges in the Portland Region would no longer be considered toll calls, therefore calls within the Region would not be blocked. This would be true no matter which method of charges, flat or measured, the customer chose. The customer must choose either rate, and then pay what is assessed for calls within the Region. Staff, Qwest, and Sprint each strongly opposed permitting customers to block calls within the Portland Region. The LECs noted that it would be very expensive and labor-intensive to block those calls. Staff also noted that it is contrary to Commission policy: "Allowing certain customers to opt-out of EAS completely, shifting costs to other customers in the Government Camp exchange, defeats the purpose of the balancing analysis already conducted by the Commission in Phase I of this proceeding, as well as the purpose of EAS."

Stipulations

Staff reviewed the telephone companies' proposed tariffs. Six of the LECs, Beaver Creek, Colton, Clear Creek, Cascade, Canby, and Molalla, submitted letters stating that they will not propose any rate change resulting from EAS cost shifts. Those letters are attached as Appendices B through G. As to the other four LECs, Staff conducted discovery and entered into a stipulation with each company for an increase in EAS rates. No party filed an objection to the stipulations, which are set forth in Appendices H through K. The stipulated rates are set out for those four LECs in Appendices L through O.

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. All carriers have an existing measured rate option and CenturyTel proposes to make this option available in Government Camp. No company has proposed to change its measured EAS rate. 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. CenturyTel will make this combination available in Government Camp.

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. CenturyTel proposes no changes in its EAS calculations or rates. Qwest proposes to retain its current matrix style, but increase rates in its band B, which includes only the Portland exchange. Verizon also proposes to use its current matrix, but increase rates in several rate bands, which do not affect the Portland Region. Sprint will use the EAS rate structure approved by the Commission in Order No. 04-093.

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.

Only CenturyTel appears to have a substantial net revenue surplus from its proposed EAS costs. Staff proposed allowing the proposed rates because Government Camp does not have any existing EAS service and Century Tel will need to bolster its facilities to begin providing EAS to Government Camp. The proposed revenue increase reflects adding the Government Camp access lines to the rate band times the current rate, and the proposed increase is a reasonable estimate at this time.

Resolution -- Phase II

The Commission concludes that the EAS routes should be implemented as proposed. Government Camp customers will be charged a flat EAS rate of \$10 for residential EAS service and \$15 for business EAS service, or a measured rate of six cents per minute. 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

Toll blocking

The toll-blocking service will continue to function as in the past, but calls to the Portland EAS Region will no longer be blocked as toll calls. EAS costs will be shared equitably among Government Camp customers, so every customer can choose between the approved flat or measured rate for EAS to the Portland Region. Toll blocking will continue to block long distance calls to areas outside the Portland Region.

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.

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 in Government Camp 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, CenturyTel 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 CenturyTel may choose any approach, provided that it informs its 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 route identified in Appendix A is 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 Government Camp and the Portland EAS Region. 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 Government Camp and the Portland EAS Region is granted.
2. The stipulations entered between Staff and the four local exchange telephone companies, set forth in Appendices H through K, are approved.
3. The local exchange companies shall, at a minimum, provide their customers with notification of new EAS as described above.

4. 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 _____.

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.