ORDER NO. 06-198

ENTERED 04/27/06

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1207

In the Matter of	)	
	)	
EXTENDED AREA SERVICE	)	
	)	ORDER
Approval of the Petition by the Antelope exchange for Extended Area Service to the Redmond, Culver, and Bend exchanges.	)	

DISPOSITION: EAS TARIFFS APPROVED; EAS PETITION GRANTED

In this order, the Commission grants the petition for Extended Area Service (EAS) by Antelope to the Redmond, Culver, and Bend exchanges. In Phase I, the Commission found that a community of interest existed between these exchanges. *See* Order No. 05-893. In Phase II, the Commission analyzed the proposed tariffs and the effect on customers. After consideration, the tariffs are approved, subject to the terms of this order. With approval of this petition, toll-free calling at EAS rates will be available for the interexchange routes at issue in this proceeding no later than August 5, 2006.

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 daily needs.” 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. 05-893, the Commission found a community of interest between the Antelope and Bend exchanges. Many residents of the Antelope exchange use services provided in Bend, including stores and doctors. *See* Order No. 05-893, 6. Because Antelope and Bend are not contiguous exchanges, the Commission also found a community of interest with the Redmond and Culver exchanges. *See id.* Establishing new EAS routes to both the target and intervening exchanges will avoid customer confusion as to long distance calling areas. *See* Order No. 99-038. The Commission decided that the petition should progress to the second phase in the proceeding.

Phase II – Rate and Cost Analysis

After Phase I was completed, the Commission analyzed the proposed company tariff in Phase II of the EAS process. Trans-Cascades Telephone Company (Trans-Cascades) serves Antelope, and Qwest Corporation (Qwest) serves the Redmond, Culver, and Bend exchanges. Qwest and Trans-Cascades proposed tariffs to provide the EAS routes under consideration.

Customer Notification and Public Hearings

Trans-Cascades sent notices to affected customers telling them of an open house meeting held April 12, 2006, at the Shaniko School to explain the proposed EAS routes and gauge customer sentiment. Commission Staff and representatives from Qwest and Trans-Cascades participated in the meeting. Nearly 25 customers attended, and comments strongly favored approving the proposed EAS route.

Stipulations

Staff reviewed the proposed rates for Qwest and Trans-Cascades, and after conducting discovery and exchanging information, entered into a stipulation with each of these companies. There was no objection to the stipulations, which are set forth in the appendices.

Rate Design Criteria

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

<u>EAS Criterion 1: Flat EAS rates must be available for all EAS routes</u>.

The stipulated EAS rates comply with Criterion 1. Both Qwest and Trans-Cascades have a flat rate available for all EAS routes, existing and proposed.

<u>Criterion 2: A measured rate option must be available for all EAS routes</u>.

The stipulated rates comply with Criterion 2. Qwest and Trans-Cascades both have an existing measured rate option and have not proposed to change their measured EAS rate. The measured EAS rate is consistent with measured rates charged by other telecommunications utilities and with Commission guidelines.

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

The stipulated rates comply with Criterion 3. Qwest and Trans-Cascades currently provide a combination of flat rate local exchange service and measured rate EAS. This combination will be available in all exchanges that are scheduled to receive new EAS no later than August 5, 2006.

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

The stipulated rates comply with Criterion 4. Qwest and Trans-Cascades have each developed a companywide matrix of EAS rates, which satisfies Criterion 4, and they propose to retain the current matrix style.

Qwest will increase the rates in its residence and business EAS discounted usage packages. The company has two residence usage packages available on budget measured lines, a 3-hour package and a 6-hour package of outgoing local usage per line. The company proposes to increase its flat EAS premium from $0.32 to $0.35, or 9.4 percent, for EAS Rate Band A residence customers electing a usage package and from $0.79 to $0.81, or 2.5 percent, for EAS Rate Band B residence customers electing a usage package. The company also has five business usage packages, one package for Centrex customers and four packages for non-Centrex customers – 6-hour, 9-hour, 12-hour, and 18-hour packages of outgoing local usage per line. The company proposes to increase the flat EAS premium from $0.39 to $0.43, or 10.3 percent, for EAS Rate Band A Centrex customers electing a usage package and from $0.85 to $0.92, or 8.2 percent, for EAS Rate Band B Centrex customers electing a usage package. For non-Centrex business customers electing a usage package, Qwest is proposing to increase the flat EAS premium from $0.49 to $0.51, or 4.1 percent, for EAS Rate Band A and from $1.04 to $1.05, or 1.0 percent, for EAS Rate Band B for customers electing a 6- or 9-hour usage package, and from $1.81 to $1.82, or 0.6 percent, for EAS Rate Band B customers electing a 12- or 18-hour usage package.

As a result, none of Qwest's customers throughout the state who elect flat rate access service with flat rate EAS, or who elect measured rate access service with Qwest's standard measured rate EAS, will experience an increase in their EAS rate as a result of this proceeding, not even customers of the three Qwest exchanges that receive new EAS routes in this docket. However, each of Qwest's customers throughout the state who elect measured rate service with a usage package will experience an increase in their EAS rates, whether or not they receive any new EAS routes.

Trans-Cascades only has one exchange in Oregon: Antelope. Because of this, it has no EAS matrix. The company is unable to achieve its stipulated revenue recovery through increases in only the EAS flat rates, and the company's measured EAS rate of $0.08 per minute is the maximum allowed. Therefore, the company proposes to increase both the EAS flat rate and the local access rate to recover its stipulated revenues. The proposal is consistent with the Commission's EAS guideline that flat rate EAS rates should be no greater than 50 percent of the total intrastate charge for flat rate local exchange access and flat rate EAS combined. *See* Order No. 91-1140, 20.

Antelope exchange one-party residence customers currently pay a monthly local service rate of $8.07 and an EAS flat rate of $8.06. One-party business customers currently pay a monthly local service rate of $17.89 and an EAS flat rate of $14.79. Trans-Cascades proposes to increase its one-party residence local service and residence EAS flat rate to $9.32 each. The company proposes to increase its one-party business local service rate to $20.63 and its business EAS flat rate to $16.94.

Consequently, if the Commission grants this EAS petition, customers of the Antelope exchange will experience an increase of 64,941 access lines they can reach without a toll charge. Residential customers will experience an increase of $1.25, or 15.5 percent, in their local service rate and an increase of $1.26, or 15.6 percent, in their EAS flat rate. Business customers will experience an increase of $2.74, or 15.3 percent, in their local service rate and an increase of $2.15, or 14.5 percent, in their EAS flat rate.

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

The stipulated rates comply with Criterion 5. Qwest and Trans-Cascades provide a flat rate option that incorporates all EAS routes available to customers in each exchange.

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

The stipulated rates comply with Criterion 6. Both companies charge a higher flat EAS rate to their business customers than to their residential customers.

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

The stipulated rates comply with Criterion 7. Both Qwest and Trans-Cascades 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 comply with Criterion 8. The proposed EAS revenues for the most part recover traffic sensitive (TS) costs (i.e., the distributed costs of switching and transport). Trans-Cascades experiences a deficiency of $746, which Staff considers insignificant.

For non-Primary Toll Carriers, such as Trans-Cascades, Staff evaluates TS cost recovery using the distributed cost method in the Federal Communications Commission's CFR Part 36. This method allocates cost (revenue requirements) to broad categories of service – interstate and intrastate toll, EAS, and local exchange service. Staff uses this method to prepare two cost studies, one pre-EAS conversion study and one post-EAS conversion study. The development of these studies is discussed further under EAS Criterion 10.

EAS Criterion 8 examines the post-EAS conversion cost study to determine whether total EAS revenues after conversion recover at least the distributed cost of switching, transport, and associated overheads. Overheads include such things as general support facilities (land, buildings, motor vehicles, furniture, etc.) and a proportionate share of customer and corporate operation expenses.

For the purposes of determining the EAS TS revenue requirement, the balance of subscriber loop costs (i.e., non-traffic sensitive or NTS costs) that are not assigned to intrastate and interstate toll services, are assigned to local exchange services. This is done to (1) adequately measure EAS Criterion 8 relative to TS costs, and (2) to allow sufficient rate design flexibility to deal with situations where EAS rates may not be able to absorb the same level of NTS cost that is assigned to toll services. *See* Order No. 89-815, 21-23.

When Staff computes the EAS revenue requirement, Staff uses a return on rate base equal to the utility's last authorized rate of return. For the cooperative telecommunications utilities and small telecommunications utilities with less than 50,000 access lines, staff uses an 11.1 percent rate of return.

Staff's method for computing 2006 EAS cost recovery requirements for Qwest differs from its method used in prior EAS dockets. Qwest petitioned and the Commission has adopted a stipulation exempting Qwest's intraLATA toll services from regulation. *See* UX 28, Order No. 03-609. Therefore, in this docket, Qwest's cost recovery amount includes only regulated revenues and costs. These include lost access charge revenue and additional network costs required for the EAS conversions. The cost recovery amount no longer includes the loss of deregulated intraLATA toll or the associated access charge savings.

<u>Criterion 9: Revenue shortfalls due to new EAS routes must be made up first from companywide EAS rates, then from companywide local exchange rates.</u>

The stipulated rates comply with Criterion 9. Qwest has not proposed to increase local exchange rates in this proceeding, but Trans-Cascades has proposed to increase local exchange rates to comply with the Commission's rate-balancing standard, as discussed under Criterion 4, above. *See* UM 261, Order No. 91-1140.

<u>Criterion 10: EAS tariff proposals should be revenue neutral.</u>

The stipulated rates substantially comply with Criterion 10. Under Criterion 10, the additional EAS or local exchange revenues proposed should equal the sum of the cost shift attributed to the EAS conversion plus any additional costs for EAS. Such tariffs are deemed "net revenue neutral." Stipulated rates proposed by Qwest and Trans-Cascade substantially comply with Criterion 10. Deviations from exact revenue neutrality are quite small, from a total company EAS revenues point of view.

For the purpose of evaluating compliance with Criterion 10, net revenue neutrality is determined by comparing the proposed increase in EAS and local exchange revenues with the EAS cost recovery amount. The cost recovery amount has two components. The first component is the cost shift due to the change in telephone traffic from toll to EAS for the routes being converted. The second component is the additional cost of EAS provisioning due to additional facilities needed to handle stimulated EAS traffic plus any associated operating expenses.

Both components of the cost recovery amount are determined based on two distributed cost studies – a pre-EAS conversion cost study and a post-EAS conversion cost study. The post-EAS conversion cost study includes any additional facilities and associated costs for EAS. It also includes changes in various traffic factors used to reclassify toll traffic to EAS traffic on the specific routes being converted. The EAS traffic is then stimulated to reflect the greater calling propensity of customers who will no longer pay long distance charges for those destinations. Based on the experience gained from creation of the Portland EAS Region in docket UM 261, traffic stimulation factors for this case have been set in the range of 2.0 to 2.1 times toll minutes lost.

Traffic factors reflect the relative use of telephone plant and govern how costs are allocated in distributed cost studies. Most traffic factors respond as usual to changes in toll and EAS calling patterns due to EAS conversion. However, the subscriber plant factor (SPF) deserves some additional explanation.

The SPF governs the allocation of local loop cost to service categories. Under Federal Communications Commission rules, the interstate toll SPF is an arbitrary factor set at 25 percent. For intrastate toll, however, the SPF is subject to a transition to the relative use of the local loop under the provisions of the current Oregon Customer Access Plan (OCAP). *See* Order No. 93-1133, Appendix A. For the EAS conversions, the intrastate toll/access SPF is adjusted downward based on the pro rata reduction in subscriber line toll minutes of use. The result of this adjustment is set forth in each stipulation.

To arrive at the EAS cost recovery amount, the pre-EAS conversion cost study is subtracted from the post-EAS conversion cost study. The loss of intrastate and interstate toll revenue requirements due to the traffic shift equals the cost shift component of the EAS cost recovery amount. The increase in EAS and local exchange revenue requirements over and above the lost toll amount equals the additional cost of EAS provisioning due to additional facilities and expenses charged to EAS or local exchange operations. For Qwest, the cost recovery amount is the sum of the access charge revenue loss and the additional network costs required for the EAS conversion.

Resolution – Phase II

The Commission concludes that the EAS routes should be implemented as proposed. The stipulated rates for Qwest and Trans-Cascades 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 Qwest, and Staff and Trans-Cascades, 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 August 5, 2006, 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, Qwest and Trans-Cascades should follow ordinary procedures for notifying customers of rate changes. The companies 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 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 Antelope and Redmond, Culver, and Bend exchanges is granted.

2. The stipulations entered between Staff and Trans-Cascades Telephone Company, and Staff and Qwest set forth in Appendices B and C, respectively, are approved.

3. Qwest and Trans-Cascades Telephone Company 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 APR 27 2006.

Lee Beyer
Chairman

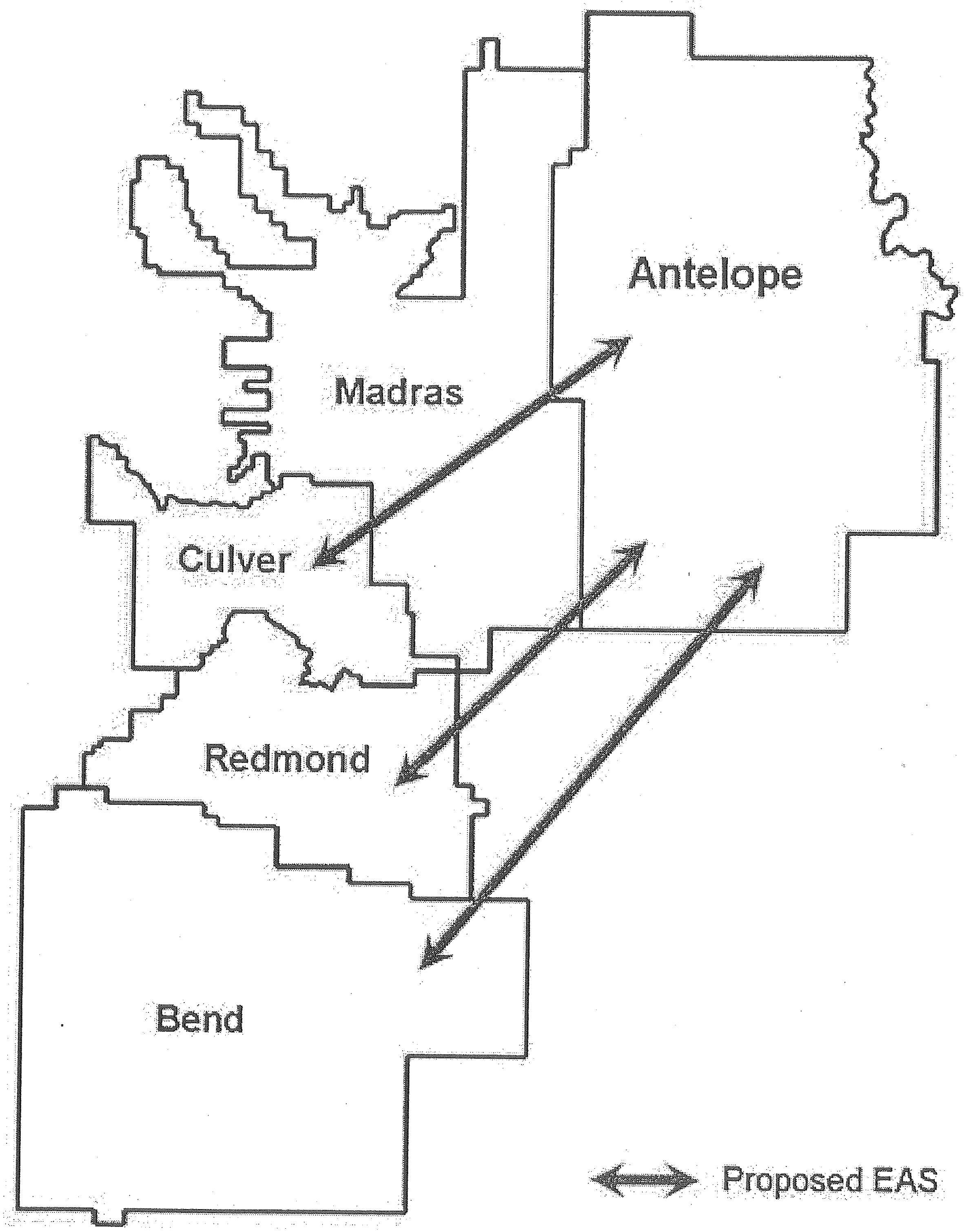
John Savage
Commissioner

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ORDER NO. 06-198

Map of Proposed EAS Routes



RECEIVED
FEB 2 4 2006
P.U.C

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

2006 Extended Area Service Dockets
Phase II

In the Matter of Petitions for Extended Area Service by Chitwood (UM 1175) and Antelope (UM 1207).	)))	**STIPULATION BETWEEN TRANS-CASCADES TELEPHONE COMPANY AND STAFF**

Trans-Cascades Telephone Company and the Public Utility Commission of Oregon staff, after having conducted extensive discovery and exchanges of information, stipulate and agree to the following:

1. A cost recovery amount of $7,128 as set forth at Line G.3 in Exhibit 1 to this stipulation.

2. A $7,108 increase in annual EAS revenues as set forth at Line I.2 in Exhibit 1 to this stipulation.

3. The rates, terms and conditions as set forth in Advice No. 86, Supplement 1, filed February 10, 2006.

Both parties reserve the right to re-examine Provisions 1 through 3 of this stipulation if the Commission does not approve any of the routes in docket UM 1207. In making this agreement, neither party to this stipulation takes a position on whether the Commission should approve the EAS routes at issue in the dockets that comprise this proceeding.

DATED this 21 day of Feb, 2006.

Brenda Crosby
Brenda Crosby
President
Trans-Cascades Telephone Company

DATED this 15th day of February, 2006.

Stephanie Andrus
Assistant Attorney General
Of Attorneys for PUC Staff

Exhibit 1

Trans-Cascades Telephone Company EAS Conversion: UM 1207		Summary of Revenue Shifts & Billed Revenue Changes. Staff and Company
A.	INTERSTATE TOLL/ACCESS REV REQ:	
	1. PRE EAS CONVERSION	372,251
	2. POST EAS CONVERSION	372,251
	3. CHANGE (2-1)	0
B.	INTRASTATE TOLL/ACCESS REV REQ:	
	1. PRE EAS CONVERSION	49,046
	2. POST EAS CONVERSION	41,917
	3. CHANGE (2-1)	(7,129)
	4. STATE TOLL SPF-Current Pre-Conversion	0.000000
	5. STATE TOLL SPF-Post Conversion	0.000000
C.	BILLED ACCESS REVENUE LOSS: (@ current rates)	
	1. ACCESS REVENUE LOSS	$8,777
	2. BILLING & COLLECTION REVENUE	$28,086
	3. ACCESS MINUTES	(155,748)
D.	BILLED TOLL REVENUE LOSS: (@ current rates)	
	1. TOLL REVENUE LOSS (Estimated)	$7,445
	2. BILLED TOLL MINUTES	(102,144)
E.	EAS REVENUE REQUIREMENT:	
	1. PRE EAS CONVERSION	16,315
	2. POST EAS CONVERSION	24,503
	3. CHANGE (2-1)	8,188
	4. STIMULATION FACTOR	2.1
F.	LOCAL (OTHER) REVENUE REQUIREMENT	
	1. PRE EAS CONVERSION	6,693
	2. POST EAS CONVERSION	5,633
	3. CHANGE (2-1)	(1,060)
G.	COST RECOVERY REQUIREMENT FOR EAS:	
	1. LOST INTERSTATE & STATE TOLL REV REQ.	7,129
	2. ADDITIONAL COST OF EAS PROVISIONING	(1)
	3. TOTAL	7,128

Trans-Cascades Telephone Company EAS Conversion: UM 1207	Summary of Revenue Shifts & Billed Revenue Changes. Staff and Company
EAS CRITERION 10: NET REVENUE NEUTRAL	
H. PROPOSED EAS REVENUE:	
1. CURRENT	16,649
2. EAS REVENUE INCREASE	7,128
3. POST EAS CONVERSION	23,777
I. NET REVENUE NEUTRALITY - COST SHIFT METHOD	
1. EAS COST RECOVERY REQ.	7,128
2. PROPOSED EAS REVENUE INCREASE	7,108
3. SURPLUS (DEFICIENCY) (L.2 -L.1)	(20)
EAS CRITERION 8: EAS RATES MUST EXCEED TRAFFIC SENSITIVE (TS) COSTS	
J. ALLOCATED TS COST TO EAS	
1. PRE EAS CONVERSION	16,315
2. POST EAS CONVERSION	24,503
3. CHANGE (2 - 1)	8,188
K. EAS REVENUES	
1. PRE EAS CONVERSION	16,649
2. POST EAS CONVERSION	23,777
3. CHANGE (2 -1)	7,128
L. CONTRIBUTION (LINES K - J)	
1. PRE EAS CONVERSION	334
2. POST EAS CONVERSION	(726)

A deficiency of $20. is reasonable. Advice No. 86 should be considered revenue neutral.

APPENDIX C

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

2006 Extended Area Service Dockets
Phase II

In the Matter of Petitions for Extended Area Service by Chitwood (UM 1175) and Antelope (UM 1207)	))))	**STIPULATION BETWEEN QWEST AND STAFF**

Qwest and the Public Utility Commission of Oregon staff, after having conducted extensive discovery and exchanges of information, stipulate and agree to the following:

1. A cost recovery amount of $9,305 as set forth at Line F.2 in Exhibit 1 to this stipulation.

2. A $10,163 increase in annual EAS revenues as set forth at Line F.1 in Exhibit 1 to this stipulation.

3. The rates, terms and conditions as set forth in Advice No. 2009, filed October 14, 2005.

Both parties reserve the right to re-examine Provisions 1 through 3 of this stipulation if the Commission does not approve any of the routes in dockets UM 1175 and UM 1207. In making this agreement, neither party takes a position on whether the Commission should approve the EAS routes at issue in the above-captioned dockets.

In addition, Qwest specifically reserves, and does not waive, its right to object to or otherwise challenge or contest, in future EAS dockets or in any other proceeding, any future cost recovery calculations or staff's position that Qwest is no longer entitled to recover lost toll revenue or access expense savings as a part of EAS cost recovery because Qwest's toll services have been deregulated. *See* Order No. 03-609, in Docket UX 28. Qwest further specifically reserves, and does not waive, its right to object to or otherwise challenge or contest its participation in any future proposed EAS routes in the event that it is unable or not permitted to recover its lost toll revenue or access expense savings that would arise from any future proposed EAS routes.

DATED this 10th day of February, 2006.

Don Mason
Oregon Regulatory Director for Qwest

DATED this 8th day of February, 2006.

Stephanie Andrus
Assistant Attorney General
Of Attorneys for PUC Staff

Exhibit 1

Qwest		Summary of Impact of 2006 EAS Conversions	
	UM 1175 & 1207	Staff and Company	
A.	**Network Costs**	$	7,045
B.	**Billed Access Revenue Loss:**		
	1 Access Revenue from Dial Around MOU	$	2,260
C.	**Billed Orig. Toll Revenue Loss:**		
	1 Originating Toll Revenue - Qwest	$	-
	2 Originating Toll Revenue - Ind. Cos.	$	-
D.	**Access Expense Savings:**		
	1 Access Payments to OECA (OCAF)	$	-
E.	**Cost Recovery Requirement for EAS:**		
	1 Network Costs (L. A)	$	7,045
	2 Revenue Loss from Access & Toll (L. B1+C1&2)	$	2,260
	3 Less Access Expense Savings (L. D1)	$	-
	4 Net EAS Requirement	$	9,305
F.	**EAS Criterion 10: Net Neutrality**		
	1 Proposed EAS Revenue	$	10,163
	2 Net EAS Recovery Requirement (L. E4)	$	9,305
	3 Surplus or (Deficiency) (L. F1-F2)	$	858

A surplus of $858 is reasonable. Advice No. 2009 should be considered revenue neutral.