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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 904

In the Matter of the Petition for Extended)
Area Service by the HALSEY TELEPHONE) ORDER
EXCHANGE.)

DISPOSITION: PETITION DISMISSED; DOCKET CLOSED

Introduction

On June 23, 1998, the customers of the Halsey telephone exchange filed a request for extended area service (EAS). Currently, Halsey customers have EAS to the Brownsville exchange. In their petition, docketed as UM 904, the Halsey customers asked the Commission to investigate the possibility of expanding their EAS calling area to include three additional exchanges: Shedd, Albany and Corvallis.

In an EAS investigation, the Commission must first be certain that a legitimate need exists for the service that warrants the shifting of costs and the potential for an increase in local exchange rates. For this reason, the Commission requires that a community of interest exist between the petitioning exchange and target exchange(s). A community of interest exists where there is a "social, economic, or political interdependence between two areas, or where there is a heavy dependence by one area another area for services and facilities necessary to meet many of its basic needs." *See Forest Grove EAS Investigation*, Order No. 87-309, at 8.

After an investigation, which included a public hearing in Halsey, the Commission concluded that a community of interest existed between the Halsey exchange and the Albany and Corvallis exchanges. *See* Order No. 99-238. Subsequently, in a separate request filed by the customers of the Shedd exchange, the Commission concluded that a community of interest also existed between the Halsey and Shedd exchanges. *See* Order No. 99-451. Accordingly, the Commission directed that the telephone companies serving all affected exchanges file proposed tariffs and cost studies for the new EAS routes for a rate and tariff analysis.

In preparation for its filing, the Roome Telecommunications, Inc. (RTI), which serves the Halsey exchange, began to evaluate the cost of deploying new EAS to the Shedd, Albany, and Corvallis exchanges. The company's analysis shows that the charges necessary to support the proposed EAS service would be very high. Costs of providing EAS include the lost access revenues from toll calls and the addition of facilities to accommodate the increased calling between the exchanges.

Because of the small number of Halsey customers, cost figures show that RTI would be required to substantially increase its local service rates and charge a high EAS rate to the

neighboring exchanges in order to recover all costs of implementing the new EAS. In addition to those rate increases required by the Halsey/Shedd interexchange route, RTI proposed the following local exchange rate increases:

	Residential		Business	
	Current	Proposed	Current	Proposed
Zone 1 (in-city)	\$15.00	\$18.50	\$20.00	\$25.85
Zone 2 (outside city)	\$18.00	\$25.00	\$25.00	\$34.65

In addition, RTI proposed a “pick and choose” option for unlimited EAS calling to different exchanges at the following estimated monthly rates:

	Unlimited EAS Calling to:		
EAS calling to:	Brownsville and Shedd	Albany and Corvallis	All four exchanges
Residential	\$12.00	\$18.50	\$28.75
Business	\$15.00	\$25.85	\$39.85

Because of the local rate increases and high flat EAS rates that would result from the new EAS service, the Commission decided to seek additional customer input before continuing the investigation. In March 2000, the Commission mailed informational surveys to all customers of the Halsey exchange to determine continued support for EAS to the Albany and Corvallis exchanges at the projected rates.¹ To help further explain the EAS costs and customer choices, Michael Grant, an Administrative Law Judge, held a public comment hearing in Halsey on April 26, 2000. Celeste Hari, a Telecommunications Analyst with the Commission, appeared and provided additional information and answered customer questions.

Hearing and Survey Results

Approximately 30 customers appeared at the hearing to discuss the proposed local rate increases and EAS additives. Some high-volume customers testified that they continued to support EAS implementation at the proposed rates. These customers stated that, despite the high rates, they would still benefit from EAS conversion due to higher toll bills they current pay for calling to the Albany and Corvallis exchanges. A majority of the customers, however, indicated that the proposed rates were simply too high to justify EAS expansion to Albany and Corvallis. Many testified that, with the local rate increases and high EAS charges, it would be more economical for them to use a cellular telephone. Others expressed concern that the substantial increase to local rates would force many low-income customers to cancel their telephone service.

These comments were similar to the results of the customer balloting. Of the 199 ballots that were returned, a total of 71 customers indicated continued support for the EAS petition. The other 128 customers asked that the Commission close the investigation for EAS between the Halsey and the Albany and Corvallis exchanges. Of those customers that still supported the EAS expansion, almost half were customers with more than one telephone line and, presumably, high-volume telephone users. In fact, four business customers—returning ballots for each phone line—accounted for 22 of the “yes” ballots.

¹ The proposed EAS route between Halsey and Shedd was not subject to balloting because that interexchange route had been sponsored by customers in the Shedd exchange.

Resolution

Based upon the testimony at hearing and results of the customer survey, the Commission concludes that it would not be in the public interest to implement EAS between the Halsey exchange and the Albany and Corvallis exchanges at the projected costs. The Commission has long recognized that, while many customers desire expanded toll-free calling, the implementation of new EAS routes may create new problems as telephone companies try to recover lost toll revenues. To recover these and other EAS costs, telephone companies may be required to increase rates for local exchange service. In this case, RTI has proposed raising its basic exchange rates significantly. As some customers at the hearing noted, such an increase will threaten the goal of universal service—that every citizen has affordable access to a telephone. Some customers testified that, if the increased rates were implemented, they would cancel their current account with RTI.

Perhaps due to this fact, a majority of customers returning advisory ballots asked the Commission to close the investigation for EAS between the Halsey exchange and the Albany and Corvallis exchanges. While the Commission is sympathetic to the high-volume customers who still desire the proposed EAS, it concludes that it would not be in the public interest to allow these significant rate increases to go into effect. Accordingly, the petition for EAS between the Halsey and the Albany and Corvallis exchanges should be dismissed.

ORDER

IT IS ORDERED that the petition for extended area service between the Halsey exchange and the Albany and Corvallis telephone exchanges is dismissed. Docket UM 904 is closed.

Made, entered, and effective _____.

Ron Eachus
Chairman

Roger Hamilton
Commissioner

Joan H. Smith
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.