1 - A - A	COMPARISON OF RATES FOR RAEFORD-FAYETTEVILLE EAS							
Fayetteville Raeford	Present Calling Scope	Present Rate		Proposed Calling Scope	Company Proposed Rate		Public Staff Proposed	
	92,716 4,917	R1 11.90 7.87	B1 28.51 18.89	97,633 96,939	R1 13.12 12.39	B1 31.42 29.67	R1 11.90 12.39	Rate B1 28.51 29.67

....Public staff argues case for Hoke County residents

(Continued from page 1A) 2) Fayetteville should be polled. Background

The Public Staff has never seen community enthusiasm and organization for EAS demonstration as well and as genuinely as in Raeford.

As in all EAS cases, once the Staff was notified of interest for EAS in Raeford, our Communications Division met with representatives of the community on a number of occasions.

The purpose of the meetings from our perspective was two-fold. First, to educate them as to the process for obtaining EAS, and secondly, to ascertain the level of interest.

The level of interest was indeed high and cut through economic, social, and racial lines.

This was of particular note to us since Hoke County has a high ratio of minority persons, both Black and Indian, and is probably the poorest County in the state.

In addition, the percentage of those with phones is one of the lowest in the state. No wonder.

In a county that has no hospital, no pediatrician, no surgeon, no dental or eye specialist, no shopping malls, no entertainment areas, no movies, no general services of the type and number that most communities take for granted, the calling scope of a local call is simply Raeford and Hoke County (though not even all of the County).

Though sparsely populated, Raeford is bounded on the north by Fort Bragg, one of the largest military bases in the world, and on the east by Fayetteville, the metropolitan area for that part of the state.

Fort Bragg is in the Fayetteville exchange.

Much of the tremendous growth in Cumberland County (in which Favetteville is located) is in the northwestern and western part of the County, which borders on the east line of Hoke County.

The reason for this growth is due to the natural expansion of the city in that direction, and to the influx of military families wishing to reside near Fort Bragg.

Likewise, what growth there is in Hoke County lies in the area of the County nearest to Fort Bragg and Cumberland County

But the growth in that part of Hoke County has not only been at a snail's pace, it has not been sufficient to overcome an overall decline of Hoke's tax base in the last year. And the primary reason that there has not been more growth has been because of the expensive barrier that Raeford's limited calling scope has erected.

A person in the 82nd Airborne is often on call twenty-four hours a day, seven days a week.

He must check in with his unit whenever he leaves his house and whenever he arrives at a destination other than his house.

Expectant mothers, many elderly people, and others must call

their doctors in Fayetteville. Retail businesses must call their suppliers in Fayetteville.

Real estate agents, banks. judicial officials, law enforcement people, schools and a myriad of others also must constantly pay long distance tolls to Fayettcville or Fort Bragg.

And has been pointed out, even the land costs, which are only a fraction of the cost of land just across the County line, are not sufficient to lure buyers into Hoke County because of the restricted calling scope and the cumulative high toll costs.

As a result Raeford, has suffered in many ways. City and County services suffer, including schools.

New businesses do not locate there and the average income shows it.

Most professional people cannot afford to locate there because of the expense and inconvenience of communicating long distance with their clients in Cumberland, locating instead in Fayetteville.

Hoke County is worse than stag-nant in its tax base, it is slipping backwards which can only mean higher taxes for a population that can ill afford it.

In recognition of and in response to these problems, the leadership of Hoke County determined that to save their community, to bring growth into the area, and to attract businesses and homeowners, their first priority would be to put aside individual differences and unite to gain inclusion of Hoke County into the Fayetteville local calling area.

Having made that determination, they worked actively to educate the people and to garner support. They effectively com-municated their belief that an increase in their phone bill, in order to gain access to Fayetteville and Fort Bragg, was actually an investment in the future of Hoke Coun-

The result of their efforts was clearly reflected in the Public Hearing held by the full Commission in Raeford on October 29, 1985

Over a thousand residents attended; this was the largest number of people at a Commission Public Hearing in anyone's memory. It is even more impressive when one considers that there are only approximately 4,900 access lines in the Raeford Exchange.

To put those figures in com-parable terms, there are approximately 180,000 access lines in Wake County; 37,000 would have to appear at a Public Hearing in Raleigh to have the same display of support as in Hoke.

But what was even more graphic evidence of the support and need for EAS was that at the Chairman's request for support or opposition, the entire body rose in support, with only one opposed.

AND AGAINST THIS BACKGROUND, CAROLINA URGES THIS COMMISSION TO DO TWO THINGS THAT WILL DEFEAT FAYETTEVILLE-RAEFORD EAS: APPLY THE MATRIX INCREASE TO FAYETTEVILLE AND POLL FAYETTEVILLE.

Although the leadership of Cumberland County and Fort Bragg have indicated strong support for this EAS, that support is based on no increase in Fayetteville's rates, as shown in the letter of Fort Bragg's Commanding Officer which was filed with this Commission.

Never, never in the history of EAS, has an exchange even nearly the size of Fayetteville voted in favor of EAS for a smaller community when the larger community would see an increase of even three cents, and the vote against EAS in that instance was over 85%. Three cents!

The Matrix In 1975, Carolina Telephone requested and the Commission ap-proved a procedural device, a matrix plan, for allocating rate increase for areas that wanted EAS.

It is noteworthy that the word "increases" and not "costs" are used because the Matrix plan makes no attempts to determine the cost for implementing EAS in any area.

The expressed goal in implementing the Matrix was to achieve through formulas the overall revenue requirements associated with "average costs" for EAS. However, even in the last rate

case, Carolina built in an undercollection for EAS revenues of over \$2,000,000; any claim that the Matrix actually does what it was intended to do is simply ignoring the facts.

Only one other phone Company North Carolina relies on a Matrix plan, and that in Central Telephone. All others, including Southern Bell, rely on cost studies to determine the actual costs involved in a particular EAS request. It is not the intention of the

Public Staff to abolish the Matrix system through this proceeding. It is the intention of the Staff to point out that this particular case is inappropriate for normal application of Carolina's Matrix, and that to implement Carolina's recom-mendations regarding Fayetteville

will cause form to triumph over substance and deny the citizens of Hoke County a chance for the future that only this Commission can allow. A ruling applying the Matrix in-

crease only in Raeford is well within the power and discretion of the Commission, without resort to any further hearing or procedure.

Early in the proceedings, the Public Staff requested a cost study for the EAS, a request that the Company opposed. When the figures were reported, it was easy to see why. By applying the Matrix increase

only to Raeford (and excluding toll lost as the Commission typically does in cost study EAS cases), the Company would receive all the money necessary for the cost increase associated with Fayetteville-Raeford EAS.

By applying the Matrix increase to Fayetteville, the Company would get a windfall of over \$1.8 to million which is even more revenue

than would be required if toll revenues were not excluded.

December 19, 1985

Legal Issues

There are ostensibly two legal issues: 1. May the Commission apply

the Matrix increase only to Raeford, and,

2. Is it necessary to poll Fayetteville.

As to the first issue, the Company's basic position appears to be that it is discriminatory to apply the Matrix only to Raeford.

Presumably, those in other Carolina service areas are those who are discriminated against. This is an untenable argument both factual and legally.

The Matrix has only been in ex-istence since 1975. Did the Matrix, when adopted, then discriminate against those areas of Carolina that had adopted EAS based on cost studies? Have areas of phone companies not using the Matrix been discriminated against because Carolina began using that method which was not available to them? Indeed, have Carolina's customers in areas wanting EAS been discriminated against because cost studies were not used to determine rates, since using the Matrix necessarily means that some areas pay more and some pay less than

the actual cost? What is clear from this cost study is that if a case can be made for discrimination, it would be in applying the Matrix in this instance to Fayetteville, because the Matrix is simply out of kilter here, as was demonstrated in the hearing, and could well violate the holding in Utilities Comm'n v. Edmisten. (1976) pertaining to applicable rates where substantial differences in conditions exist. The term "discrimination" is

not the appropriate determinative factor in any event. It must be "unreasonable" or

"unlawful discrimination" to violate NCGS 62-140.

The interpretation of the courts as to that term make it clear beyond question that to follow the recommendation of the Public Staff and apply the Matrix increase only to Raeford is in no sense "unreasonable" or "unlawful "unreasonable" discrimination."

The second position of the Company has absolutely nothing legally

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to propel its validity. It is interesting that knowing a vote by Fayetteville subscribers (with their Matrix increase) will kill this EAS, the Company urges it.

Raeford, N.C.

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No Company ever calls for a vote of their customers when they file for rate increases.

Carolina doesn't even have to poll their affected customers when they regroup, even though a 30 per month increase in cents residential (and approximately 75 cents per month for business) rates were imposed upon their Fayetteville customers through that process on October 15, 1985.

Carolina doesn't call for the all American democratic process of voting for those increases.

The reason is simple enough. They'd never get increases.

But here they want a vote from the large exchange when by their own statistics only 8% of the Fayetteville subscribers call Raeford in a given month.

In Raeford, however, the calling frequency to Fayetteville is one of the highest the Public Staff has ever seen, over 70%.

It is not likely that Fayetteville subscribers will gracefully accept a further rate increase of \$1.22 on the heels of the regrouping increase they just received.

Over the past 10 years, this Commission has routinely ordered EAS with polling the substantially larger exchange in situations like this: Parkton to Fayetteville EAS. Claremont to Hickory EAS, Quaker Gap to Winston-Salem EAS, Locust to Charlotte EAS, and Rockingham County EAS.

No Statute and no North Carolina court decision requires the polling of Fayetteville (or even Raeford) in this matter.

As stated at the beginning, the Commission faces a simple policy decision.

It can allow EAS for Raeford (applying the Raeford Matrix increase) with or without a poll, or it can decide that the Matrix increase should be applied to Raeford and Fayetteville, and, ignoring the unfair effect, order that Fayetteville be polled.

After all, if the Commission is not going to be bound by a poll of Fayetteville, why do it?

The negative results of such a poll could already be accurately predicted.

.Carolina Telephone sticking to approved rate method proved tariff which both parties

(Continued from page 1A)

Such cost studies were filed on September 1, 1985, and included data reflecting that the Company will not generate its total EAS revenue requirements even if the tariff rates are applied in both exchanges.

Hearings were held in Raeford on October 29, 1985, and in Raleigh on October 30, 1985, as directed by Commission Order issued on July 24, 1985.

used to determine the rates to be assessed to customers in Raeford. The Public Staff proposes to charge Fayetteville customers the existing rate of \$11.90 and Raeford

customers \$12.39 even though Fayetteville customers can call a larger number of access lines on a toll free basis. Although the Company presently has 586,000 customers who are paying EAS charges based on the

existing tariff rates and the Public

subscribers but he acknowledged that most EAS proposals are originated by subscribers in the smaller exchange.

Mr. Gerringer cited the high community of interest index but admitted that similar indexes in other areas have been higher.

Additionally, Mr. Gerringer pointed out that a 30-day calling study revealed that a high percentage of Raeford customers made toll calls to Fayetteville but wledged that. in actual numbers, more than twice as many customers make calls from Fayetteville to Raeford than Raeford to Fayetteville.

that the value of EAS is just as important to family members living in Cumberland County as family members living in Hoke County. Although the Public Staff's desire to obtain EAS for the citizens of Raeford is commendable, the means it uses to achieve that objective is not.

It seeks to accomplish its objective by ignoring a lawful tariff rate and providing free service to Fayetteville subscribers

change would be meaningless.

In fact, Mr. Gerringer admitted that a poll of Fayetteville could produce meaningful information for the Commission to use in balancing the public interest considerations which this Docket

The Commission has previously ordered the implementation of EAS following a negative vote in the larger exchange when it felt the nterest

Of the total body of Raeford subscribers, approximately 27.2% make no toll calls to Fayetteville and approximately 39.9% make less than seven calls per month.

Assuming similar calling characteristics, customers making less than seven calls per month would likely have increased telephone bills if EAS is approved.

Issues in controversy

The differences between the Company and the Public Staff in this Docket are narrow.

An understanding of those differences can be best understood by reviewing the following points on which the Company and the Public Staff are in agreement:

(1) The Public Hearing in Raeford demonstrated significant public support for EAS between Raeford and Favetteville.

(2) A poll should be conducted in Raeford to determine the extent to which the total body of Raeford subscribers favor EAS.

(3) The Raeford poll should be conducted on the approved EAS tariff rates of \$4.52 for residence one-party subcribers and \$10.78 for business one-party subscribers. (4) If EAS is implemented following the poll, Raeford subscribers should be charged the tariffed rates.

The principle difference between the Public Staff and the Company involves the rate to be charged to the Fayetteville subscribers.

The Public Staff proposes to implement the EAS with no increase in rates for Fayetteville subscribers while the Company proposes to charge Fayetteville subscribers rates developed under the same ap-

Staff has never before recommended that the tariff rate be disregarded, it recommends that an exception be made in this Docket because of an apparent belief that a poll of Fayetteville subscribers using the tariff rate might produce a negative vote and thus, outweigh other public interest considerations

While the citizens of Raeford have demonstrated a substantial interest in EAS to Fayetteville, the facts presented do not justify a waiver of the tariff rate for Fayetteville subscribers and, to do so, would constitute unreasonable discrimination.

Further, Carolina's EAS tariff represents a substantial part of the Company's rate structure, and since it was adopted under the context of a general rate proceeding.

Public Staff Witness Hugh Gerringer cited several reasons to justify his recommendation to waive the approved tariff rate.

While the factors noted by Mr. Gerringer tend to support conducting a poll in Raeford, they are not sufficiently compelling to justify the exception rate proposed for Fayetteville.

Witness Gerringer argues that the tariff rate should be ignored because the EAS proposal originated with the Raeford

In terms of messages, 38,315 messages were handled from Raeford to Fayetteville and 30,382 from Fayetteville to Raeford during the study period.

Although the Public Staff proposes to provide service free of charge to Fayetteville subscribers, Gerringer acknowledged that customers in Fayetteville who make calls to Raeford will benefit from the service and Fayetteville business customers also stood to benefit by having Raeford customers call their businesses on a toll free basis.

Many of the public witnesses who testified in Raeford agreed with Mr. Gerringer that the proposed EAS would benefit Fayetteville and Cumberland County as well as Raeford and Hoke County.

One witness testified that his Cumberland County real estate business will benefit by having EAS to Hoke County.

Other witnesses stated that their businesses will likewise benefit and also substantially reduce operating expenses by eliminating the need for foreign exchange service.

Some witnesses outlined personal calling needs which indicated

Such a proposal is unsupported by the record and contrary to law.

The Public Staff's recommendation is based on a fear, real or imagined, that use of the tariff rate will result in a negative vote in Fayetteville and that vote will be used by the Commission to deny the EAS request.

While the Public Staff apparentbelieves the R-1 increase of \$1.22 per month for Fayetteville is too high, such is not the case.

Even with the \$1.22 increase, the total monthly rate for Fayetteville would only be \$13.12 per month.

This is still less than the \$13.66 per month which Southern Bell charges for exchanges with a similar calling scope even though Carolina's territory is more sparsely populated.

Vote needed

Although Carolina believes, as a general rule, that votes in both exchanges should be considered, the Raeford to Fayetteville proposal involves an EAS arrangement between a very small exchange and a very large exchange.

For that reason, Carolina recognizes that a poll of Fayetteville is not likely to result in an overwhelming vote in favor of EAS.

This does not suggest, however, that a poll of the Fayetteville exoutweighed the negative vote in the larger exchange.

If the citizens of Raeford vote overwhelmingly in favor of EAS, the Commission can order the service implemented based on public interest considerations without ignoring the lawful tariff rate.

EAS tariff generally

Although the Public Staff indicates that it does not seek to abandon the EAS rating structure in this Docket, the impact of the Public Staff's recommendation will seriously jeopardize the rating plan as a valid pricing tool.

The Company's EAS plan was adopted in 1975 and, although its merits have been debated on several occasions, it has been retained.

If Carolina is forced to abandon its EAS rate structure, an im-mediate basic residential rate increase of \$2.41 per month will be required.

The uncontradicted testimony in this case is that the Company is presently experiencing an EAS revenue shortfall of \$4,416,951.

If the Public Staff proposal is accepted, the revenue shortfall will increase an additional \$526,893 to \$4,943,844

Even under the Company's proposal, an EAS revenue shortfall of \$3,168,933 will remain.

Carolina wishes to emphasize that it is not opposed to implementing EAS between Raeford and Fayetteville.

Conclusion

In fact, the citizens of Raeford demonstrated substantial interest in the proposal and clearly a poll of the Raeford exchange should be conducted.

If the customers of Raeford vote overwhelmingly in favor of the proposal, the Commission may consider the establishment of EAS at the tariff rates in both Fayetteville and Raeford based on the adverse economic circumstances of Hoke County and any other public interest considerations the Commission might deem appropriate.

If the proposal is approved in Raeford by less than an overwhelming majority, the Commission should conduct a poll of the Fayetteville exchange, evaluate the extent and strength of opposition in Fayetteville and balance the results of that poll against the public interest considerations raised by the citizens of Raeford and Hoke County.

If the EAS proposal is rejected by a majority of the subscribers in Raeford, this proceeding should be dismissed and the possibility of optional toll calling should be con-sidered as a possible method to meet the calling needs of specific subscribers.