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September 17, 2010

David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket No. UT-100562

Enclosed for filing are comments regarding the Washington Independent Telecommunications Association USF Concept Paper from AT&T Communications of the Pacific Northwest, Inc., New Cingular Wireless PCS, LLC, and TCG Seattle (collectively "AT&T") in the above mentioned matter. Please let me know should you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "David Collier", written over a horizontal line.

David Collier
Area Manager - Regulatory

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

Policy Statement to Review State) DOCKET UT-100562
Universal Service Policies)
)
) **AT&T**

**COMMENTS ON
WASHINGTON INDEPENDENT TELECOMMUNICATIONS ASSOCIATION
USE CONCEPT PAPER
BY AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC., NEW
CINGULAR WIRELESS PCS, LLC, AND TCG SEATTLE**

Submitted this 17th day of September, 2010

Cynthia Manheim by dac with permission

By: Cynthia Manheim, Esq., General Attorney

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I. INTRODUCTION

As the Commission articulated in its first workshop notice in this docket, “[u]niversal service – the widespread availability of telecommunications services at reasonable rates – is a long-standing policy of the State of Washington.”¹ The widespread availability of telecommunications service or in this new era, broadband service, is essential for “One Washington”. As Washington moves toward an all broadband world, elements of the PSTN will continue to serve a valuable role. As such, investment in the network in rural areas of the state is critical to ensuring continued universal service.

AT&T² appreciates the time the Commission has invested in conducting a much needed examination of universal service in the state of Washington. Reform is long overdue in the state. Washingtonians and the state economy will benefit from access reform with reduced long distance rates, facilities that are available for broadband, and a smooth transition to an all-broadband world. The Commission should take a leadership role and provide public policy guidance to the legislature on this critical issue.

II. DISCUSSION

A. WITA’s Proposal Contains Many Important Elements for Universal Service in Washington

There is general consensus among the interested parties that the current access charge system in Washington is broken.³ The current level of intrastate switched access rates results in overcharges to consumers all across Washington for wireline long distance service to subsidize artificially low local retail rates. As long distance minutes decline the access revenues of the

¹ Notice of Workshop (Scheduled for Wednesday, May 5, 2010, beginning at 9:30 a.m.); service date, April 14, 2010.

² AT&T Communications of the Pacific Northwest, Inc., TCG Seattle, and New Cingular Wireless PCS, LLC (collectively “AT&T”).

³ See AT&T Reply comments, page 1.

ILECs decline and cannot provide the same level of support for universal service.⁴ The current access regime is a hold-over from a monopoly era and is unsustainable in this new era of fierce competition, different modes of communication and transition to an all-broadband world. Comprehensive reform is needed today in the state of Washington; however, there are a number of different views on how this should be accomplished.

AT&T commends the effort of the WITA companies to put together and present a concept paper. The WITA companies' concept paper incorporates a number of aspects that have been suggested by various parties in this proceeding. Specifically, WITA's paper:

- Addresses concerns regarding companies receiving state universal service support in areas with facilities-based competition by limiting the amount of support available from the Washington Universal Service Fund ("WUSF") to only high cost areas for those companies serving more than 2% of the access lines in Washington;
- Incorporates comments that a LEC should first look to its own customers to recover reductions in access charges before receiving any money from a state universal service fund by establishing a statewide local retail rate benchmark to which local retail rates can be raised revenues and revenues will be imputed before the ILEC receives state universal service funds; and,
- Addresses concerns that some WITA companies may not need to receive any state universal service support by requiring a simplified earnings review.

While AT&T does not necessarily support all aspects of WITA's proposal, AT&T does support many of the overarching principles, such as:

- a. Reducing ILEC intrastate switched access rates to mirror interstate rates;
- b. Capping CLEC intrastate switched access rates at the rate charged by the ILEC area in which the CLEC competes;
- c. Setting a single statewide local retail rate benchmark to which ILECs must raise local rates or to which local revenues will be imputed before any money can be taken from a state USF;

⁴ From 2000 to 2009, total access lines in Washington have decreased by 36% and total access minutes of use have decreased by 50%. See presentation of Joel Lubin, AT&T, May 5, 2010.

- d. Limiting support from a state universal service fund to a single provider per geographic area;
- e. Recognizing COLR obligations and universal service support are inextricably linked and limiting receipt of state USF support to the provider with COLR obligations; and,
- f. Recognizing that plain old telephone service (“POTS”) will become obsolete at some point and the state universal service fund will need to change.

AT&T, however, has a concern with the concept in WITA’s paper that a LEC with fewer than 2% of the access lines in the state may also be able to receive high cost support from a state universal service fund. This would be in addition to any funds that the LEC would receive from a state universal service fund after rebalancing its local retail rates. AT&T believes that, at a minimum, any fund support above that which is necessary to rebalance access reductions should be subject to a complete earnings review.

B. AT&T’s Principles for Reform Are Similar In Many Respects to WITA’s

Although not nearly as detailed as WITA’s proposal, Joel Lubin in his presentation at the workshop on May 5, 2010, discussed the main components needed for reform in the state of Washington. AT&T also included these principles in its opening comments. AT&T has modified these principles slightly to take into account comments raised in this proceeding and has provided these principles below.

1. Reduce Access Rates: All Washington LECs should be required to reduce and maintain intrastate switched access rates to mirror that company’s corresponding interstate switched access rate level and rate structure; CLECs should be required to cap their intrastate access rates at the intrastate access rates of the ILECs with which they compete.
 - o This includes elimination of Traditional USF, ITAC, and CCLC rate elements; funding will be made up from retail rates (imputed up to benchmark) and/or state universal service fund (where necessary).
2. Recovery of Lost Access Revenues: A statewide uniform retail rate benchmark for local rates should be established to determine how much of the ILEC access revenue reduction would be recovered first from retail rates.
 - o ILECs should be allowed to offset access revenue reductions with the opportunity (but not the requirement) to increase retail rates up to the benchmark. No rate case proceeding would be required as the effect of such a change would be less than or

equal to current revenue levels. Access revenue reductions that exceed the benchmark can be recovered from a state USF.

- Since the retail rate increases up to the benchmark are optional, the benchmark rate would be imputed for calculation of ILEC's WUSF support.
- A transition may be necessary.

3. Establish a state USF:

- The contribution methodology should mirror the existing federal USF contribution methodology. If in the future changes are made to the federal contribution methodology, changes could be made to the Washington methodology as well.
- Contributors to the state universal fund should be allowed to recover their contributions from end user customers, such as through a separate line item on retail end user customer bills.
- Recipients of WUSF should have Carrier of Last Resort (COLR) obligations. There should be only one COLR per geographic area.

C. Size of a State USF

A number of parties raised concern about the need and the size of a state universal service fund in Washington. As AT&T stated in its reply comments, it believes that a state universal service fund should be as small as possible. There are three interrelated components that must be addressed to ensure universal service in the state of Washington: 1) reducing intrastate switched access rates; 2) rebalancing of local rates up to a statewide retail rate benchmark; and, 3) establishing a state universal fund. These three components can be thought of as three dials that inversely impact each other. For example, if carriers are required to reduce intrastate access rates to interstate levels and a statewide local retail rate benchmark is set at \$22, the state USF will be relatively small. Conversely, if the statewide local retail rate benchmark is set relatively low, \$16, then the state universal service fund will be larger.

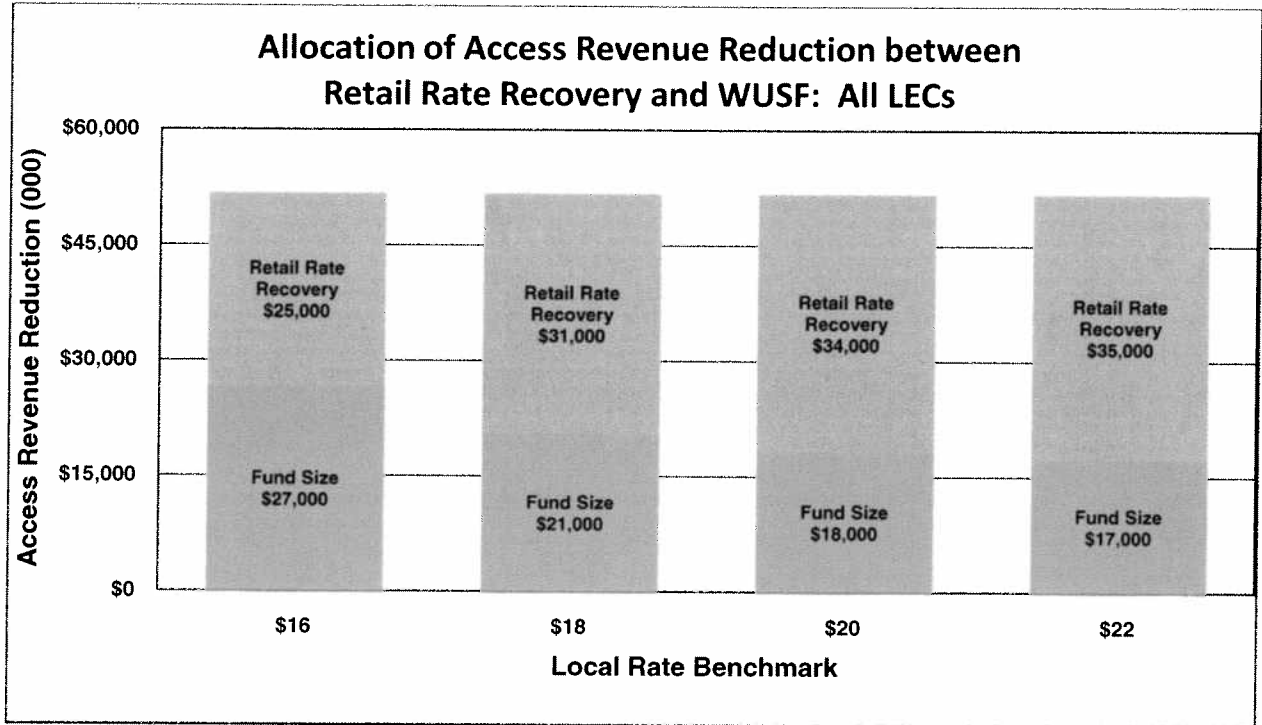
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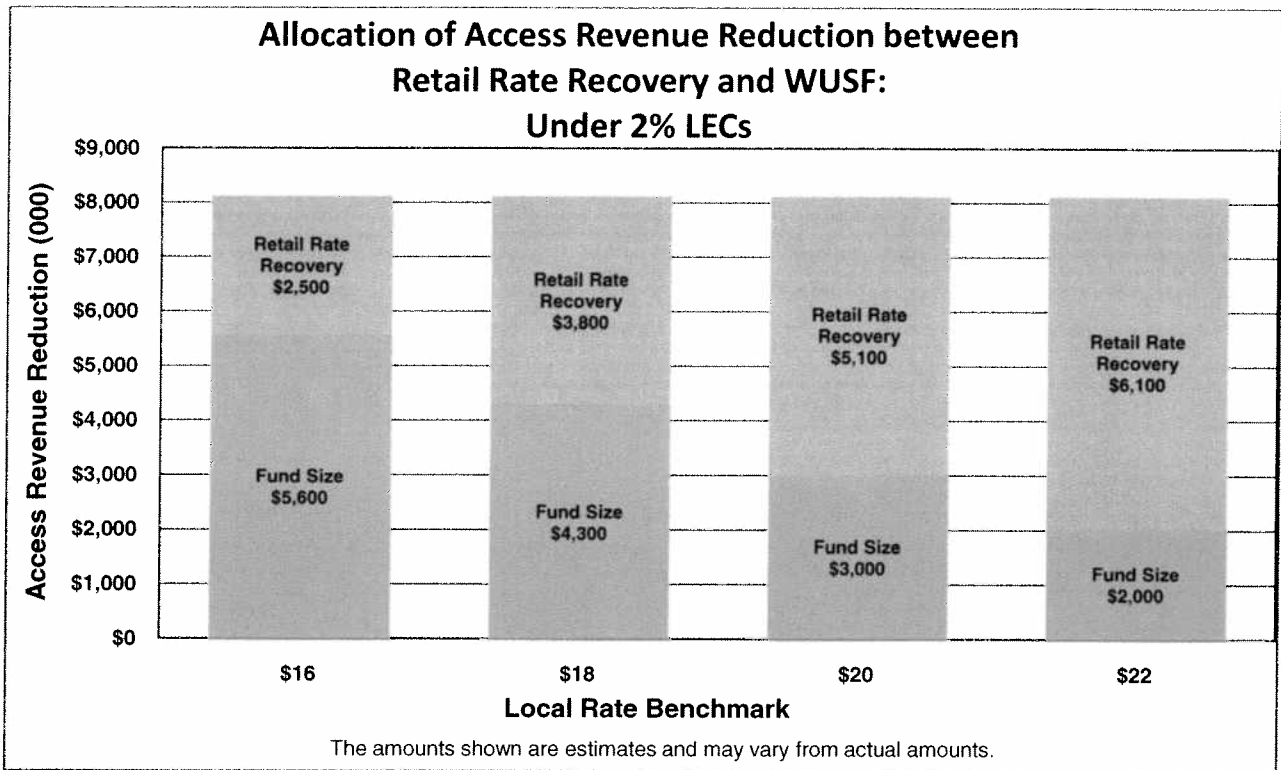
To highlight this relationship, AT&T has provided the charts below. These figures are estimates derived from publicly available data and some confidential AT&T data. More precise figures could be calculated if information was provided by all LECs.^{5 6}



In the chart below, AT&T provides an estimate of the size of a state universal service fund based on the WITA proposal for ILECs with fewer than 2% of the access lines in the state. These figures, however, exclude the high cost aspect of the proposal as AT&T does not have any data for this component.

⁵In its opening comments, AT&T suggested that the Commission should issue a data request to all LECs to obtain the information necessary to arrive at precise figures. While AT&T still believes that this method would ensure the most accurate result, AT&T, nevertheless, has provided its estimates to assist the Commission.

⁶ The local rate benchmark does not include the subscriber line charge or any other taxes or fees.



AT&T is not able to provide an estimate for the size of the fund based on WITA's proposal that ILECs with over 2% of access lines in the state would only receive support in high cost areas. This estimate could only come from the impacted LECs.

D. The Commission As the Policy Leader Should Provide Guidance to Ensure that Washington is Not Left Behind in the Preparation for an All Broadband World

For Washington to have a vibrant broadband network, access reform is needed. As AT&T discussed in its reply comments access reform is a proposal that will effectively and efficiently extend broadband access in Washington.⁷ The Governor's Broadband Advisory Council released a report which succinctly sets forth the goal for Washington state and broadband:

Washington's primary goal should be to support proposals that effectively and efficiently extend broadband access to every Washington resident and facilitate broadband adoption in ways that stimulate its economy and create sustainable jobs.⁸

⁷ See AT&T Reply Comments, page 6.

⁸ Enhancing Broadband in Washington: Effective Means to Improve Connectivity and Awareness, released July 17, 2009, http://broadband.dis.wa.gov/docs/Broadband%20Report_FINAL071709.pdf, page 4.

A number of participants at the May 5, 2010 workshop discussed the need for reform to set the foundation for a vibrant broadband network in the state. This should be a priority for the Commission.

E. The Commission Should Not Wait for the FCC to Resolve The Issue

There is no need for Washington to wait for FCC action to reduce intrastate switched access rates to interstate rates as this simply tracks reforms that the FCC undertook years ago.

Implementing access reform and the rebalancing local rates is consistent with the recommendations in the NBP which encourage states to complete rebalancing of local rates to offset the impact of lost access revenues, and move from local service rates set at levels that reflect old implicit subsidies to levels that are more consistent with cost. Not only will this action provide consumers the benefit of lower long distance rates, it will also prepare consumers for the all broadband world which is approaching rapidly and lacks a comparable subsidy mechanism.

In the first workshop, Carol Matthey of the FCC expressed her personal view that states should establish universal service funds.⁹ This will prepare states for the transition to an all-broadband world.

Further, reducing intrastate switched access rates to interstate levels now will make it easier to conform to the additional access reductions contemplated in the NBP. Indeed the NBP recommends that “the FCC should continue reducing ICC [intercarrier compensation] rates by phasing out per-minute rates for the origination and termination of telecommunications traffic.”¹⁰

A number of other states have recognized the benefits of access reform and have already acted on such reform. Georgia, Michigan and New Mexico are just a few of these states.

⁹ Audio tape of WUTC Workshop held on May 5, 2010. comments of Carol Matthey, FCC, starting at 3:01.

¹⁰ NBP, p. 150

At the Commission's first workshop staff and others presented compelling information about the significant decrease in the access minutes in Washington. To continue to provide for universal service in Washington, the state must act to provide stability for the rural LECs.

Last, not only will comprehensive reform of intrastate switched access rates benefit consumers, it will conserve Commission resources instead of forcing the Commission to deal with access reform in an ad hoc manner through individual complaint or rate cases.

F. Washington Consumers Will Benefit From Reform

Washington consumers will directly benefit when intrastate access rates are lowered in the form of reduced long distance prices. The savings that are experienced by interexchange companies such as AT&T are flowed through to consumers in the form of lower costs for long distance service. It is a simple economic principle that is proven true time and time again that when input costs are lowered in a competitive environment prices to consumers are lowered as well. The long distance market is clearly competitive. High access charges in Washington are therefore keeping the price for in-state wireline long-distance calls higher than they should be. As a result, consumers who place traditional long-distance calls from their home or office phone are paying much more than they should for long distance service. Dr. Debra J. Aron, a telecommunications economist, has shown that reducing access charge costs to the long distance provider reduces long-distance prices to consumers.

Specifically, statistical analysis of AT&T's data shows that on average in states that have undergone access reform, approximately 100% of the decreased access expenses are passed through to consumers. This means that on average, if a reform state's intrastate access cost is lower by one cent per toll minute, its retail intrastate long distance prices are lower by one cent per toll minute.¹¹

Further, as stated in the NBP, "[t]he continued decline in revenues and free cash flows at unpredictable levels could hamper carriers' ability to implement network upgrade investment or

¹¹ Dr. Debra Aron's paper, "*The Consumer Benefit of Regulatory Access Reform in Washington*" attached to AT&T's opening comments.

other capital improvements.”¹² Also, if companies do not have sufficient cash flows they will not be able to maintain networks that have already been upgraded.

G. The Commission Does Not Need To Solve All the Details of Universal Service Reform Today to Move Forward with a Recommendation to the Legislature

To preserve and enhance telecommunications service in the state, the Commission must issue policy direction and a recommendation to the legislature to ensure universal service continues in the state.

As the body in this state that is charged with developing telecommunications policy, AT&T respectfully submits that it is the responsibility of this Commission to further the universal service policies of this state and develop policies and recommendations in that regard. This Commission advocated that the FCC should not take jurisdiction away from state commissions in the area of intercarrier compensation stating that, “[d]espite the [FCC’s] efforts to effectively ‘federalize’ all aspects of intercarrier compensation, the fact remains that state commissions are closest to consumers and the specific aspects of the provision of telecommunications service in their markets...”¹³ The Commission must take a leadership role and provide policy direction in the state of Washington.

The filed comments and discussion at the workshops provide the needed basis for the Commission to move forward at this time with a policy statement and recommendations to the legislature. Indeed, AT&T submits that a policy statement and a recommendation to the legislature can be accomplished by adopting the broad concepts set forth in AT&T’s overarching principles. The WITA concept paper has a lot of specifics that do not need to be resolved today and could instead be resolved in future rulemakings. This would allow the state to continue to move forward with this important issue so that Washington is not left behind.

¹² NBP, p. 142.

¹³ *High-Cost Universal Service Support*, WC Docket No. 05-337; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45; *Lifeline and Link Up*, WC Docket No. 03-109; *Universal Service Contribution Methodology*, WC Docket No. 06-122; *Numbering Resource Optimization*, CC Docket No. 99-200; *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket No. 96-98; *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92; *Intercarrier Compensation for ISP-Bound Traffic*, CC Docket No. 99-68; *IP-Enabled Services*, WC Docket No. 04-36, FCC 08-262 (rel. November 5, 2008), page 4.

III. CONCLUSION

Access reform is long overdue in the state of Washington. Washingtonians and the state economy will benefit from access reform and will ensure that the facilities are available in Washington for a broadband future. Intrastate switched access rates should be reduced to interstate levels as the old access charge regime simply cannot and should not be sustained, and because consumers should not be made to wait for the benefits of those reductions any longer. At the same time, the offsetting local price increases can be implemented gradually – using the WUSF as a transitional tool – so that consumers do not see sharp increases in local service rates, and a state fund can be very small thus allowing rural LECs a fair opportunity to make up for the reduction in access revenues.