

Agenda Date: July 26, 2006  
Item Number: **A4 and A5**

**Dockets:** **UT-060920**  
**UT-060921**

Company Name: Westgate Communications (d/b/a WeavTel) (WeavTel)

Staff: Bob Shirley, Telecommunications Policy Analyst  
Tim Zawislak, Regulatory Analyst

### **Recommendation**

Take no action on the tariff filings in Docket UT-060920 and Docket UT-060921.

### **Background**

WeavTel is a local exchange company that has been designated an eligible telecommunications carrier in Stehekin. The company is not yet providing dial tone or a connection to the public switched telephone network; it has no customers.

#### New Local and Access Tariff – UT-060920

WeavTel has tariff (WNU-1) in effect. On June 2, WeavTel filed a new tariff (WNU-2) to replace the current tariff. On June 20, WeavTel filed a replacement page at the request of staff that states the WECA carrier common line originating and terminating access rates are “not applicable,” as well as other minor corrections. On June 23, WeavTel extended the effective date of the tariff from July 2 to July 15. On July 7, WeavTel again extended the effective date of the tariff; it will take effect July 28. A representative of the company informed staff that the company expects to offer service before the end of July.

The most significant changes in the new tariff are:

- **Increase local rates** – WeavTel proposes to increase local rates from \$16.00 to \$25.00 for residential service and from \$32.00 to \$35.00 for business service.
- **Reduce switched access charges** – The new tariff reduces access rates. The existing tariff access rates, with no WECA additives, have combined originating and terminating charges that equal \$0.230 per minute. The proposed access rates, also without any WECA additives, when combined equal \$0.134 per minute.
- **Eliminate the vacation rate** – The new tariff removes the “vacation rate,” which is available to residential subscribers in the current tariff. The vacation rate is one-half the normal monthly rate and there is no outward or inward service during the time the customer is paying the vacation rate.

#### New E 9-1-1 Tariff – UT-060921

This tariff establishes rates, terms and conditions for enhanced 9-1-1 service. It does not replace an existing tariff. The rates, terms and conditions are similar to 9-1-1 tariffs of other small companies.

### **Analysis**

Staff believes that the changes made by the company in WNU-2 are reasonable, particularly in comparison to the tariffs of other small companies with low customer densities and revenues, such as Western Wahkiakum and Beaver Creek.

**Local rates** – The increase in local rates addresses the UTC’s recent concern, expressed during discussions of WECA revenue pools, that customers should bear a greater share of the costs of providing service in a more remote area. The existing rates are approximately what Verizon charges in Chelan.

**Access rates** – The proposed WeavTel combined access charge of \$0.134 per minute matches very closely to the non-WECA access charges of Western Wahkiakum County Telephone Company (Western Wahkiakum) for the Grays River exchange end office (the difference is due only to rounding).

If the ultimate decision in Docket UT-060762 is to provide a WECA revenue objective for WeavTel, then WeavTel could file a new tariff sheet at that time that concurs in the applicable WECA rate(s). In the event WeavTel does not receive a WECA revenue objective, it could file a tariff with substantially higher non-WECA access rates and that tariff would be subject to commission review.

**Vacation rate** – Practices vary widely among local exchange companies regarding the charges that apply when a home will be temporarily unoccupied. The issue can arise in situations where a home is occupied seasonally, as with a vacation home or “snowbirds,” and in situations where a home is unoccupied for several months between tenants or owners.

Many customers who occupy homes on a part-time basis contend that they should not have to pay for telephone service when they are not using it. This view, however, does not necessarily account for the large fixed costs of building and operating a telephone network. The proposal by WeavTel to remove its vacation rate is a reminder that the commission has no rules or explicit policies concerning vacation rates.

WECA pool support, above-cost access rates, and federal universal service are provided for the benefit of customers. These mechanisms provide funds to support the construction and operation of telecommunications plant and equipment in locations where revenue from customers is insufficient to support service. Construction of plant and equipment results in fixed costs that must be paid even if a particular line is not in service and generating revenue.

There are three circumstances that have caused questions to be asked concerning the appropriate level of contribution to fixed costs:

- Rental property.
- Seasonal rental property.

- Seasonal (second) homes.

The question is whether houses used for these purposes should receive the benefit of universal service support to the same degree as owner-occupied houses generating revenue twelve months a year (rental property is listed because vacancy is commonplace).

The commission has addressed all three of these circumstances only in one policy. In the service extension rule, WAC 480-120-071, the commission requires extensions at supported rates to individual houses (not residential developments), but requires extensions to businesses only if businesses pay the cost of extension. The rule is specific with respect to the requirement to use support to extend to residences that may experience only seasonal or intermittent use.

It is difficult for a telecommunications company to know if a house will be used as a rental, used seasonally or intermittently, or used year-round. A house that can be determined at a point in time to be used seasonally or intermittently may, at a later time, be used year-round as owner occupied housing. Later still, the house can revert back to a rental, seasonal rental, or be purchased as a seasonal (second) home.

Faced with the uncertain and variable use for houses, telecommunications companies typically do not distinguish one residential customer from another based on the use and occupancy of the house. This is especially true when it comes to construction of plant and equipment to serve an area. It would be impractical and inefficient to build a network that connected only those houses that are owner occupied and then to return several times over a period of years to construct new plant in the same neighborhood as the ownership and use of individual houses changes. The result is that in areas where service is supported (just as in area where there is no support), plant will be constructed to homes where service will not be provided year-round and there will be periods when expensive plant is not providing service that is generating revenue.

Once plant is constructed and equipment installed, contribution to fixed costs comes from those who use service. The basis of payment is the type of service and its duration. An exception to this method of charging for service occurs when a customer has entered into a contract with a competitive local exchange carrier (CLEC) and agreed to pay an early termination fee. The purpose of the early termination fee is to compensate the CLEC for expenses not recovered when monthly payments cease. This is an exception to the common experience of residential local service customers because, unlike CLECs, incumbent local exchange carriers make most of their investment in advance of service and without a contract.

Just as the commission has no rule or policy that concerns the proper contribution to fixed costs by rental houses, seasonal rental houses, and seasonal (second) homes, telecommunications companies have no uniform approach to vacation rates. The majority has no vacation rate tariff (so WeavTel will join the majority), but several have a vacation rate.

One company, Whidbey Telephone, has a vacation rate that is available only in its Point Roberts exchange, which has many second and rental homes. The vacation rate is 50% of the \$9.40 monthly local service rate. If equipment permits, outgoing calls may be made while the vacation rate is in effect.

FairPoint, which serves Ellensburg (at rates less than 35% of those proposed by WeavTel), uses supported plant and equipment to provide service to thousands of college students who rent houses off campus on a seasonal basis. It does not have a vacation rate but offers a number reservation service for \$2.50 per month and a non-recurring charge of \$20.00 payable only when (and if) service is restored with the reserved number.

Vacation rates and contribution to fixed costs by customers who use houses in different ways has not been addressed directly by the commission in recent memory. The commission has addressed *indirectly* customer contribution to fixed costs as recently as June. In the establishment of the revenue objective for Beaver Creek Telephone Company, the expected local revenue subtracted from the total amount of necessary annual revenue was calculated by assuming all lines in service would generate twelve months of revenue. In other words, the company's WECA revenue objective (support) is not greater when there is seasonal or intermittent use, and only seasonal or intermittent payment, for telephone service.

Similarly, WeavTel submitted revenue projections in UT-060762 that assume each line in service will generate revenue twelve months a year. The new tariff raises rates from \$16.00 per month to \$25.00 per month for residential local service. Any change to the tariff that would require rental house owners, seasonal renters, or seasonal (second) home owners to pay WeavTel for twelve months of service even if less than twelve months of service is used will only result in payments to WeavTel, not in any greater contribution to fixed costs.

Staff believes that WeavTel's proposal not to offer a vacation rate is within the range of practices by local exchange companies in this state and does not warrant further examination by the commission. WeavTel may propose to add a provision addressing seasonal or intermittent service once it has more experience with the actual pattern of service connection and disconnection among its customers in Stehekin.

### **Summary**

Staff recommends that the commission take no action on WeavTel's tariffs WNU-2 and WNU-3.