

Agenda Date: November 27, 2002  
Item Number: A3

**Docket:** UT-021453  
**Company:** Computers 5 \*, Inc., d/b/a LocalTel  
**Staff:** Tim Zawislak, Regulatory Analyst  
Bob Shirley, Policy Analyst

**Recommendation:**

Issue an order approving a staff recommended revised 2003 revenue objective for LocalTel, of \$597,753; with \$159,257 allocated to the interim terminating pool and with \$438,496 allocated to the carrier common line originating pool.

**Background:**

On November 7, 2002, Computers 5\*, Inc., d/b/a LocalTel (LocalTel) filed its Petition for approval of a stated revenue objective with the goal of gaining acceptance into the Washington Exchange Carrier Association (WECA) Washington Carrier Access Plan (WCAP)<sup>1</sup> carrier access charge pooling mechanism(s), as allowed for in the Commission's Ninth Supplemental Order in Docket UT-971140, dated June 28, 2000.

This petition was filed, according to LocalTel, as a result of the increased price it must pay for unbundled network elements to serve customers in some of the areas that are considered high-cost for incumbent companies.

LocalTel is a small competitive<sup>2</sup> local exchange carrier (LEC) based in East Wenatchee, Washington. The company provides local, toll, and other services via a combination of its own facilities, unbundled network elements, and resale to customers located in the north-central areas of the state; which, for example, is in places like Wenatchee, Cashmere, Leavenworth, and Pateros, among others.

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<sup>1</sup> See paragraph #2 which describes the plan as covering "three voluntary access pools," and paragraph #9 which states that, "[a]ny LEC shall be eligible to participate," in the interim terminating and originating revenue pools.

<sup>2</sup> Pursuant to RCW 80.36.320(1), the company was classified as a competitive telecommunications company on November 15, 1999, in Docket UT-991575.

Because the company is a rural competitive LEC with its own switch, LocalTel purchases higher priced deaveraged loops<sup>3</sup> from companies such as Qwest and Verizon in order to connect its switch with most of its customers in the areas it serves. In its prior interconnection agreements LocalTel was able to purchase loops at a statewide average cost. Now, subsequent to issues being resolved in Docket UT-960369, et al.,<sup>4</sup> the company must begin paying deaveraged loop costs.

The following table is an example of these loop costs prior to deaveraging, subsequent to deaveraging, and the increase, as well, for the cities mentioned:

	Deaveraged Zone <sup>5</sup>	Prior to Deaveraging	Subsequent to Deaveraging	Increase
Wenatchee	V-3	\$13.92	\$20.11	<b>\$ 6.19</b>
East Wenatchee	V-4	\$13.92	\$23.36	<b>\$ 9.44</b>
Cashmere	V-5	\$13.92	\$49.85	<b>\$ 35.93</b>
Leavenworth	V-5	\$13.92	\$49.85	<b>\$ 35.93</b>
Pateros	Q-5	\$11.86	\$11.86	<b>\$ 6.84</b>

Discussion:

LocalTel originally filed for a WCAP revenue objective of \$1,305,912. The company has since revised that figure to \$629,974, through a letter and attachments received by the Commission on November 21, 2002. The amounts are also now specified for each pool (e.g. how much is to be pooled through the originating pool vs. the terminating pool).

Based on its projected loop costs LocalTel proposes a \$159,257 revenue objective from the interim terminating pool and a \$470,717 revenue objective from the originating carrier common line pool.

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<sup>3</sup> Pursuant to the Commission's 24<sup>th</sup> Supplemental Order in Docket UT-960369, et al.

<sup>4</sup> The first generic cost docket which resulted from state implementation of FCC rules pursuant to the federal Telecommunications Act of 1996.

<sup>5</sup> V = Verizon and Q = Qwest for purposes of the tables included in this memo.

### The WECA Pooling Mechanism

This petition represents the first one of its nature to come before the Commission. LocalTel seeks entry into, and a revenue objective for, the Washington Exchange Carrier Association pool. The WECA pool was created through a docket begun in 1985 and assists companies with relatively few access minutes to recover a portion of their revenue objective. Many smaller companies with very few access minutes pool their access minutes with a few companies that have significantly larger numbers of minutes and the result is the access rate for these minutes is substantially lower than it would be for some of the very small companies if their were no pooling.

The WECA pool and the associated access charges are a part of the rates that result in providing sufficient universal service support so the participants in the pool can meet their revenue needs. Companies are not required to be eligible telecommunications carriers (ETCs) in order to participate in the pool because it is not a state program. Likewise, LocalTel is not an ETC.

The current members<sup>6</sup> of the WECA pool are incumbent carriers that are rate-of-return regulated companies. There is no requirement that companies be of that type to participate. Indeed, the WCAP settlement anticipates other companies joining the pool.

### Competitive Classification of LocalTel

As a competitive company, LocalTel has traditionally filed a price list for the services it offers. However, WECA files with the Commission through tariff rates in order to carry out its pooling mechanisms. Even after LocalTel enters WECA (to be accomplished through a subsequent filing) it will still be subject to effective competition from Qwest and Verizon in the respective service areas. If LocalTel chooses to pursue additional additives through a tariff,<sup>7</sup> Staff believes that the company would then be subject to the regulatory obligations that would

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<sup>6</sup> A list of the current WECA members is included as Attachment 1.

<sup>7</sup> Although LocalTel has filed a new intrastate switched access service tariff in Docket UT-021452, it is Staff's understanding that that tariff will become unnecessary if LocalTel is accepted into

apply through the newly established rule codified in WAC 480-80-201(2). Staff also believes that the rule may be applicable at such time when LocalTel becomes a member of WECA because of the tariff issue. However, that has not occurred yet, and will not occur until WECA makes a tariff filing including LocalTel and such tariff has a chance to become effective.

Staff's Recommended Revised Revenue Objective

Staff supports the idea of revising the original filing and offers further modifications as shown below in order to more precisely<sup>8</sup> determine the LocalTel-WCAP revenue objective:

<b>Staff Recommended Revised WCAP Revenue Objective for LocalTel</b>						
	<b>V3</b>	<b>V4</b>	<b>V5</b>	<b>Q5</b>	<b>Total</b>	
Loops	2,195	907	733	194	4,029	Lines
Increase/Loop	\$6.19	\$9.44	\$35.93	\$6.84	\$12.36	Average increase per line
Total Increase	\$163,045	\$102,745	\$316,040	\$15,924	<b>\$597,753</b>	<b>Total Revenue Objective</b>
					\$159,257	Terminating Pool
					\$438,496	Originating Pool

Recommendation:

Staff recommends that the Commission issue an order approving a staff recommended revised 2003 revenue objective for LocalTel, of \$597,753; with \$159,257 allocated to the interim terminating pool and with \$438,496 allocated to the carrier common line originating pool.

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WECA's WCAP access charge pooling mechanism. Docket UT-021452 is not scheduled for Open Meeting consideration until December 31, 2002.

<sup>8</sup> The modifications utilize a more disaggregated, and therefore more precise, identification of the loop costs, by company, and by zone. LocalTel has identified the lines within each zone as part of its supporting documentation as part of its revised filing, which Staff has elaborated upon above. Attachments 2 and 3 reflect Qwest's and Verizon's current deaveraged zone loop costs.