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Ms. Carole Washburn
Executive Secretary
Washington Utilities and
Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Docket UT-073014 – Rulemaking
Qwest's Comments re Telecommunications Service (Line) Extensions

Dear Ms. Washburn,

Qwest Corporation ("Qwest") makes this filing in response to the Commission's *Notice of Opportunity to File Written Comments* regarding the Commission's inquiry to examine whether new or revised regulations are needed to govern telecommunications service extensions.

Introduction

In its August 14, 2007 *Notice of Opportunity to File Written Comments* on a rulemaking concerning telecommunications service (line) extension, the Commission expressed its interest in determining if the current rule provides the correct balance of obligations among consumers and providers and if limits should be established on line extensions to circumscribe the obligations of local service providers to extend service. Qwest applauds the Commission for this timely inquiry and believes that the significant changes in the telecommunications industry warrant changes to WAC 480-120-071, the 'line extension rule'. Such changes include the growth in the number and availability of alternative service providers (including wireless, satellite, cable and VoIP), the expansion of wireless network coverage areas, and the proliferation of high cost rural residences and developments. Although Qwest offers only general comments in this filing regarding how the line extension rule could be modified to reflect the current environment, it believes that there is enough unity in the industry to craft a specific proposal that would more fairly balance the obligations of service providers and customers for the extension of service.

WAC 480-120-071 Extension of Service ("the Line Extension Rule")

The problems associated with the current line extension rule are fourfold. First, the rule is difficult to administer because there are no specific limits to the cost that companies are expected to incur to extend service and the existing customer cost-sharing requirement does not reflect the current economic realities of extending service. Second, although the current rule does allow for alternative service arrangements through the use of radio communications, it does not fully recognize, nor utilize, the availability of many alternative providers that may be Eligible Telecommunications Providers ("ETC") providing service in the area. Third, the cost recovery mechanism in WAC 480-120-071(4) is administratively unworkable due to the burdensome regulatory and accounting processes associated with it. Finally, the waiver process in WAC 480-120(7) creates a significant and costly regulatory process for the companies, the Commission and the customers.

- **Inequitable Cost Recovery**

  The current rule requires customers requesting a line extension to make an initial payment of approximately $250 and subsequent payments totaling another $250 over the following 20 months. The costs of line extensions can vary greatly, but will typically average around $10,000. The values of properties where customers are seeking line extension often exceed $500,000 and may reach over $1,000,000. Qwest believes that this allocation of cost recovery is skewed and that it consequently provides uneconomic incentive for customers to ignore the true cost of their line extension. Even if the company is allowed to recover its cost via the cost recovery mechanism, (discussed in further detail below), this still represents a cross subsidization that is ultimately being paid by other subscribers.

- **Alternative Service Providers**

  The current rule allows any company that is required to extend service to do so by making a service and financial agreement with a radio communications service company or other alternative provider to provide service as long as the service is reasonably comparable in price and quality to the service to be extended.[1] In today's competitive environment where multiple ETCs apply for universal service funding in service areas where line extensions are being requested, it is simply unfair that responsibility for service extensions should be borne solely by the incumbent wireline service provider. Furthermore, regardless of the ETC status of an alternative provider, if comparable alternative service is available at a fraction of the cost, customers should be required to avail themselves of the alternative service before the incumbent wireline provider is required to engage in a costly extension of service.

[1] WAC 480-120-071(2)(c)

- **WAC 480-120-071 (4) Cost Recovery Mechanism**

  Although a cost recovery mechanism is available to companies under the rule,[2] the process involves developing a cost study for each line extension for review and approval by the Commission, filing a tariff to recover the allowed cost from a rate element to be charged on terminating switched access minutes of use within a twelve month time span, filing additional tariffs to recover or remit additional costs or overages, and filing quarterly and final reports on the amounts recovered. On a parallel track, any rate-of-return regulated companies that utilize this cost recovery mechanism must also ensure the proper accounting for such transactions. Because of the significant administrative overhead of the regulatory and accounting processes associated with the cost recovery mechanism, Qwest has never attempted to recover its line extension costs using the mechanism. Finally, as was mentioned in the previous section, use of the cost recovery mechanism represents a cross-subsidy for line extensions that must be borne by other subscribers. Such uneconomic subsidies cannot be maintained in a competitive environment.

- **WAC 480-120-071(7) Waiver of Line Extension Obligations**

  The current rule allows companies to petition the Commission for waiver of the line extension rule based on a number of factors that the Commission evaluates in determining whether the particular line extension is reasonable and consistent with the public interest.[3] Although the waiver process would seem to be an important part of any such rule, the history of waivers is one of contentious, lengthy, and costly proceedings that consume the resources of the companies, the commission, and the customers. Qwest believes that if the line extension rule is modified to provide an equitable distribution of obligations and reasonable cost sharing allocations, the need for waivers will be limited.

Recommendation for Modification

Qwest believes that the current line extension rule can be modified to provide companies, customers and the Commission with a predictable and balanced process that eliminates the administrative burdens associated with tariff filings and lengthy waiver proceedings. The key changes are to establish predictable limits for cost responsibility and a fair allocation of the cost, and to ensure that the most cost effective service is provisioned to the customer. In any line extension evaluation, the first step should be to determine if there is an alternative provider that can provide service to the customer at a reasonable cost. For example, if existing wireless service is available to the customer and the cost of extending wireline service is above a certain threshold, the wireline service extension should not be required. If an existing alternative service is not available, then all of the ETCs serving that area should be required to provide extension of

[2] WAC 480-120-071(4)
[3] The factors the Commission considers in evaluating waivers include the cost of the extension, the number of customers service, the availability of comparable alternatives, technical difficulties and physical barriers presented by the line extension, and the effect on customers, the community, the public switched network and the company.

service cost estimates to determine the most cost effective means of serving the customer. ETCs that won't participate in the extension of service evaluations should not be allowed participate in Universal Service Fund distributions.

For line extension applications where the incumbent wireline provider is the only service provider in the area, a reasonable and equitable cost sharing process should determine how the line extension will be funded. For example, for line extension costs up to $2,000, the wireline company could be responsible for a threshold amount of $1,500 and the customer could be responsible for a threshold amount of $500. If the cost exceeds $2000, the company and the customer could be responsible for sharing the cost up to $7,500. So for a $7,500 line extension job, the company would be responsible for $4,250 of the total cost and the customer would be responsible for $3,250 of the total cost. For line extensions that exceed $7,500, the customer would be responsible for all costs. Although these dollar amounts are illustrative, the concept is a practical cost sharing proposal that would provide a fair distribution of cost and certainty for planning purposes. Furthermore, it would eliminate the need for uneconomic cross-subsidy funding and costly and time-consuming waiver proceedings.

Conclusion

Qwest appreciates the opportunity to participate in this rulemaking and is committed to working with Commission and other parties to make modifications to the line extension rule that will make the process easier to administer and provide a more balanced allocation of service obligation and cost responsibility.

Sincerely,

Mark S. Reynolds