

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of Rulemaking Concerning) UT-991737
Line Extension Tariffs)**

COMMENTS OF GTE

December 10, 1999

GTE Northwest Incorporated and GTE Communications Corporation (collectively, "GTE") respond to the Commission's November 19, 1999 Notice of Opportunity to File Written Comments in this docket. GTE provides responses to the nine questions set forth in the Notice and, as invited in the Notice, provides additional general comments on the subject matter of line extensions.

In this docket, the Commission should bear in mind the following important points:

The question of what a Commission rule should require as to "line extension tariffs" is a portion of the overall issues that the Commission should be addressing with regard to "obligation to serve" and the establishment of sufficient competitively neutral Universal Service support.

While the Commission's Notice specifically mentions line extension "tariffs"

and refers to "incumbent local exchange companies (ILECs)," the requirement to have competitively neutral rules necessitates that the Commission ~~also either~~ consider line extension provisions in the larger context, ~~price lists of~~ including competitive local exchange companies ("CLECs"), or consider only applying line extension provisions to Eligible Telecommunications Carriers "(ETCs)".

While most line extension requests relate to basic service for residence customers, Commission rules, company tariffs, and price lists must also take into account line extension requests for other services.

QUESTION 1

What should the purpose of line extension charges be?

GTE RESPONSE

As stated in the Commission's current "Line extension policy" rule (WAC 480-120-071), the line extension provisions of tariffs (and price lists) state the "terms and conditions under which extensions of [the company's] lines and services will be made to render service to applicants." Thus, line extension charges are the price paid by an applicant to obtain an extension of lines and services from a telecommunications company under the terms and conditions of its tariff or price list.

The purpose of line extension charges should be to fully compensate the company -- in combination with monthly rates for services rendered -- for its actual costs of providing service to the applicants, without burdening other customers by the creation of implicit support flows.

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The same types of costs are also incurred by companies when they "reinforce" their existing facilities to serve new applicants. Just as the Commission must allow companies to fully recover their actual line extension costs, it must similarly provide for the full recovery of any mandated reinforcement costs. Therefore, any changes to the Commission's line extension rule should also apply to reinforcements.

QUESTION 2

How should the rate-making standards of "fair, just, reasonable, and sufficient" be measured when applied to line extension charges?

GTE RESPONSE

Charges that cover the full actual cost of providing service are "fair, just, reasonable, and sufficient."

QUESTION 3

What are some of the pitfalls¹ in the current line extension tariffs? What are some possible solutions?

GTE RESPONSE

To the extent that any company's line extension charges do not -- in combination with

¹ "Pitfall" -- Trap, snare; a hidden or not easily recognized danger or difficulty. Webster's Ninth New Collegiate Dictionary.

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monthly service rates -- fully recover the actual costs of providing service, cross subsidies or implicit support flows are created, causing the rates for other services and customers to be higher than cost-based, market rates. Any such situations should be solved by adjusting rates to cost-covering levels and/or providing external support in order to fully cover the actual costs of providing service.

QUESTION 4

How have companies traditionally recovered their full cost for line extensions? Are there other ways for companies to recover costs of line extension that would reduce large costs to customers?

GTE RESPONSE

The answer to the first part of this inquiry probably varies from company to company. The \$440 per tenth mile rate in GTE Northwest's line extension tariff dates from an early 1980s rate case and was, at that time, based on a cost study that established this figure as the average actual cost of the installation of line extension facilities. Not surprisingly, that figure is substantially out of date. GTE Northwest estimates its current costs are four or more times that twenty year old figure. In the years since the \$440 rate ceased to fully cover the company's actual out-of-pocket line extension costs, the shortfall has been made up from the general body of ratepayers by means of implicit support borne by rates set above cost-based, market levels for services such as access, toll, business and vertical. See GTE's response to Question 3 for other cost recovery approaches.

It must also be borne in mind that a company's costs of serving customers located on line extensions are not limited to the out-of-pocket construction costs on which line extension

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charges were traditionally based. The company's costs of serving those customers includes not only these construction costs, but also other costs of the existing outside plant facilities, of the switching facilities used by the new customers, and of all other types of costs generally applicable to the services in question -- both direct and common. Thus, where a company has installed a line extension to provide service to new customers but is limited to charging a monthly rate that does not even cover the full actual cost providing service to pre-existing customers, the company would fail to cover its full actual costs even if the line extension charges were sufficient to cover the incremental construction costs.

QUESTION 5

What part, if any, of line extension charges does, or should, universal service mechanisms support?

GTE RESPONSE

In Washington no universal service mechanism presently supports line extension charges. The only current mechanism that provides support to customers with regard to telecommunications charges is the Washington Telephone Assistance Program. It specifically excludes support for line extension charges [WAC 480-122-010(8)].

As noted in GTE's response to Question 3, to the extent that the Commission determined cost-covering line extension charges to be higher than an affordable level, it should provide support from an external source. For line extensions installed for the purpose of providing basic service, that support should be a Universal Service Fund, and the support should be made available to eligible telecommunications carriers ("ETCs").

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QUESTION 6

Can cost-recovery mechanisms be established that would allow a service provider, other than the local exchange provider, to extended service to rural areas in need of telephone service? What might they be?

GTE RESPONSE

Yes. Support for line extensions made to provide basic service could be provided to any ETCs as part of a Universal Service Fund program.

QUESTION 7

Is a uniform line extension policy appropriate?

GTE RESPONSE

In general, yes. Any Commission imposed line extension requirements must be competitively neutral, but they may not be barriers to entry. A line extension rule that mandated companies make investments and incur other costs but did not provide for full recovery of those costs would be a barrier to entry.

Consistent with the requirement of competitive neutrality, a special line extension policy might be applied to ETCs operating under a Universal Service program, provided that sufficient support is made available to fully recover actual costs.

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QUESTION 8

No two line extensions are alike. Variables will include whether an extension is a rural or urban area; whether access to the community is controlled by a gate; whether the extension is in a development; the weather conditions; whether the residents face health concerns or physical challenges. Which of these, or other, variables are appropriate exceptions to a uniform line extension policy?

GTE RESPONSE

A line extension policy can be uniform, i.e., competitively neutral, and still be flexible enough to accommodate the various situations described in the question.

Some of the situations mentioned in the question illustrate that the cost of serving customers located on line extensions is not limited to the initial incremental construction costs. For example, the rural nature of an area and winter weather conditions can result in ongoing maintenance costs significantly higher than a company's average maintenance costs.

QUESTION 9

Should a rule that applies to large-size carriers (GTE, United, U S WEST) apply to medium-size carriers? To small-size carriers?

GTE RESPONSE

Yes. See GTE's responses to Questions 7 and 8.

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