BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Commission's Inquiry Concerning Line Extension Tariffs	)))))))))	No. UT-991737 **Comments of U S WEST**

I. INTRODUCTION

U S WEST appreciates the Commission's inquiry into the line extension issues faced by residents and telecommunications companies in Washington and the opportunity to comment on the future direction of line extension policy. U S WEST agrees that the existing line extension policies in Washington present problems of cost recovery for telecommunications companies and affordability for residents—especially rural residents. These problems and the inextricably linked issues of a carrier's obligation to serve and universal service should be addressed in Washington. However, U S WEST does not support a change to Washington's line extension rule, WAC 480-120-071, because changing the line extension rule is not the appropriate vehicle for resolving these problems.

U S WEST believes that the best forum for a discussion of the most pressing line extension issues is in the context of the larger inquiry into a carrier's obligation to serve or the inquiry into

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universal service (or both). It would be a disservice to customers and to the goals of the Commission's obligation to serve and universal service inquiries to address the components of those inquiries—such as line extension—on a piecemeal basis. The two main issues presented by the current line extension system—the inability of carriers to recover their expenses and the costs passed-on to customers—are both linked to the larger issue of how to serve all customers in this new competitive telecommunications environment and what obligations ought to be placed on all carriers to serve them.

Under the line extension regime as it was originally envisioned, the cost causer, or the person requesting line extension, was expected to bear the cost. Over time, this has evolved such that the costs of expanding the network throughout the state are borne by all users of the network as well as the cost causer. Through a carefully balanced web of subsidies and averaged rates, customers paid for the cost of building facilities necessary for the provision of service. As customers seek the service of competitive providers, the customer base of incumbent local exchange carriers is shrinking. As this occurs, the pool of funds available to subsidize service and build new facilities also shrinks. In a competitive telecommunications environment, it does not makes sense to require only the customers of incumbent local exchange carriers to bear the costs of expanding service throughout the state.

The two primary line extension issues are inextricably related to the issues of universal service and obligation to serve. The Commission should address these issues in their appropriate contexts where reasonable solutions exist. If the state, for policy reasons, wishes to change its current policy that requires certain residents to pay a portion of the cost of extending service to their location, then a universal service funding mechanism should be developed in which all customers of all carriers—including the customers of local exchange, competitive, long distance, wireless, cable

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modem and other carriers—share in the cost of extending the network. It would be unreasonable to ask a perennially smaller group of customers or their incumbent provider—who arrived at the status quo based on a guarantee of shared cost—to compensate for other customers who have moved to new providers and avoided sharing in this responsibility. Some of the cost to expand the network should follow those customers to their new providers.

Conversely, if the Commission wants to ask companies to pay the full cost of line extensions, or to ask only the shrinking group of incumbent customers to pay, then the issue of incumbents' obligation to serve should be reexamined. Any rule attempting to eliminate or reduce the price of line extensions without a replacement cost recovery mechanism must allow incumbent local exchange carriers the opportunity to reconsider their present exchange boundaries and redefine their serving areas based on their inability to recover investment in high cost areas. If some parties to the collective bargain of universal service are now able to back away from their responsibilities under that bargain, then all parties ought to have the opportunity to reexamine their obligations in light of the changes.

Once the Commission has determined how to handle the broader issue of distributing the obligation to expand service equitably among all providers and users of telecommunications services in Washington, then and only then, should the line extension policy be adapted to fit the new collective bargain. With the obligation to serve fairly spread and some form of universal service funding in place to pay for the costs of expanding service, the Commission will be well positioned to address the growing telecommunications needs of customers in a fair and equitable manner. The current line extension system should not be dismantled until the issues of obligation to serve and universal service are adequately addressed to incorporate line extension issues. Changing the line extension rule before these interwoven issues are addressed would call into question the incentives

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and ability of providers to extend their facilities at all.

RESPONSES TO THE COMMISSION'S QUESTIONS ON LINE EXTENSION

The following are responses to the Commission's questions in its Notice of Opportunity To File Written Comments of November 19, 1999.

What should the purpose of line extension charges be?

The purpose of line extension charges was best articulated by Chairwoman Sharon Nelson in a letter to a Libby Creek resident in 1993.[1] The Chairwoman articulated the Commission's policy concerning expansion of a telecommunications providers facilities into unassigned areas. She stated the Commission's policy was "to require that the consumer(s) benefiting from the service, pay the actual cost of expansion outside the exchange boundary of the telephone company providing the service." She also supported the current practice of customers paying the costs defined in a company's line extension tariff within the exchange boundary. The purpose of charges in each application was to require the "cost causer" to bear the abnormal expense. In other words, basic service rates were determined to be fair, just and reasonable based on certain parameters. Situations that dictate the application of line extension charges fall outside of those parameters and therefore are considered abnormal. When the Commission last reviewed this policy consideration, they believed it was appropriate that the cost causer bear the burden of this extraordinary expense. This decision was in lieu of taking such extraordinary costs and imposing them on <u>all</u> ratepayers. This policy not only reflected the Commission's views on a carrier's obligation to serve but also addressed the policy as to what ratepayers should be asked to subsidize in the form of the rates they pay for service. The implication is that ratepayers should not be asked to bear the cost of all service

[1] See Attachment A.

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provided, if such service is uneconomical or perhaps non-essential. The purpose of line extension charges was originally to “draw a line” as to what “costs” should be recovered through rates charged to all customers. The Commission did not believe that the costs associated with this form of network expansion should be borne by all ratepayers. The purpose behind line extension charges has not changed. It was the Commission’s policy that formulated the basis under which line extension charges were created. What this inquiry suggests is that the Commission may wish to reexamine its policy decision.

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

The application of the “fair, just and reasonable” standard should be measured when applied to local service rates. This was the basis that was utilized when line extension charges were first authorized. Once this standard has been established then the Commission can apply the same standard to line extension charges. The standards should be measured on the same basis they are applied to all services. The existing line extension tariffed rates have already been found by the Commission as fair, just, reasonable and sufficient so there is no need for a new finding unless the cost of service has changed. U S WEST believes that the rates are understated in that they no longer recover the cost of service borne by telecommunication carriers presently. It is up to each telecommunications carrier to file revised line extension charges if they are also experiencing this void.

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

The greatest pitfall of line extension tariffs is that they generally do not allow companies in this competitive environment to recoup the cost of extending their facilities. The tariffs only require the customer to pay a small fraction of the cost of the extension since the cost to serve individual

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customers in areas outside of the rate base has increased over time. This problem has further complicated those situations where customers request service and they are located in "unassigned" territories. Thus, while the Commission never intended all ratepayers to bear the burden of these extraordinary expenses, the ratepayers actually do contribute to the cost of providing service to these areas and are subsidizing such service. This is further complicated by the entry of alternative telecommunications providers. If only incumbent local exchange companies are required to provide line extensions, the result will be that only their customers will have to pay rates that recover these extraordinary expenses. In a competitive environment, this results in a smaller and smaller customer base that will have to shoulder a larger and larger portion of the costs of extending facilities into high cost areas.

This could be resolved by considering the issue of line extension costs in the context of a state universal service fund. It may also require the Commission revisit its prior decisions with respect to a carriers obligation to serve. In the universal service fund context, a special funding mechanism could be created to specifically pay for the cost of expanding the existing network (i.e. line extension). As part of a Commission review of its policy concerning "the obligation to serve", the Commission should more equitably distribute the obligation to serve among all providers in the market. This would ensure that no one single provider or that provider's customers bear a disproportionate share of the costs.

Another concern expressed by the Commission staff is that line extension tariffs may contain rates which some customers cannot afford (see e.g., Staff's November 15, 1999 memo to the Commission listing examples of this problem). This is a complex issue for which there are several possible solutions. One possible solution is to create a universal service fund mechanism to recover costs associated with line extensions. This solution could provide for the line extension customer

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to pay a portion of the cost or for the fund to compensate a carrier for all of the cost required for placement of line extensions. Another possible solution is to continue the existing policy decision that people who choose to live in unserved or high cost areas, generally do so knowingly and should therefore be the sole bearers of the costs of extending service to them should they choose to receive service at some point. However, the Commission could direct telecommunications providers to come up with customer options that enable customers to spread the line extension charges over a period of time. Chairwoman Nelson suggested a contract approach as one alternative.

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?

Traditionally, those requesting line extensions have borne the cost of the provision of the service. As previously stated, over time, existing rates no longer covered cost and remaining costs were collected through a web of subsidies paid by other customers of the incumbent local exchange service provider. Or, in the case of smaller local exchange service providers, through subsidies shifted from larger carriers to smaller carriers to offset the cost of providing service. This system worked when government-sponsored monopolies were the only providers of telecommunications services and rates and incentives were designed to capture funds from customers equitably to cover the cost of service. Today, however, this system is being dismantled. As customers move to other carriers and competition forces the removal of subsidies from rates, the funds available to pay for expanding service are limited.

The best way to address this problem is to allow local exchange companies to revise their rates to a level that recovers cost. The Commission may also choose to require such companies to introduce several options that enable customers to get service on a more expeditious basis while still maintaining their responsibility as the cost causer. The other option would be to create a special

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universal service fund mechanism for this specific need, under which all customers contribute equitably.

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

Universal Service could support some or all of the cost of line extensions. However, certain parameters should be considered depending on various scenarios. For instance, a vacation resort area might dictate a different policy conclusion than expansion of a residential area. In the case of large scale land development projects, the standard may differ. Consideration of a developers responsibility verses passing that burden onto to ratepayers must be evaluated from a policy perspective. These are just a few examples, but illustrate why a blanket decision should not be made and careful consideration must be given to all aspects of this existing policy.

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

The only option available that would allow a service provider to recover the costs associated with the extension of service to rural areas is to allow that carrier to recover such costs thorough the rates they charge. The current law does not allow for one telecommunications carrier to bear the cost of service of another telecommunications carrier. However, an equitably applied universal service charge could be passed on to all customers as a percentage of their usage of the network and its services if the law were changed. This would allow new entrants into a market the opportunity to serve customers without being asked to do so at an economic loss. They could charge customers a competitive, fair rate for service and collect the rest of their cost through a neutrally administered fund.

Is a uniform line extension policy appropriate?

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Yes, a uniform line extension *policy* is appropriate. However, a uniform tariff is not. A policy should be created that applies equally to all customers and their carriers but each carrier should have the opportunity to develop their own tariff to implement that policy as the interests of their customers dictate. The Commission has generally allowed each service provider the discretion as to how best to implement the state policy of universal service and the obligation to serve most appropriate for their customers.

No two line extensions are alike. Variables include: whether an extension is in 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?

These variables may require specific policy decisions but should not be treated as appropriate policy exceptions. If the obligation to serve and pay for universal expansion of service is equitably shared by all providers and their customers through a policy that chooses to advance the goals of universal service, the variables listed will need to be addressed appropriately.

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

Absolutely. The same rule should apply to all registered telecommunications companies. The effectiveness and fairness of a line extension rule should be measured by the extent to which it distributes the burden of the obligation to serve equitably among all users of telecommunications services in the state. The Commission's focus in the new competitive telecommunications environment in Washington should center less on individual companies and more on customers. Under the current rule, any company, of any size can implement the line extension policy in the manner most efficient for its business. A competitively neutral rule demands that all companies be treated the same no matter how small or large. As long as line extension policy treats all users of

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the network fairly, the size of the company they purchase service from is irrelevant.

CONCLUSION

The Commission should leave the current line extension rule intact. Should the Commission desire to change the rule it must first revisit the policies adopted by prior Commissions. Those policies were based on the Commission's view of a carrier's obligation to serve and universal service. The Commission believed the appropriate policy concerning line extension costs was that the cost causer pay for such expansion.

Should the Commission change current policy, they then should allow incumbent local exchange carriers to amend their line extension tariffs for consistency with the new policies. They will also need to address how such carriers cover new costs resulting from the policy change. The solution to the line extension issues in Washington today is not to add new layers of piecemeal regulation or more burdens upon incumbent local exchange providers and their customers. Rather, the best solution is to deal with the two prevalent line extension issues in the context the broader undertakings of the commission—universal service funding and the obligation to serve—where they are relevant.

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