

Exhibit No. \_\_\_\_ (GB-8)  
Docket UT-081393  
Witness: Glenn Blackmon

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Verizon Select Services, Inc.; MCI metro  
Access Transmission Services, LLC; MCI  
Communications Services, Inc.;  
Teleconnect Long Distance Services and  
Systems Co. d/b/a Telecom USA; and TTI  
National, Inc.,

Complainants,

v.

United Telephone Co. of the Northwest,

Respondent.

**DOCKET UT-081393**

**EXHIBIT TO TESTIMONY OF**

**Glenn Blackmon**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Tariff Compliance Filing Memo*

**June 5, 2009**

Agenda: December 9, 1998  
Items: 2-D, 2-E, 2-F, and 2-G

Revised

**Dockets:** UT-970325, UT-981494, UT-981496, and UT-981527  
**Companies:** *Intrastate Carrier Access Charge Reform*  
United Telephone Company of the Northwest  
U S WEST Communications, Inc.  
GTE Northwest Incorporated

Staff: Tim Zawislak, Policy Research Specialist  
Betty Erdahl, Revenue Requirements Specialist  
Glenn Blackmon, Assistant Director - Telecommunications

Recommendations:

1. Allow United Telephone Company of the Northwest to withdraw its Petition for Waiver and/or Extension, and Deny GTE Northwest's Petition for Waiver and/or Extension in Docket UT-970325.
2. Allow United Telephone Company's filing in Docket UT-981494 as revised with its recent replacement tariff sheets to become effective December 24, 1998, but reserve the right to address related issues in the future as necessary.
3. Allow U S WEST's filing in Docket Number UT-981496 to become effective December 20, 1998, as filed, but reserve the right to address related issues in the future as necessary.
4. a) Take no action on GTE Northwest's request for Waiver of Statutory Notice.  
b) Allow GTE Northwest's filing in Docket UT-981527 to become effective January 1, 1999, as filed, reserving the right to address related issues in the future as necessary.  
c) Accept GTE Northwest's commitment to revise its interim intrastate terminating (universal service) access charge element within 30 days of the reconsideration order in Docket UT-980311(a).

Discussion:

On June 25, 1998, the Commission held an adoption hearing at which it directed the Secretary to file an order of adoption with the Office of the Code Reviser in Docket UT-970325, establishing WAC 480-120-540, "Terminating Access Charges." The Commission heard oral comments from United Telephone Company of the Northwest (Sprint/United), U S WEST Communications (U S WEST), and GTE Northwest (GTE-NW), among many other interested parties/persons at that time.

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The purpose of the adoption hearing was to consider adoption of the proposed rule (now codified as WAC 480-120-540) which was noticed out for public comment on May 19, 1998. At the hearing on June 25, 1998, the Commission rejected arguments made by most of the parties and accepted the clarified language offered by staff (with a slight modification to address Whidbey Telephone Company's concern). The motion passed and the Commission adopted the rule. The order adopting rules permanently in Docket UT-970325 was signed on September 23, 1998, it was posted to the Commission's website on October 2, 1998, and mailed to interested parties on October 5, 1998. The adopted rules appeared in the Washington State Register on October 21, 1998. The adopted rules now become effective, by virtue of the Commission's order, on the 61st day after that appearance (which is 30 more days than the statute requires), which is now eleven days from today, or December 20, 1998.

Although the effective date of December 20, 1998, was threatened by a motion for stay of these rules accompanying a petition for judicial review in Washington State Superior Court, the stay was denied by Memorandum Opinion on November 18, 1998, by Thurston County Superior Court Judge Richard D. Hicks. Therefore, the rule remains in full force and effect and should be implemented as originally scheduled.

I. Petitions for Waiver or Extension of Time in Docket UT-970325

**A. United:** On November 18, 1998, United filed an application for a waiver or an extension of time in order to effectively delay implementation of WAC 480-120-540 from December 20, 1998, out until May 1, 1999. United discussed billing system issues, carrier notification issues, the judicial review and the motion for stay, as reasons for their request. United has since withdrawn its petition as part of its efforts to implement the rule as anticipated, which is consistent with the recent Superior Court ruling discussed above.

**B. GTE-NW:** On December 1, 1998, GTE-NW also filed a motion for waiver or extension in order to effectively delay its implementation until May 1, 1999. GTE-NW's motion further requests that the Commission clarify its "requirement" that local exchange carriers revise their access tariffs, including an interim universal service rate element, to reflect the Commission determinations in its Tenth Supplemental Order in Docket UT-980311(a).

GTE-NW's reasons for requesting an extension include: its uncertainty as to what revisions would be required; its inability to perform an analysis of cost recovery, risk management, and implicit subsidy determination; and its need to have the relationship between universal service and access charge reform clarified.

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GTE-NW's arguments overlook footnote 18 on page 21 of the Commission's Tenth Supplemental Order in Docket UT-980311(a) which explicitly accepts the costs determined in that order as sufficient for access charge tariff purposes in recovering any resulting "entitlement," as well as several other explanations and clarifications made by the Commission and Staff.

GTE-NW argues that clarification of explicit Commission orders and a delay of pro-competitive Commission rules will "serve the public interest". GTE-NW's ultimate conclusion is that not to do so will harm the "preservation of affordable universal telecommunications service." GTE-NW does not believe that the interim universal service rate element should be adjusted until the State Legislature approves and establishes a State Universal Service Support "Program" in accordance with RCW 80.36.600. GTE-NW desires revenue replacement in a form different than that which the Commission offers in WAC 480-120-540.

Staff advocates utilizing the Commission's cost determinations as explicitly allowed for in footnote 18 at page 21 of the Tenth Supplemental Order discussed above, and using the revenue neutrality provisions already embedded in WAC 480-120-540. Staff believes that the Commission has already thoroughly explained these concepts in its "Order Adopting Rules Permanently" at pages 12 through 13 under the topic of "C." **Revenue**, and at pages 23 and 24 of the same order which discusses Subsection (6) of the rule in more detail. Generally, these provisions allow companies that cannot justify high terminating access charges based on the cost of that service to recover applicable revenues through increases and/or restructuring of originating access charges.

Therefore Staff recommends that the Commission not grant a waiver of these rules. Consumers will be harmed by further delay. Customer choice and competition are long overdue. Although this rule will not automatically create competition, it will help allow it to occur by removing competitive barriers. Staff strongly urges the Commission to deny GTE-NW's petition for extension and to move forward with its rule at this time.

## II. United Telephone Company of the Northwest Compliance Filing in Docket UT-981494

On November 20, 1998, United Telephone Company of the Northwest (United) filed revisions to its access charge tariff in order to comply with WAC 480-120-540, to restructure its transport services mirroring the current interstate transport structure (also known as local transport restructure or "LTR"), and to increase its special access channel mileage rates. On December 4, 1998, United filed replacement tariff sheets which: removed notations reflecting a delayed implementation date of May 1, 1999; revised (lowered) the proposed originating local switching rate element; revised (increased) the interim universal service rate element; and instituted a

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delayed effective date for the proposed increase in special access channel mileage rates that impact not only interexchange carriers (IXCs), but also retail end-use customers such as school districts.

Attachment 1 to this memorandum contains a comparison of current, proposed, and revised switched access rates for United, as well as current and proposed rates for the other two companies discussed in this memo.

Staff has reviewed United's revisions and does not object to its modified filing, subject to the "other considerations" section outlined later in this memo.

### III. U S WEST Communications Compliance Filing in Docket UT-981496

On November 20, 1998, U S WEST Communications, Inc. (U S WEST) filed proposed tariff revisions in its Advice No. 2999T in order to comply with WAC 480-120-540. In its compliance filing, U S WEST has chosen to select the interim compliance filing mechanism outlined on page 24 of the Commission's "Order Adopting Rules Permanently," under Docket UT-970325. Additionally, as a party to the Superior Court challenge, U S WEST has made this filing subject to the exceptions raised in that lawsuit.

Attachment 1 includes a comparison of U S WEST's current and proposed switched access rates.

U S WEST's rate design is neither consistent nor inconsistent with the "interim mechanism," because unlike the other companies, U S WEST's access charge margins are smaller than its universal service costs as determined in Docket UT-980311(a). Thus, US West's filing preserves the current level of revenues and makes explicit the universal service support that has been implicitly recovered in terminating access rates.

Staff's analysis reveals that U S WEST's universal service rate is sufficient to cover 100% of the support necessary based on the revenue benchmarks of \$31 for residence and \$51 for business. Staff's analysis is also based on the recognition of imputed (or implicit) toll support which is a way to acknowledge U S WEST's shared obligation towards the support of universal service under the current toll/access regime. Another interesting point related to this realization is that it would appear, given the cost estimates determined in Docket UT-980311(a), that U S WEST would need no additional federal support in order to continue to preserve its offering of affordable universal service in the State of Washington, at current levels. The Commission may wish to require U S WEST to reduce its rate in the future in the amount of any federal support received to defray this amount. At this time it is unclear whether the FCC's 25/75 federal/state split will occur or not. The Commission may wish to take this under advisement and wait to see

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what happens at the federal level, or, another option would be to cap U S WEST's intrastate recovery at 75% when federal funds become available. This would require a reduction in the company's interim universal service element. Staff recommends that recognition of federal support be required.

Staff has reviewed U S WEST's revisions and does not object to its filing, subject to the "other considerations" section outlined later in this memo.

#### IV. GTE Northwest Compliance Filing in Docket UT-981527

On December 1, 1998, GTE Northwest Incorporated (GTE-NW) filed revisions to its access charge tariff in order to comply with WAC 480-120-540. On December 7, 1998, GTE-NW submitted a revised cover letter committing the company to revise its interim terminating (universal service) access element upon reconsideration of the Commission's order in Docket UT-980311(a). This revision is expected to result in a lower interim terminating access element. At that point GTE-NW will continue to have the options for revenue neutrality expressed in WAC 480-120-540, and the Commission's order of adoption. This recent commitment made by GTE-NW would, in Staff's view, meet the obligation set out under subsection (c) at page 24 of the Commission access charge reform order.

Attachment 1 also contains a comparison of GTE-NW's current and proposed switched access rates.

The company's original proposal failed to meet the commitments outlined at page 24 of the order as a necessary precondition for companies who choose the interim compliance option. Based on Staff's analysis of the Tenth Supplemental Order in Docket UT-980311(a) GTE-NW's proposed filing will produce excessive terminating access charge rates, in direct contradiction to the letter and spirit of the terminating access charge rule in WAC 480-120-540. As explained above in response to GTE-NW's petition, Staff's position on this has been that the rule requires cost-based terminating access charges (including cost-based universal service elements). To the extent that GTE-NW wishes to replace all revenues not based on cost they may be automatically recovered through originating access charges, or through a general rate case if other rate designs are preferred by the company. Because GTE-NW has committed to revise the interim rate element within 30 days of the reconsideration of the Commission's Tenth Supplemental Order in Docket UT-980311(a), Staff does not object to the element at this time.

The rule is flexible as long as terminating access charges are based on cost. Local interconnection services are the yardstick which terminating access services are to be in parity with. The Commission's determination of the cost of universal service in Docket UT-980311(a)

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is the yardstick for the universal service element (see footnote 18 at page 21 of the Tenth Supplemental Order). GTE-NW disagrees with the latter, yet filed its proposed rates and modified its cover letter to reflect the commitment to revise its interim rate element upon reconsideration of the cost order in order to comply with the rule under protest.

GTE-NW, U S WEST, and Sprint Corporation on behalf of United, have all filed petitions for reconsideration of various provisions of the Commission's Tenth Supplemental Order in Docket UT-980311(a).

GTE-NW is also a party to the Superior Court lawsuit, along with U S WEST, the Washington Independent Telephone Association (WITA), and Rainier Cable. Sprint/United is not a party to the lawsuit.

#### V. Other considerations

With the clarifications explained above, Staff does not object to GTE-NW, United, or U S WEST's proposals at this time. Furthermore, Staff has more comfort with the United interim universal service access charge element, as supported by the Commission's Tenth Supplemental Order Establishing Costs in Docket UT-980311(a). Staff remains less comfortable with U S WEST and GTE-NW's interim elements. Staff also has other concerns, which likely apply to all companies, and which should be addressed in the future as other proceedings/issues become flushed out. Generally staff's concerns can be grouped into three areas:

- The disparity between Toll/Access and Local Interconnection Service (LIS) contributions to support universal service still remains an issue that should be addressed absent a new Legislatively approved "Fund". This issue is based on nondiscriminatory tariff rates (and parity to an extent) and creating a more level playing field (or enhancing the competitive neutrality potential and considerations of the access charge reform rulemaking in Docket UT-970325). Staff believes the universal service rate elements should be adjusted and applied to both access and local minutes when local interconnection rates are established in Docket UT-960369 early next year.
- The "cost-based" LIS/Terminating Access element will need to be updated when the generic costing/pricing phase (in Docket UT-960369, et al.) is complete. This issue is based on the parity principle expressed throughout the access charge reform rulemaking in Docket UT-970325.
- To the extent that companies receive federal support it should be used for its intended purpose. In the case where a company currently receiving 100% of its required support

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through intrastate access charges (without federal assistance) and in the future receives additional support from the new federal fund, the company should reduce the explicit intrastate universal service access charge element, and implicit subsidies to the extent applicable. The interstate rules (e.g. the 25/75 split) on this subject are currently under the advisement of the FCC. A recent recommendation from the Federal-State Joint-Board on Universal Service and its potential impacts also need to be taken into consideration.

#### VI. Other Local Exchange Companies

To date the other incumbent local exchange companies have not made compliance filings to conform their terminating access rates to WAC 480-120-540. Staff has met with all companies and offered technical assistance in complying. Staff is considering requesting complaints against all non-complying companies at the Commission's December 23, 1998, Open Meeting. This process will place on Staff the burden of demonstrating that each company's rates do not comply. Staff remains optimistic that appropriate rates can be established without formal hearings.

#### VII. Conclusion

Therefore Staff recommends the Commission adopt the recommendations listed on the first page of this memo, and address the related issues discussed throughout this memo in the future as necessary.

Attachment (1)



	GTE NORTHWEST		UNITED TELEPHONE		U S WEST COMMUNICATIONS	
	Current	Proposed	Current	Proposed	Current	Proposed
ORIGINATING:						
Local Switching	\$ 0.0151497	\$ 0.0151497	\$ 0.020740	\$ 0.052153	\$ 0.017581	\$ 0.017581
Carrier Common Line	0.0100000	0.0100000	0.010000	0.010000	n/a	n/a
TIC / RIC	0.0130780	0.0130780	n/a	n/a	n/a	n/a
Interim Universal Service	n/a	n/a	n/a	n/a	n/a	n/a
	\$ 0.0382277	\$ 0.0382277	\$ 0.0307400	\$ 0.0621530	\$ 0.0175810	\$ 0.0175810
TERMINATING:						
Local Switching	\$ 0.0151497	\$ 0.0021080	\$ 0.020740	\$ 0.004663	\$ 0.017581	\$ 0.001690
Carrier Common Line	0.0282933	0.0000000	0.051540	0.000000	n/a	n/a
TIC / RIC	0.0130780	0.0000000	n/a	n/a	n/a	n/a
Interim Universal Service	n/a	0.0586239	n/a	0.0453960	n/a	0.0158910
	\$ 0.0565210	\$ 0.0607319	\$ 0.0722800	\$ 0.0500590	\$ 0.0175810	\$ 0.0175810

Notes - All three of the companies above have designed their tariff filings to be revenue neutral.  
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- The interim universal service element for each company reflects various support recovery levels. United's and U S WEST's elements are at or below 100% recovery. GTE-NW's element is, in staff's opinion, above 150% recovery, during the interim period.