Introduction

The Washington Independent Telephone Association (WITA) welcomes the opportunity to comment on this rule making concerning line extension tariffs. This issue is really part of defining a carrier's obligation to serve. There are many aspects of the obligation to serve issue that must be considered. For example, should there be a distinction between line extensions to serve new developments made by a developer who is in the business of building a home for profit and a person who buys an existing home in an isolated area that does not have telephone service? Should there be a distinction made based on whether the line extension is to serve an area within a company's service area or outside of a company's service area? Should there be a distinction made as a matter of social policy based upon income level of the party seeking service?

This rule making is focused on the tariffs of incumbent local exchange companies ("ILECs"). However, the obligation to serve should be an obligation that is applied to all carriers seeking to provide service in a particular area. It is not a competitively neutral action to require ILECs to expend, in some cases, very substantial sums of money to extend service to customers and not impose the same requirement on competitive companies.

Defining the obligation to serve and the impact the obligation to serve has on line extension tariffs in a competitive environment is a difficult task. However, line extension tariffs should not be viewed in isolation in order to make that task easier. The entire concept of the obligation to serve needs to be examined.

Questions and Responses

These Comments will now address the nine questions contained in the Notice.

QUESTION 1: What should the purpose of line extension charges be?

Response: The purpose of line extension charges should be to recover the cost of extending service to customers. Under the Commission's current rules, the line extension policy set forth in a company's tariff should state the "terms and conditions under which extensions of . . . lines and services will be made to render service to applicants." WAC 480-120-071.

QUESTION 2: How should the rate-making standards of "fair, just, reasonable, and sufficient" be measured when applied to line extension charges?

Response: Line extensions consist primarily of the extension of outside loop plant, whether it be copper or fiber.[1] The Commission's depreciation policies that are in place today allow a company to recover investment made in such plant over twenty years. In an increasingly competitive environment, it would be poor public policy to compel a telecommunications company to make an investment to serve a customer that may be gone tomorrow. If a company chooses to make the investment on its own, then it has evaluated the risks and has made that decision. However, it would be inappropriate for the Commission to compel the company to make that investment. Thus, charges for line extensions should reflect the cost to the company of extending the service to the customer and should recover those costs in large measure.

[1]A line extension does not include all of the facilities needed to provide service to a customer. For example, switching capacity is not included in line extension charges.

QUESTION 3: What are some of the pitfalls in the current line extension tariffs? What are some possible solutions?

Response: WITA has no comment on this question at the present time.

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?

Response: Although it is difficult to generalize from the various tariffs, from a broad perspective most of the recovery of the cost of a line extension has been from the customer. The company has contributed a relatively smaller amount either in terms of an allowance for the cost of construction or extending a line for a short distance before construction charges would apply.

It should be noted that some of the methods of recovery are driven by outside forces. For example, if a company desires to borrow money from Rural Utilities Service ("RUS"), a company must agree to a certain level of line extension charges as a condition of obtaining a loan from the RUS. The line extension charges for an RUS borrower will be limited to charging the customer only that cost of the line extension that exceeds a certain number of years recovery of the rates for basic service. For example, if a company has a basic exchange rate for residential service of $10.00 per month and the policy of the RUS at the time the borrowing occurred was that the customer pay only for a line extension cost exceeding five years of basic local service, then the customer would only be charged the amount of the line extension that exceeded $600.00.

The second half of the question asks whether there are other ways to recover costs of line extension that would reduce large costs to customers. In an increasingly competitive telecommunications environment, the only mechanism that would appear to allow this to happen would be some sort of universal service funding. WITA has previously suggested that there may be room for a universal service mechanism to deal with line extension charges. Today there is no federal or state universal service mechanism that does support line extension charges. It is intuitive that it is appropriate to have some sort of funding for the extension of service into areas that are outside existing service boundaries if the social policy of the state is to extend telecommunications service to pockets of customers without service. WITA is supporting including those costs within a new universal service fund.

If it is the policy of the state to extend telecommunications service to customers in "unserved areas" outside of existing service areas, it also makes sense to apply the same policy and the same support mechanisms to isolated areas which happen by historical accident or the niceties of map drawing to be within an existing exchange area. There does not appear to be a good logical reason to distinguish between isolated groupings of customers based on the existence of an exchange line. The primary problem appears to be coming up with a definition of what constitutes a "unserved area." There are also practical concerns about how the availability of support might affect the size of the universal service fund.

If universal service support is not made available, perhaps other programs can be expanded. For example, another consideration is this particular issue may be whether the state should, as a matter of social policy, provide funding support for people of a certain income level who desire a line extension. Washington does have the Washington Telephone Assistance Program today. However, the WTAP does not include support for line extension charges. Maybe the Commission should review the WTAP program to determine if it should be expanded to include line extension charges, and, if so, seek authorizing legislation for that additional support.

QUESTION 5: What part, if any, of line extension charges does, or should, universal service mechanisms support?

Response: If a universal service mechanism is established to provide line extensions to "unserved areas", the key is to define "unserved areas" properly. WITA believes unserved areas should not include routine extensions of service to persons that have ready access to existing facilities.

A universal service mechanism for line extensions to customers in remote and hard to serve areas makes sense as a competitively neutral mechanism for extending service to people who do not currently have service. It would not be competitively neutral to compel an ILEC facing competition in urban areas to devote resources to serve rural areas and therefore take away from its investment capability in the areas where it faces competition.

The support should be available to any company that steps forward to provide service in the isolated areas, if the Commission chooses as the social policy of the state that service should be extended to those areas. For example, that support should be available to Beaver Creek Telephone Company for the cost of extension of facilities to serve customers that are within its new exchange area.

QUESTION 6: 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?

Response: A universal service fund which includes support for line extensions is the most obvious cost-recovery mechanism that would allow any service provider to extend service to rural areas in need of telephone service. Such a universal service mechanism must be established with some care. WITA notes that US WEST Communications, Inc. has challenged the mechanism used to fund facilities to serve the Libby Creek area.[2]

QUESTION 7: Is a uniform line extension policy appropriate?

Response: Yes and no. The broad goal of a line extension policy should be designed the same for each company -- connecting customers to the network. On a company by company basis, however, there must be differences to accommodate the different environments in which the companies operate. As the example used earlier, an RUS borrower may need to have a different line extension tariff than one which is not an RUS borrower.

In addition, if a universal service program is established which does provide support for line extensions, there may be a difference between line extension tariff or price list from a carrier that is designated as an eligible telecommunications carrier from

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[2]Since this matter in litigation, it is necessary to note that by making this statement WITA is not implying that the funding mechanism used for Libby Creek constitutes a universal service program. The additive filed by CenturyTel is what it is, and a court will determine whether or not the additive is proper.

one who does not seek support from the universal service fund. There is also a need to take into account a difference between a company that serves large urban as well as rural areas from one that serves only isolated rural areas. Economies of scope and scale have a role, as well as competitive issues.

QUESTION 8: 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?

Response: The list of variables set out in this question underscore the need to have flexibility in individual company line extension tariffs or price lists. For example, if a line extension is being undertaken to a developer who is building a subdivision and has the expectation of making a profit on the sale of lots within that subdivision, all of the line extension should be paid by the developer. The developer can include the costs of the line extension in the price of the lots and recover those costs through the sale of the lots. The developer would not be in any competitive disadvantage with another developer if all developers are required to pay the costs of line extensions.

In an area in which there are competing local exchange carriers, it should be up to those companies to decide what their line extension policy is with a developer. One company might like to acquire the business and is willing to make the economic risk. That company may be willing to build facilities to serve the subdivision without charging the developer. A competing company may look at the same subdivision and determine that it is not worth it to meet the other competitor's proposal, or may go the competitor one better and offer the developer an incentive if it can provide service to that subdivision. The market place should control the business of line extensions to subdivisions.

Some of the other circumstances are more difficult to address. Some of the areas that we have seen over the past few years where line extension issues have arisen include areas where vacation homes or hunting cabins have been developed and later evolved into more year-round residences. Should the incremental development of isolated areas or evolution from hunting retreat to residence drive telecommunications investment? Or, should a desire to seek rural seclusion (but apparently not isolation) require the extension of copper loops?

This seems to be evolving into a universal service issue. The basic social policy question for the Commission is should the Commission pursue providing service to 100% of the citizens of the state who desire service. Or, are there some citizens who have chosen to live in areas that are so remote and so expensive to reach that it does not make good public policy to provide service. This may mean that the Commission must establish a threshold for the cost of a line extension that will be funded by universal service funding and above that the customer must either pay the cost or go without service.[3]

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[3]WITA notes that the line extension tariffs of electric companies and natural gas companies appear to require the customer to pay very substantial costs to extend service. Is the availability of a telephone a higher social policy for the State of Washington than the availability of heat and light? It should also be noted that the cost for extending a natural gas pipe service or an electric line are much higher than the same cost for a telephone line.

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?

Response: As noted earlier, line extension policies need to vary from company to company depending on the circumstances that each company faces.

Conclusion

WITA thanks the Commission for the opportunity to comment on this subject. WITA makes three recommendations:

(1) the Commission must not isolate the policy of line extensions from the overall obligation to serve issue. In other words, this matter should be deferred and considered as part of the overall obligation to serve docket.

(2) the Commission should adopt a line extension policy which allows each company to craft solutions for its unique circumstances. There needs to be flexibility for each company. Each company faces a unique set of circumstances and can best craft a solution to that situation.

(3) the Commission should support universal service legislation that includes funding of extension of service to unserved areas.