BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Investigation of the Cost of Universal	)	
	)	UT-970325
Service and Access Charge Reform	)	

COMMENTS OF GTE NORTHWEST INCORPORATED FOR THE JANUARY 13, 1998 WORKSHOP

INTRODUCTION

As requested by the Commission staff, GTE Northwest Incorporated ("GTE" or "the Company") submits these comments for the January 13, 1998 workshop. They are keyed to the staff's Report of Access Charge Reform Options, January 1, 1998 update ("Report").

As described in the Commission's October 22, 1997 Preproposal Statement of Inquiry in this proceeding, the Commission needs to revisit the approach to access charges and Universal Service support that was established a dozen years ago in docket U-85-23 and which is still reflected in local exchange carrier ("LEC") rate designs. The Commission correctly noted the linkage between current access charge levels and Universal Service support due to the implicit subsidies resulting from the U-85-23 approach. GTE agrees with the Commission that market, statutory and regulatory developments now mandate that implicit Universal Service support be removed from access charges and replaced with "an explicit, specific, predictable, and sufficient funding mechanism for Universal Service that is competitively neutral."[1] Implementation of this new Universal Service Fund will make possible the setting of access charges in an economically appropriate, cost-based manner.[2]

As requested in the Preproposal Statement, on November 21, 1997 GTE submitted written comments on the issues set forth in that Statement. The comments include specific proposals for dealing with those issues. A copy is attached for the Commission's and the parties' convenience.

GTE's proposals in this rulemaking directly address these interrelated access charge and Universal Service support issues. Adoption of GTE's proposals will benefit Washington consumers by (1) preserving Universal Service by broadening support to include all telecommunications providers, (2) removing implicit subsidies, (3) allowing toll rate reductions, (4) encouraging investment throughout the state, and (5) making efficient local service competition possible for all services in both rural and urban areas.

In this rulemaking the Commission must (for legal reasons) and should (for practical and policy reasons) maintain a focus on generic issues specific to access

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1 Attachment to the Preproposal Statement of Inquiry, page 1.

2 Implicit subsidies also need to be removed from other rates, such as for toll, vertical and business class services, and replaced with support from the new Universal Service Fund. While the Commission may be emphasizing access charges in this proceeding, the implementation of sufficient support from a Universal Service Fund (as GTE proposes) will also make possible the necessary removal of implicit subsidies from these other rates.

charge structure and Universal Service support reform. The result of this process should be a rule that sets forth generic guidelines, which will then be implemented on an individual company basis. Therefore, as discussed further below, contrary to some suggestions in the staff's Report, earnings level issues should not be taken up in this rulemaking, but should be dealt with on a company specific basis, as appropriate, using the Commission's existing procedures and processes for addressing such concerns.

UNIVERSAL SERVICE SUPPORT AND ACCESS RATE REFORM IN WASHINGTON

The Telecommunication Act of 1996 ("the Act"), similar state actions, and market changes necessitate addressing a trilogy of telecommunication issues: local competition, access reform, and Universal Service. In its Preproposal Statement, the Commission stated that it will address the following five key issues as they relate to Universal Service support and access reform:

1) Identify the existence of any implicit subsidies for Universal Service and remove them to the extent possible;

2) Establish a new Universal Service funding system and replace the existing system with an explicit, specific, predictable, and sufficient funding mechanism for Universal Service that is competitively neutral;

3) Review pricing principles to ensure recovery of economically efficient costs, and to ensure that appropriate rate levels and rate design are established in proper relationship to the costs and market power of each provider;

4) Allow the marketplace to function, while protecting captive ratepayers;

5) Ensure that service to rural and high cost area customers is adequate and affordable, as specified in 47 U.S.C. 254(b)(3).[3]

Thus, the mission of the Commission in this docket is clearly spelled out. GTE strongly supports any action in this state to substantively address the issue of Universal Service support and access reform. Access reform in the State of Washington is necessary and prudent, but only as part of an overall rate rebalancing effort that addresses Universal Service, as well. Access reform must be enabled by a plan for an end user funding mechanism[4] and/or a permanent, sufficient, and competitively neutral Universal Service Fund ("USF").

Access Charges Contain Substantial Implicit Subsidies

Access charges have historically been an important element in supporting Universal Service for the citizens of Washington. Similarly, in the interstate jurisdiction, the FCC has recognized that access charges have been a crucial source of implicit Universal Service support flows, sustainable only in a regulated monopoly environment. Not only does the Act require the elimination of implicit subsidies, the competitive forces unleashed by the Act -- and by similar state and market developments -- are eroding the will result in the erosion of contribution and Universal Service support historically derived from local exchange company rate structures. As such, state access reform in Washington cannot be accomplished in a vacuum; it is inextricably

[3] Attachment to Preproposal Statement, page 1.

[4] Such as a subscriber line charge; as discussed below.

intertwined with a complete and comprehensive rate restructuring and the creation of a permanent, sufficient, and competitively neutral USF.

It must also be borne in mind that other rates contain implicit Universal Service support, and need to be reformed in coordination with a new USF. The FCC correctly observed:

> States have maintained low residential basic service rates through, among other things, a combination of: geographic rate averaging, higher rates for business customers, higher intrastate access rates, higher rates for intrastate toll service, and higher rates for vertical features. States, acting pursuant to sections 254(f) and 253 of the Communications Act, must in the first instance be responsible for identifying intrastate implicit universal service support.[5]

Given these challenges, GTE supports the Commission's proposed review of access reform, so as to facilitate and expedite the movement toward more efficient access charges and the concomitant level of competition envisioned by the Act, while protecting Universal Service in the state through the creation of a permanent, sufficient, and competitively neutral USF funding mechanism. Transfer of implicit subsidies, embodied in today's rate structures, including access charges, to an explicit subsidy will allow all rates to be more closely aligned to cost causation.

<u>**Quantification of the Implicit Access Charge Subsidies**</u>

Within the context of a complete and comprehensive rate restructuring, and consistent with the Act, GTE recommends a structure that eliminates the implicit subsidies inherent in today's rates. With regard to access charges, this should be

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[5] *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157 (May 8, 1997), para. 14.

accomplished by first eliminating the rate elements that have no direct underlying costs. These include the Interconnection Rate ("IR") and the Carrier Common Line ("CCL") charge. Additionally, GTE recommends that the remaining rate elements be priced at a level consistent with recovery of direct costs plus a reasonable contribution to common costs, consistent with overall market conditions and recovery of total actual cost. Therefore, the implicit subsidy in access rates should be quantified as the difference between current switched access revenues and the revenues that would be generated by rates established at direct cost plus a reasonable contribution to common costs. This same methodology should be used to identify and remove implicit support from other rates, such as for toll, vertical and business class services.[6]

Again, these changes can only be supported within the framework of a complete and comprehensive rate restructuring. This can be accomplished by the creation of a permanent, sufficient, and competitively neutral USF, or by establishing a sufficient end user charge similar to the FCC Subscriber Line Charge ("SLC"). The Commission may elect to utilize a combination of USF funding and a state SLC to balance the interests of the various parties in the state of Washington, in particular, the maintenance of affordable basic service rates. Pursuing state access reform outside of such a framework would be inconsistent with the ability of local exchange carriers to recover their total costs, and with the establishment of the cost-based rates necessary to allow

[6] As the FCC noted in the passage quoted above, some companies' urban residence service rates may contain implicit Universal Service support of rural rates, due to geographic cost differences. These amounts should also be identified and replaced with support from a new USF.

the appropriate development of true competition.

The Federal Access Charge "Reform" Model

The FCC initiated access reform at the federal level in May of 1997, attempting to accomplish the following:

(1) Lower the implicit subsidy in access rates.

(2) Align the price structure of some access elements with the manner in which their cost is incurred, primarily by creating new rate elements[7] and by rebalancing others. The new Presubscribed Interexchange Carrier Charge ("PICC") recovers a portion of the CCL revenues from IXCs on a flat, non-traffic sensitive basis.

(3) Shift the recovery of a portion of the access revenues from the IXCs to the end users (a) by increasing the Subscribers Line Charge ("SLC") on multi line subscribers and (b) by establishing a higher SLC for a new "Non Primary 2nd Line Subscriber" category..

Some of the principles utilized in federal access reform may be appropriate in the state of Washington. Others are not. GTE supports the concept of removing the inherent subsidy in access rates, but with an offsetting mechanism such as a competitively neutral USF. The FCC order failed to identify or remove the subsidies associated with access charges. Furthermore, the FCC failed to provide for a funding

[7] The new rate elements established in the federal model include: Presubscribed Interexchange Carrier Charge ("PICC"), Tandem Switched Transport DS3-DS1 and DS1-Voice Grade Multiplexing, Tandem Switched Transport Common Port, Dedicated Transport Dedicated Port, and ISDN Line Port.

mechanism to replace the subsidy. Thus, the FCC version of access reform should not be a model for Washington or any other state, as it fundamentally fails to address the core issue of identification of and replacement of the inherent subsidies within access charges as directed by the Act. Given these shortcomings, the FCC model falls far short of the five criteria established by the Commission to substantively address the access reform issue in the state of Washington.

In addition, some of the new rate elements established by the FCC are inappropriate. For example, the PICC rate element should not be adopted for the recovery of a portion of the cost of the loop in Washington. Although the PICC properly recovers the non-traffic sensitive cost of the loop on a flat basis, it inappropriately recovers the costs of end users' access lines from long distance carriers, as opposed to the end users themselves. This does not correspond with the principle of recovering costs from the LECs' customers that cause them.[8]

The CCL should be eliminated in Washington, and the foregone CCL revenues should be recovered via a SLC assessed to the end users and/or an appropriate USF. The other new federal access rate elements may be appropriate in the state of Washington, such as the Tandem Switched Multiplexing and Common and Dedicated Ports. Those structural changes generally align rates with the manner in which the cost is incurred for those services.

In addition, it is important to recognize that the current jurisdictional distinction

[8] The issue of whether the loop is a common cost is addressed further, below.

between interstate and state access services is not sustainable and should be phased out. As GTE has stated in comments recently submitted to the FCC, cost recovery for all facilities on the local network side of interexchange carrier points of presence should be subject to state commission oversight.[9] With such reform, the Commission will be able to completely implement cost-based rate structures and appropriate USF that fully support Universal Service and allow the development of competition throughout the state, while fulfilling the Commission's obligation to provide LECs an opportunity to recover their costs.

<u>The Impact on GTE's Customers of the Proposed Universal Service and Access Reform</u>

The Commission has a unique opportunity with this Universal Service and access reform docket to set the stage for a more competitive telecommunications climate in Washington, which will benefit the state's consumers in the 21st century. An economically based reform model will help to lower the cost of providing telecommunication services in the state by making possible more efficient operations by all carriers. This will benefit both urban and rural residential customers, as well as business customers, with more affordable calling across the state and with the increased likelihood of an enhanced product line. Additionally, this more efficient telecommunications model, combined with appropriate Universal Service support, will facilitate competition in all areas of the state, including rural areas, which would benefit

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[9] *In the Matter of Jurisdictional Separations Reform and Referral to the Federal-State Joint Board*, CC Docket No. 80-286.

from the increased availability of affordable and advanced telecommunications services.

<u>End Users:</u> End users will benefit directly from GTE's plan, because the substantially lower switched access prices will ultimately allow the toll rates they pay to decrease. The USF that GTE proposes will at the same time keep local rates affordable. End users will also benefit in the long run from the more economically efficient, competitive marketplace that these reforms will make possible.

<u>Carriers</u>: Carriers that provide toll service [including LECs operating as "primary toll carriers," IXCs and competitive local exchange carriers ("CLECs")] will also benefit directly from GTE's proposals. Lower access charges will allow them to provide services throughout the state, and to reduce toll rates, which will stimulate demand and increase net revenues. All carriers will also benefit in the long run by being able to compete in a market in which they can succeed based on their innovation, efficiency and customer sensitivity, rather than due to inefficient rate arbitrage.

COMMENTS ON ACCESS REFORM OPTIONS

In its Report, the Commission staff sets forth six options for reforming access charges in Washington. GTE welcomes the Commission's consideration of many of these options and appreciates the opportunity to comment on the staff's observations.

Any discussion of options dealing with Universal Service support and access charge reform ultimately involves the cost of provisioning various service elements. Perhaps the most important such element is the local loop. GTE is, of course, aware that in a rate case setting the Commission has taken the position that the cost of the local loop is not a direct cost of local exchange service, but is a "common" cost "shared" by services that "use" the loop, including toll and access services.[10] The Commission likewise is aware that this is a controversial issue and that many economists and companies view the loop as a direct cost of local service and not a common cost.[11] For example, in a similar proceeding in Pennsylvania, Dr. Alfred Kahn described the "allocation" of loop costs among several services as "one of the more troublesome weeds in the regulatory garden."

While either approach might be successfully taken in the traditional paradigm of regulated LECs operating as exclusive providers, in the new environment Washington customers will benefit more from treating the loop as a direct cost of local service. Continuing to treat the loop as a common cost would, on the other hand, preclude significant access charge reductions, complicate the maintenance of affordable Universal Service, retard the development of economically appropriate competition across the state, and jeopardize local exchange carriers' ability to recover their costs.

Access charges should be reduced only to the extent that they contain implicit

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10 *Washington Utilities and Transportation Commission v. U S WEST Communications, Inc.*, Docket No. UT-950200, Fifteenth Supplemental Order (April 11, 1996), pp. 83-85.

11 Briefly, a facility is a cost of the service that *causes* the facility to be built, not of each and every one of the services that may *thereafter use* the facility or be offered as adjuncts to the initial, cost causing service. Thus, it is not correct to say that the loop is a common cost because, if a LEC ceased offering local service, it would still have to construct loops in order to offer vertical services or toll services. The fact is that vertical and toll services are not offered on a stand alone basis; they are offered only to customers who first subscribe to local exchange service. Therefore, it is the offering of local exchange service that causes LECs to construct local loops. Once customers subscribe to local service, they may then add toll, vertical and other services.

support due to being priced too far above cost, determined as GTE described above.[12] If the loop is treated as a common cost, access charges will contain less implicit support than if the loop is treated as a direct cost of local exchange service. For some companies, it may be the case that their current access charges contain no implicit support under the loop-as-common-cost approach, so that no access reductions need be made; i.e., no "access reform" is needed or warranted.

Continued treatment of the local loop as a common cost to be partially allocated to the LECs' toll service will complicate maintenance of Universal Service, because -- as noted above -- LEC toll providers will likely lose significant market share and toll revenue in the new competitive environment. Indeed, such revenue losses can occur quite rapidly and can fluctuate materially over time. And they occur even when CLECs resell LECs' local service, because those CLECs will invariably offer their customers their own or IXCs' toll service rather than resell the LECs' toll service. If the LECs remain dependent on toll revenues to cover part of the costs of the loops that provide basic local service, in order to keep USF support sufficient, the Commission will need to continually reallocate loop costs between toll and local services in order that the costs of providing local service can continue to be fully recovered.

Similarly, access charges that are relatively high due to the allocation of loop costs to access services will induce bypass, especially for large toll users. As the Commission knows, IXCs have for years been bypassing LEC switched access charges

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[12] Implicit support = (current rate) - (direct cost + reasonable share of common cost).

by directly connecting to large customers using their own facilities or flat rated LEC special access services.[13] And this type of competition is increasing. Most CLECs begin by being "CAPs" -- "competitive access providers" that supply dedicated circuits to IXCs that want to avoid LEC switched access rates. Since the allocation of loop costs to switched access service means that high toll volume customers pay more than their pro rata share of LECs' loops costs, the loss of these customers to bypass would necessitate increases in USF support.

In addition, if the Commission uses the FCC methodology for setting the level of Universal Service support, it will necessarily treat the loop as a direct cost of the local service component of "supported" Universal Service offerings. The FCC's total service long run incremental cost ("TSLRIC") approach to measuring the cost of supported services does not treat the local loop as a common cost of toll, access and local services. Indeed, one of the FCC's main objectives in selecting a proxy cost model for USF purposes is obtaining geographically deaveraged estimates of the costs of the supported basic local services. Since it is the loop cost that varies the most geographically, this cost study approach necessarily treats the loop as a direct cost of basic local service.

In a competitive environment -- especially one in which the CLECs' rates are not regulated, as is the case in Washington, forcing LECs to treat the loop as a common cost is not financially tenable. CLECs that build their own loops or acquire unbundled

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[13] See the staff's Report, p. 3, section C.

loops from LECs are not compelled to treat the loop as a common cost. Rather, they enjoy the flexibility to recover costs from the services that actually cause the costs to be incurred. Thus, they can -- as noted above -- undercut LEC access and toll rates. This situation creates uneconomic price umbrellas for CLECs and precludes the LECs from competing on an economically efficient basis. In addition, even if CLECs were compelled to recover some of their loop costs from access and toll rates, they would target only above-average usage customers, because the CLECs are under no effective carrier of last resort requirement; they can serve whomever they choose. Moreover, the CLECs could take advantage of the fact that loop costs vary widely by geography, resulting in competition focused only on the LECs' high revenue producing customers, which tend to be located in the lowest cost areas. Again, this prevents the development of broad, economically appropriate competition in Washington.

From the situations just discussed it is evident that treating the LECs' loop costs as common costs significantly impacts the companies' ability to recover their costs. There are no mechanisms in place in Washington to assure that, as the implicit support in access and toll revenues is competed away, it will be made up from other rates or sources. While it may be possible to develop such a mechanism, it would likely be uncertain and administratively complex. The Commission may much more effectively fulfill its Constitutional obligations by avoiding the above-described problems in the first place through treatment of the loop as a direct cost of local service.

OPTION 1: Reduce the overall level of access charges by shifting revenue responsibility from toll to local rates

While GTE does not agree with all the comments made by the staff in its discussion of this option, GTE believes that Option 1 can accommodate the essential requirement of setting both local and access rates in a cost-based manner, treating the loop as a direct cost of local service.

Properly implemented, Option 1 would essentially reduce access charges to a certain economical, cost or market based level and offset those reductions with increases in local rates. The local offsets are preferably non usage-sensitive charges, thereby aligning the price structure with the manner in which the cost is incurred. GTE supports this proposal, as it establishes efficient prices by aligning rates with true costs and by recovering costs from the appropriate cost-causers. This option leads to lower toll rates, directly benefiting toll end users.

As the staff notes, one concern with this option is that the increased local rates might jeopardize Universal Service affordability. As such, GTE proposes limiting the shift to local rates (whether it is via an end user charge such as a SLC, or by inclusion in the monthly local service rate itself) to the extent needed to keep local service affordable. Any additional implicit access subsidies that cannot be recovered from the end users due to affordability concerns must, then, be recovered from a competitively neutral, sufficient and permanent USF.

OPTION 2: Reduce the overall level of access charges by reducing profits of the LECs

This is not a viable option from a policy, practical, or legal perspective. It must be rejected.

As the Commission correctly stated in its Preproposal Statement, the focus of this docket must be the identification of implicit subsidies in access charges, their removal from access charges, their replacement with support from a new Universal Service Fund, and the resetting of access charges in an economically appropriate, cost-based manner. That task cannot properly be accomplished by just dictating access charge reductions and requiring the local exchange companies to suffer "lower profits or find other ways to reduce expenses." [14]

As discussed elsewhere in these comments, the identification and removal of implicit subsidies does not depend on LEC profit levels. Rather, it depends on the relation between current access rates and the underlying costs of access service. Thus, it may be possible that a LEC that is earning less than its authorized rate of return may need to reduce access charges, while a LEC that is earning more than its authorized rate of return could already have appropriately cost-based access charges that do not require a reduction in order to remove implicit Universal Service subsidies.

Moreover, as a legal matter, this rulemaking cannot be used to simply impose revenue and profit reductions on local exchange carriers. As the Commission knows, access charge revenues constitute a sizable portion of Washington LECs' total intrastate revenues, and an arbitrarily imposed rate reduction would have a significant impact on the companies' earnings.[15] In any event, if the Commission has sufficient

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[14] The Commission's five objectives are quoted at the beginning of these comments. Reducing LECs' profitability in Washington is, appropriately, not one of the objectives.

[15] See the Appendix to the staff's Report.

cause to believe that a given company's overall earnings are excessive, the Commission's remedy is to file an earnings complaint and to determine -- in hearings, under due process -- the existence and extent of any over earnings. Only after that determination is lawfully made may the Commission impose specific rate reductions. A rulemaking, on the other hand, is simply a procedural vehicle for setting generic requirements within the Commission's statutory authority.[16]

Rejection of this option will avoid an unlawful use of the rulemaking process, and will aid in maintaining the proper focus of this docket as identified in the Preproposal Statement: replacing implicit Universal Service subsidies in current rates with support from an explicit, specific, predictable, sufficient, competitively neutral Universal Service Fund, thereby also allowing access charges (and other rates) to be set in proper relation to the costs of providing the service.

It must also be noted that arbitrary profit reducing access charge reductions imposed under this option would hamper new investment, stifle technological progress in the state's network, and potentially degrade service quality.

<u>OPTION 3: Reduce the overall level of access charges by shifting revenue responsibility to a Universal Service mechanism</u>

This Option is sound for the reasons discussed under Option 1, above. However, depending on the size of the USF mechanism, a combination of end user and USF recovery may offer a better alternative. An appropriate, sufficient USF mechanism

[16] RCW 34.05.010(16). Presumably the Commission intends to promulgate access charge reform and Universal Service support contribution rules under subsection (a) and Universal Service support eligibility and distribution rules under subsection (c) of this statutory provision.

is required by the Act concurrent with the elimination of implicit subsidies associated with access charges and other rates.

GTE agrees with staff in concept that current Washington high-cost area support mechanisms should be moved from access charges to a new USF. It must be noted, however, that the method of quantifying "high-cost support" must be reexamined.

OPTION 4: Increase local interconnection charges

This option inappropriately focuses on the level of other interconnection charges rather than the appropriate cost-based setting of access rates. GTE agrees with staff's analysis of the several shortcomings of this Option.

Arbitrarily priced local interconnection charges might mend the artificially inflated access rates, but would not deal with the central issue of the implicit subsidy, as mandated by the Act. This proposal essentially transfers the implicit subsidy from one group of services to another.

Parity between local and toll access rates is beneficial, as long as both rates have been developed in an economically sound manner. If the implicit subsidy in access rates is removed and recovered appropriately (via a combination of end user charges and USF mechanism), parity between local and toll rates would be achieved at the appropriate level.

OPTION 5: Place any contribution above cost on the originating element of access charges

This is not an appropriate or workable option. There is currently an imbalance between originating and terminating access rates, because the originating facilities are more subject to bypass. Reversing this imbalance by increasing originating charges and reducing the terminating rates is not cost-based and could result in a drastic loss of what the staff terms "contribution" -- first, from the reduced terminating rates and, second, from the bypassed originating facilities. This proposal does not address an offset to the access revenue reductions that may accrue from this proposal, and is similar to Option 2, which is arbitrary and could be confiscatory.

Furthermore, this proposal sends a perverse message to the market. Increasing originating rates and reducing terminating rates implies that the originating cost significantly exceeds the terminating cost, which is not true, and is inconsistent with the Act.

OPTION 6: Levy access charges on end users instead of carriers

This option is legitimate to the extent that the "access charges" being levied in a flat rated manner on end users recover loop costs (e.g., via a SLC) but not the other, direct costs of access service (such as switching and transport).

This proposal is similar to Option 1. The key in both cases is to shift only recovery of loop costs (plus a reasonable portion of common costs) to end users and to do so on a flat rate basis, i.e., though a SLC or by integrating the recovery into the basic monthly flat rate. It would be inefficient and inappropriate from a market and economic perspective to shift usage sensitive access charges to end users in order to cover loop costs.Moreover, attempting to shift usage sensitive access charges would be a complex undertaking, especially if end users were to be billed terminating charges. Essentially, what this option would result in is a structure in which access charges would move from the billing of a limited number of IXCs to millions of end users.

In addition, charging the originating versus terminating end user is not necessarily cost or economically based, as both ends are creating cost. Furthermore, as with Option 1, the end user charges may not prove affordable and may need to be supplemented by the new USF.

COMMENTS ON STAFF'S RECOMMENDED APPROACH TO ACCESS REFORM

The Staff's recommended approach should not be adopted, because does not include the necessary tie to Universal Service support reform and fails to focus on the need to establish cost-based access charges , as well as cost-based local, toll and vertical service rates. As stated, staff's recommended approach does not implement the five objectives set forth by the Commission in its Preproposal Statement. It does not identify and quantify the implicit Universal Service support contained in current switched access charges and replace it with explicit support from a new, sufficient, permanent, competitively neutral Universal Service Fund. Rather, without this essential tie to a proper USF, staff's recommendation would merely result in inefficient and unsustainable rate structures in Washington, which would not allow the appropriate development of real competition throughout the state and which would cause extensive LEC financial losses.

1. Structural Changes

GTE generally agrees that pricing all network interconnection at the same level is appropriate, but it is critical that those prices be cost-based (i.e., they cover direct cost plus a contribution toward common cost) *and* any associated revenue reductions are recovered from a combination of end user charges and a USF mechanism. It is not clear that staff's recommendation would accomplish this result, because it does not incorporate sufficient support from a new USF to compensate for access charge changes necessitated by the removal of implicit subsidies from a given LEC's current rates.

Shifting the recovery of the non-traffic sensitive ("NTS") cost of termination from the IXCs to the originating end user may indeed align with cost causation in a general sense, in that end users would pay for their appropriate loop cost. However, this approach does not comprehensively address the subsidies on both the terminating and originating ends, as required by the Act and as inherent in the five objectives established by the Commission. Furthermore, shifting access charges to only the originating end user is neither cost justified nor fair to all end users. A proportionate fixed monthly charge to reflect the fixed monthly cost of the loop, for all end users regardless of originating and terminating traffic, is more equitable.

The staff approach is a limited and diluted effort toward reforming access charges and would result in an inequitable treatment of all end users . Additionally, this approach, similar to Option 5, would send the wrong signals to the market. A better approach to access reform is to identify the total implicit subsidy and allow its recovery via a combination of end user and USF charges.

2. Mandated Reductions

This recommendation of "mandated reductions" must be rejected for the policy, practical and legal reasons discussed with regard to Option 2, above. GTE does concur with staff, however, that the current high cost area support component of Washington's access charge system -- properly quantified -- should be moved to the new USF.

SUMMARY AND CONCLUSION

This rulemaking can preserve and advance Universal Service throughout the state, significantly improve the fairness of Washington's regulated telecommunications rate structure, and increase the efficiency and richness of the telecommunications market across the state, while fulfilling the Commission's obligations to provide regulated local exchange carriers a real opportunity to recover their costs. The objectives set forth in the Commission's Preproposal Statement set the stage for the attainment of these benefits. While GTE agrees with a number of the points made in the staff's Report, the staff's recommended approach does not well serve those objectives, because it dwells on artificially creating access charge reductions without implementing the legally and economically essential connection to the identification of current implicit subsidies and their replacement with explicit support from a new sufficient, permanent, competitively neutral Universal Service Fund.

The proposals made by GTE, on the other hand, in its November 21, 1997 comments and in these workshop comments, will attain the Commission's objectives and also broader benefits. It will benefit Washington consumers by (1) preserving Universal Service by broadening support to include all telecommunications providers, (2) removing implicit subsidies, (3) allowing toll rate reductions, (4) encouraging investment throughout the state, and (5) making efficient local service competition possible for all services in both rural and urban areas.

Attachment

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