

Agenda: March 31, 1999

Items: 2E through 2Y

Dockets and Company Names:

Statutory Notice Filings

Non-Traffic Sensitive Access Charge Proposal

UT-990243 Washington Exchange Carrier Association

Traffic Sensitive Access Charge Proposals

UT-990231 Asotin Telephone Company

UT-990232 Lewis River Telephone Company

UT-990233 McDaniel Telephone Company

LSN Request Filings

Traffic Sensitive Access Charge Proposals

UT-990270 Yelm Telephone Company

UT-990273 Mashell Telecom, Inc.

UT-990288 Ellensburg Telephone Company

UT-990405 Pend Oreille Telephone Company

UT-990408 Hat Island Telephone Company

UT-990409 Whidbey Telephone Company

UT-990410 Inland Telephone Company

UT-990411 Prescott Telephone and Telegraph Company

UT-990412 Hood Canal Telephone Company, Inc.

UT-990413 Western Wahkiakum County Telephone Company

UT-990414 St. John, Co-operative Telephone and Telegraph Company

UT-990415 Pioneer Telephone Company


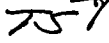
UT-990416 Kalama Telephone Company

UT-990417 Tenino Telephone Company

UT-990419 CenturyTel of Cowiche, Inc.

UT-990420 CenturyTel of Washington, Inc.

UT-990424 The Toledo Telephone Company, Inc.

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

Recommendations:

1. Take no action on requests for Less than Statutory Notice (LSN) in Dockets UT-990270 through UT-990424 above. (Agenda items "I" through "Y")

2. Take no action on requests for waiver in Dockets UT-990288 and UT-990409. (*Agenda items "K" and "N"*)
3. Allow the tariff revisions filed in all of the dockets listed above, with the exceptions of Dockets UT-990419 and UT-990420, to go into effect on their stated effective dates, while Staff further investigates the issues. (*Agenda items "E" through "Y", except items "W" and "X"*.)

Discussion:

On June 25, 1998, the Commission adopted new rules under WAC 480-120-540 relating to terminating access charges. The order adopting rules permanently was issued on October 5, 1998, and the rules became effective on December 20, 1998. On December 30, 1998, the Commission granted the above-listed companies a limited waiver of implementation until February 16, 1999. On February 19, 1999, the Commission granted an extension of this waiver for implementation until April 1, 1999. The filings listed above by each docket number represent the companies' proposed compliance with WAC 480-120-540, to be effective on April 1, 1999. In addition, Ellensburg and Whidbey have requested waiver from the rule to the extent they wish to be treated as small companies for purposes of mirroring other companies rates.

Staff has reviewed all of the companies' proposals in the context of the new terminating access charge rule and has certain reservations about the companies' proposals at this time. Procedurally, Staff intends to work with the companies to resolve our concerns. If no resolution is reached Staff intends to recommend that the Commission issue complaints against some or all of the companies' tariffs. Staff's concerns are outlined below in the same order as the rule's subsections:

Cost-Based Terminating Access Service, WAC 480-120-540(1)

Of the twenty companies listed above, only four have filed cost studies in support of their own company-specific proposed terminating access charge levels. The remaining companies propose to mirror (or concur) in other companies' rates (see Attachment). The four companies, their proposed rates, and staff's recommended revised rates are presented in the following table:

	<u>Company Proposed</u>	<u>Staff Revised</u>
WECA Member Companies:		
Asotin Telephone Company - TDS	\$0.025109	\$0.021080
McDaniel Telephone Company - TDS	\$0.021163	\$0.015400

	<u>Company Proposed</u>	<u>Staff Revised</u>
Lewis River Telephone Company - TDS	\$0.012792	OK
CenturyTel of Washington	\$0.007148	OK

The difference between the companies' numbers and staff's result primarily from different depreciation rates being utilized. Additionally, the markups proposed by the companies may have included more than a "reasonable contribution" as allowed for in subsection two of the rule.

Cost Recovery for Support of Universal Service, WAC 480-120-540(3)

Staff recommends allowing rural companies to rely on embedded costs for determining the appropriate cost recovery for the support of universal service pursuant to subsection three of the rule. In these filings the companies propose to retain the existing WECA universal service fund element, and in addition, establish two new "interim universal service" elements which offset the terminating access charge reductions resulting from subsection one of the rule. The companies suggest that the recovery of universal service support¹ through these three charges², in the aggregate, are less than what they demonstrated they would need in Docket UT-980311(a).

These residual revenue replacement amounts, in Staff's opinion, are not directly related to embedded cost recovery for support of universal service as envisioned in WAC 480-120-540(3). Cost information for these rural companies must be considered in order to support these companies' new interim universal service rate elements. Staff has compared the revenues produced from the universal service elements for each company against embedded cost information filed in Docket UT-980311(a). Staff is satisfied that most companies' results are within the embedded cost parameter, but there are still a few others (including CenturyTel of Washington) that Staff remains concerned about. Due to this concern and the ongoing investigation and discussions, Staff plans to recommend complaints if this issue isn't resolved in the very near future.

¹The first is the existing WECA universal service fund (USF) rate, the second is a new interim WECA non-traffic sensitive (NTS) universal service rate, and the third is an additional, new, interim traffic sensitive (TS) universal service rate proposed by each individual company. In all cases the new charges include the residual amounts caused by reducing terminating access charges to cost. In CenturyTel of Washington's and Cowiche's case the residual amounts also include the effects of reduced transport charges caused by the companies' inclusion and implementation of what is known as "local transport restructure" (or "LTR") in their filings as well.

²Staff views three intrastate universal service charges for each company as administratively inefficient and confusing. The Staff wishes to work with the companies to address this issue in the near future. The companies appear to be open to this idea but didn't have time to work on improvements prior to April 1, 1999.

As a benchmark for analysis staff has compared the confidential cost-based intrastate universal service support produced in Docket UT-980311(a), Exhibit 479-C, column "h" with various updates and modifications, to the sum of the companies' current and proposed intrastate universal service rate element revenues. The results of that analysis reveals that CenturyTel of Washington's (among others') residual terminating access revenues exceeds the cost-based support, and that the remaining companies' residual terminating revenues are within (or below) the cost-based support levels recommended.

CenturyTel³ and other companies are currently working with Staff to address concerns relating to the new interim universal service elements. The remaining companies, when presented with the potential opportunity to recover more explicit universal service support and reduce other implicit subsidies, have chosen not to make any further changes at this time due to uncertainty and a short turnaround time. Staff will continue to work with these companies in order to further minimize implicit subsidies.

Definitions, WAC 480-120-540(4)

Some companies have asserted that their transport is unbundled from switching services and is therefore not subject to subsection one of the rule, as explained in subsection four (b) of the rule. Staff wishes to clarify that subsection four (b) states explicitly that, "Dedicated transport unbundled is not subject to subsection (1)" (emphasis added). The companies that have asserted this don't have necessarily have "dedicated" transport available on an intrastate basis at this time (these companies typically provide transport on a common basis through their own facilities and/or meet point billing arrangements, without an LTR structure in place). Staff would like to work toward resolution of this issue as well.

Small Business and Competitive Company Mitigation, WAC 480-120-540(5)

Several companies have availed themselves of the Small Business mitigation offered in subsection five of the rule. Among these are two companies who are not defined as Small Businesses. These companies are Ellensburg Telephone Company and Whidbey Telephone Company. Ellensburg has elected to concur in the cost-based rate of Lewis River Telephone Company. Whidbey has elected to concur in the cost-based rate of Asotin Telephone Company. These two companies have asked for a waiver of the rule so they may be afforded this mitigation. Staff believes it may be appropriate for these companies to concur in the rates of another company due to their inability to perform a cost study and their relative size compared to several of the other larger businesses. However, staff has a concern that the rates these companies chose to concur in may be inappropriate.

³CenturyTel of Washington and CenturyTel of Cowiche in Dockets UT-990419 and UT-990420, have filed proposed tariffs with stated effective dates of April 15, 1999. Therefore, Staff will present these two items again at the April 14, 1999, Open Meeting, which will include a report of any progress made at that time.

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Revenue Neutral Mitigation, WAC 480-120-540(6)

None of the companies above have elected to take advantage of the “free pass” opportunity offered in subsection six of the rule. Staff has strongly encouraged companies with concerns (including CenturyTel of Washington) to re-evaluate this opportunity (as well as other non-terminating access or non-universal service options) as a potential to satisfy apprehensions regarding revenue neutrality, while continuing to move forward with the real intent of the rule.

Conclusion

Based on the above discussion, Staff recommends that the Commission take no action on the requests for LSN in Dockets UT-990270 through UT-990424 listed above, that the Commission take no action on requests for waiver in Dockets UT-990288 and UT-990409, and that the Commission allow all of the dockets, except Dockets UT-990419 and UT-990420, to go into effect on their stated effective dates. This course of action will allow Staff and the companies to informally resolve issues that may otherwise require formal complaints if the issues aren't resolved in the very near future.

Attachment