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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION	)	CAUSE NO. U-85-23 et al.
Complainant,	)	
PACIFIC NORTHWEST BELL TELEPHONE COMPANY, et al.	)	EIGHTEENTH SUPPLEMENTAL ORDER
Respondents.	)	
. . . .	)	

NATURE OF PROCEEDING: By order of consolidation and notice of prehearing conference dated July 3, 1985, the Washington Utilities and Transportation Commission (hereafter, WUTC or Commission) consolidated Cause Nos. U-85-23, U-85-25, U-85-27, U-85-28, U-85-29, U-85-30 and U-85-34. On July 31, 1985, Cause No. U-85-46 was added to the proceeding. The Fifteenth Supplemental Order (March 7, 1986) in this cause disposed of those issues directly presented by the tariff filings in Cause U-85-23. By the Sixteenth Supplemental Order (March 28, 1986) tariff filings made pursuant to a proposed "IntraLATA Telecommunications Plan" (Cause Nos. U-86-07 through U-86-25, inclusive, and Cause Nos. U-86-28 and U-86-29) were consolidated in this proceeding. Finally, a motion was made and granted to consolidate in this proceeding the tariff filings of the Washington Exchange Carrier Association (WECA Tariff WN U-1) which were suspended under Cause No. U-86-80. As the Commission noted in its Fifteenth Supplemental Order, these cases all relate to the question of how long distance revenues should be divided among the various telecommunications companies which currently provide these services in the state of Washington.

HEARINGS: Following prehearing conferences, the matter was called for hearing pursuant to due and proper notice on January 13 and 14, 1986 at Olympia, Washington (Cause U-85-23 issues only). The record in Cause U-85-23 was completed on February 4 and 5, 1986 at Olympia. Hearings addressing other issues of this consolidated case were held at Olympia on January 15 through 17, 1986, March 19 through 20, April 28 through May 1, 1986, and June 23 through 25, 1986. Testimony was received from the general public at specially scheduled hearings held on May 2, 1986 at Seattle, May 8, 1986 at Richland, May 9, 1986 at Yakima, and May 13, 1986 at Everett. In addition, the record includes testimony submitted in connection with a tariff filing of AT&T Communications of the Pacific Northwest Inc., (AT&T) in Cause U-85-68. Hearings were held before Chairman Sharon L. Nelson, Commissioner Robert W. Bratton, and Commissioner Richard D.

Casad. The Commission was assisted by its accounting advisor, James G. Ainey, Jr. and Administrative Law Judges Ernest A. Heller and Alice L. Haenle of the State Office of Administrative Hearings.

APPEARANCES: It should be noted that the various telecommunications companies listed below appeared in various capacities in the consolidated proceeding, being in some instances complainants, respondents, or otherwise interested parties. With that understanding, the following appearances are noted:

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PROPOSED ORDER: On September 22, 1986, the Commission served upon the parties a proposed order by the Administrative Law Judge designated as the Seventeenth Supplemental Order in this cause. Within the time specified, exceptions and or replies to exceptions were duly filed by the parties previously identified with the exception of intervenors TRACER and American Network, Inc.

SUMMARY OF COMMISSION ORDER: This order adopts substantial portions of the proposed order. Among the significant modifications to the proposed order are the following:

1. The Commission rejects the proposal to retain a "bulk-billed" element for 25 percent of the non-traffic sensitive (NTS) access charge which is referred to throughout this order as the carrier common line charge (CCLC). Instead, the Commission adopts a CCLC based exclusively on minutes of use (MOU).

2. Local exchange companies may (but are not required to) file tariffs for the CCLC which differentiate between the charge for initiating and terminating access as has been adopted by the Federal Communications Commission.

3. The Commission adopts an allocation of NTS costs based upon a division of 50 percent to local exchange services, 25 percent to interstate toll and 25 percent to intrastate toll (with exceptions for Asotin Telephone Company, General Telephone Company and Pacific Northwest Bell Telephone Company). This allocation will be implemented on a gradual basis with initial tariffs transitioning NTS costs toward 25 percent in an amount equivalent to up to $2 per access line per month for the first year. Further review will determine what additional

amounts, if any, will be required to continue the transition.

4. Local exchange companies may apply for variance from the 25 percent gross allocator on a showing of special circumstances warranting such a variance.

5. The proposal to create a state toll administrative committee is rejected as unnecessary insofar as this order eliminates the use of a market share based access charge. The administration of the Universal Service Fund may be accomplished in a satisfactory manner by the Washington Exchange Carrier Association or a similar body under an agreement to be approved by the Commission.

6. The additional revenue requirement of AT&T is established in this record and, as agreed by the parties for purposes of this order, is determined to be $10.2 million dollars on an annual basis. This determination is necessary so that the impact upon AT&T of the cost shifts required by this order can be properly analyzed.

7. To allow the Commission staff a sufficient opportunity to review the tariffs filed pursuant to this order, carrier common line charge tariffs and related local exchange tariff revisions must be filed on or before January 30, 1987 with an effective date of April 1, 1987. Tariffs for billing and collection, special access, private line and toll rate revisions related to this order may be filed on or before March 2, 1987 with an effective date not earlier than April 1, 1987. All filings should be accompanied by sufficient work papers to allow full analysis by the Commission staff.

MEMORANDUM

I. INTRODUCTION

The proposed order sets forth in detail the history of this proceeding. The Commission adopts that analysis with this additional comment. It is important to acknowledge the contribution of every individual who participated in this difficult enterprise. Although this case began in 1985, the efforts of the parties to resolve the issues now before us date back to 1983. During the intervening years much has changed in the law, in the industry, and in the market place. This order, the product of these years of effort and change, establishes some measures and some tools which this Commission, with the continued cooperation of the parties, may employ to create appropriate regulatory mechanisms to respond to dynamic circumstances in the years to come. Although this order may seem unduly cautious to some and drastic to others, we believe that a reasonable balance has been struck. The proposed order properly identified the goals which guide this proceeding. Foremost among those goals is the need to create a method for compensating LECs for jointly used plant which is consistent with today's more competitive telecommunications industry.

The old partnership among the long lines department of AT&T, the Bell Operating Companies, and the independents, has become an anachronism. The old system necessarily entailed subsidies flowing from one group of ratepayers to another. The new environment and the new policy directions emanating from the Federal Communications Commission, Congress, and the federal judiciary cannot be ignored by any state regulator. The new environment requires that companies begin to recognize the principles of cost causation in pricing. Unfortunately, for the nation and the states, the record on subsidy flows is incomplete. Definitively determining what class or service is responsible for cost causation also is not possible given current accounting systems. However, the record here, and the general economic literature, indicates that independent companies operating in rural areas of the state have been subsidized by old pooling arrangements.

Given the findings on the potential threat of bypass, however, the Commission has declined at this time to impose the total $2 local rate increase on all access lines in the state as contemplated by the ITP. The Commission recognizes national policy trends have set in motion disputes among the states about whole regions "subsidizing" other regions through averaged rates and pooling. This order seeks to avoid that result at the intrastate level. The framework established here allows the companies to begin moving toward a more competitive environment where each

company will have to be mindful of its own costs and efficiencies. At the same time, the framework established here recognizes past practices of this industry and the need for transitional mechanisms like a universal service fund, to obviate rate shock.

We will carefully review the effects of this order prior to implementation of further transitional shifts in 1988. In short, we have attempted to fashion a framework pursuant to which telecommunications companies can operate in a manner consonant with federal regulatory policies, but which also avoids the rapid and total deloading of NTS costs onto the entire class of end users in the state. The framework reflects a pragmatic approach, should harmonize with the national experience, and should continue to afford users and providers in the state an appropriate regulatory environment in which to operate.

A second goal pursued by some of the parties in this proceeding was to prevent uneconomic bypass. The proposed order reviewed the bypass question and concluded as follows at page 16:

> This record supports a finding that the most prevalent form of bypass in the state of Washington is "service bypass" which does not represent the threat to the public network which is characteristic of other forms of bypass. By this statement, we do not mean to suggest that bypass is not a problem. It is a potential harm to the public switched network, but it is not the imminent danger suggested by some of the parties.

The administrative law judge went on to note that much bypass relates to interstate toll, beyond the control of a state commission. The FCC has actively responded to this perceived threat. The FCC has recently acknowledged that bypass avoidance is no longer the chief rationale for seeking to deload interstate toll. Given that the FCC's next move to a $3 or $4 line charge remains very much in doubt due to opposition from state regulators, and its rationale for further deloading of toll keeps shifting, this order reflects the Commission's desire to cause minimal disruptive effects to consumers until the results of current federal policy direction and trends can be ascertained.

Historically, regulators have had their hands full balancing the interests of ratepayers and utility investors. Regulators are now asked to consider yet another interest, that of the economy as a whole. Late in these proceedings, the Commission was asked to receive testimony addressing this issue. Unfortunately, the testimony was presented so late that to receive the testimony would have generated new rounds of hearings and unduly delayed this decision. This we would not allow. Rejecting

the testimony does not mean this Commission rejects the validity of the proposition that we should concern ourselves with the economic benefits to the consuming public.

Having thus stated the fundamental goals which have guided the Commission's deliberations, we turn to the specific issues addressed in the proposed order and the exceptions thereto.

II. ISSUES PRESENTED ON EXCEPTIONS

A. NTS Allocator

The first issue which must be addressed is a fundamental question of establishing a reasonable allocation of NTS costs to be supported by intrastate toll carriers and their customers. The testimony varied widely. Some witnesses believe economic principles require that toll carriers pay little or nothing for access to the local office switch. Others believe present support levels for toll traffic are reasonable and should be maintained or increased. The proposed order found that the admittedly arbitrary 25 percent gross allocator advocated by Commission staff is as valid as any other allocation factor. In an effort to apply a conservative approach to implementing such an allocator, the proposed order would leave PNB at its present allocator (SPF) of 16.95 percent. GTNW would also remain at it's SPF (24.9 percent) and Asotin Telephone Company would begin a transition from its current SPF (19 percent) up to 25 percent. The remaining LECs would begin a transition toward 25 percent limited to the $2 per line per month approach suggested in the IntraLATA Telecommunications Plan (ITP) proposed jointly by PNB, WITA, and AT&T.

In their exceptions, AT&T and the WITA companies raised strong objections to the arbitrary 25 percent gross allocator. They advocated instead a flexible approach, allowing each LEC to determine an appropriate allocator. In its testimony, and on brief, Commission staff conceded that there is room for flexibility within a range of reasonableness which may vary from PNB's SPF of 16.95 percent to perhaps as high as a 35 percent gross allocator. Public counsel and the Elder Citizens Coalition while not specifically challenging the 25 percent gross allocator in their exceptions did point out the hardship which the NTS transition will cost customers of many local companies and urged a careful review of each step in the transition.

Commission Discussion

As noted in the previous summary, the Commission affirms the pragmatic approach presented in the proposed order. There

is the appearance of a consensus building among many of the parties that a gradual movement toward a gross allocator of 25 percent is reasonable. Such a movement is certainly preferable to the use of current intrastate SPFs which in some cases exceed 50 percent. The 25 percent target allocator should not be viewed as a "Procrustean Bed" on which the LECs or their subscribers are to be punished. The Commission is sympathetic to those who plead for flexibility. However, the need for a variance from a reasonable standard should be demonstrated on a complete record. We find the present record adequate to support the proposal to leave PNB at its 16.95 percent SPF allocator for the present. GTNW is essentially at the target of 25 percent. All the remaining companies should begin to transition their NTS allocation toward the target of 25 percent. On a company specific basis the Commission will consider other exceptions to the 25 percent target. However, we deem it unlikely that any company will justify a target allocator greater than the 35 percent level suggested in the brief of Commission staff.

B. Timing of Transition

A related issue is the timing of the phase-in to a 25 percent target allocator. Continental Telephone Company and public counsel advocate up to 6 years to transition to 25 percent. This would allow some companies to shift less than $2 per line, thereby reducing customer impact. Although other parties did not reply to the 6-year transition proposal, it is directly contrary to the stated position of AT&T and the WITA companies (as a group) which advocate an expeditious $2 per month shift in the first year with another shift in the second year.

Commission Discussion

The Commission has previously endorsed the concept of a pragmatic, gradual, and flexible transition toward the 25 percent gross allocator. It is important that these policies not be misinterpreted as a lack of commitment to our goal. To endorse a 6-year phase-in would, in our opinion, send the wrong signal to the industry. There is reason to require a substantial first step of the transition in 1987. After the CCLC has been in effect for 10 months, the Commission should receive a report from each company which sets forth the effects of the CCLC. This report should indicate whether the next step of the transition (beginning in 1988) should be modified.

C. Subscriber Line Charge

As noted in the proposed order, there has been much controversy over the use of a subscriber line charge as the vehicle for a transition of NTS contribution from toll to local service, or "deloading toll". What has been known as a "subscriber line charge" (SLC) at the federal level (now $2 per line for residential customers) was for a brief period employed in this state in the form of a "customer access line charge" or CALC. Implicit in much of the argument by LECs is the desire to pass through a $2 per month per line transition in the form of a basic exchange SLC or CALC. The exceptions of the Elder Citizen's Coalition point out that such an increase in basic exchange rates should not be a summary procedure but should allow a thoughtful review of whether the particular LEC will suffer a revenue deficiency. Public counsel and Commission staff also advocate a careful review of tariffs filed pursuant to this order.

In it's reply, PNB argues against a revenue requirement review of the tariff filings herein, citing for support Commission staff exceptions pages 5-6. We have reviewed the cited pages and find nothing to suggest that the staff considers the tariff review process to be a summary exercise. On the contrary, the staff reply suggests a 60-day review process, including requiring submission of all work papers and calculations to support the tariff filing.

Commission Discussion

Although many companies may be able to justify an increase in local rates equal to the $2 shift in NTS costs, it is also likely that one or more of these companies will be shown to now achieve revenues in excess of that previously authorized. It follows that an automatic approval of a SLC or CALC would be an abdication of this Commission's responsibility to the public. At the same time, it is not reasonable to expect each LEC seeking offsetting revenues to undergo a full audit. We will adopt a procedure suggested by the Commission staff which calls for a 60-day tariff review period with submission of complete work papers. This order does not give prior approval to a $2 local rate increase.[1]

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[1] The term CALC should hereafter be strickened from our lexicon and the term SLC should forever be used only in reference to the Federal Communications Commission which created it. Unlike the FCC, this Commission is authorized to grant local rate increases and it is not necessary to resort to semantic subterfuge.

D. CCLC Methodology

The parties initially argued heatedly regarding the respective merits of a usage-based versus a bulk-billed method for collecting the CCLC. Public counsel and Commission staff advocated 100 percent bulk-billed methods. MCI and U.S. Sprint pushed for 100 percent usage-based methods. The ITP compromised with a 75 percent bulk-billed, 25 percent usage-based method. The proposed order attempted to strike a different compromise, 75 percent usage-based, 25 percent bulk-billed.

On exceptions there were substantial shifts in position. PNB, MCI, U.S. Sprint, and AT&T agreed that a 100 percent usage-based method would be acceptable, possibly weighted toward the terminating end of a call as has been approved on a temporary basis by the FCC. The WITA companies remained firm in their support for the ITP. The Commission staff, public counsel and Elder Citizen's Coalition raised no objections to the proposed order's compromise.

Commission Discussion

Again, we perceive the development of some consensus. The proposed order's dissatisfaction with the bulk-billed methods and preference for a usage-based method was well-reasoned. A review of the exceptions convinces the Commission that there is no compelling reason to retain even a 25 percent bulk-billed element in the CCLC. PNB has proposed a formula for calculating a CCLC based on premium and non-premium minutes of use as follows:

$$R = \frac{\$}{(.5 \times NP) + P + IA}$$

Where: **R** = premium CCLC rate;
$ = PNB's intrastate toll NTS revenue requirement;
NP = PNB nonpremium interLATA access minutes;
P = PNB premium interLATA access minutes;
IA = PNB intraLATA access equivalent minutes of use and;
.5 R = nonpremium rate.

It should be noted that this formula seems to be equally satisfactory for use by any other LEC. It should be further noted that all parties have agreed with the finding in the proposed order that PNB should impute to itself a CCLC equal to that charged to other toll carriers.[2]

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[2] The same could be said for GTNW or any other LEC which provides toll services.

The suggestion that a CCLC should be weighted toward the terminating end of transmission (FCC method) is worthy of consideration. We agree with the proposed order that this record does not provide a basis on which the FCC method can be affirmatively endorsed. However, each LEC should consider whether its CCLC tariff would benefit from adopting such a methodology. Should an LEC elect to file a CCLC tariff which lowers the originating CCLC with respect to the terminating CCLC, the LEC should, at the same time file a comprehensive study in support of the methodology identifying the potential advantages and disadvantages.

E. 1 Plus Dialing--Premium/Nonpremium CCLC

An issue which surfaced late in this proceeding is the difficulty of applying the equal access concept and a discount for nonpremium access on an intraLATA basis. The proposed order argues in favor of a 50 percent discount for "nonpremium" access. Although the parties did not take exception to this ruling, the WITA companies pointed out the ambiguity of applying the concept of "premium" access on an intraLATA basis. Whereas interLATA calls are subject to presubscription which provides the possibility of 1 plus dialing for competing interLATA toll carriers, within a LATA, only GTNW and PNB have the benefit of one plus dialing. Other toll carriers must be satisfied with 1 plus 10XX, as an approximation of "equal access". As pointed out by WITA (and concurred in by PNB) GTNW and PNB are prohibited from offering interLATA toll. The federal courts have not required these LEC/intraLATA carriers to provide 1 plus intraLATA service to other intraLATA toll carriers. PNB points out in its reply that this record is inadequate to resolve this very complex question of fact, law, and policy. PNB, WITA, and AT&T all urge the Commission to define "premium access" as access equivalent in quality to that available to AT&T. This would generally mean 1 plus dialing for interLATA traffic and 1 plus 10XX dialing for intraLATA traffic. Although Commission staff in its reply disagrees with WITA on this issue, it is not clear from the Commission staff reply that the staff would define intraLATA "premium access" in a manner different than that set forth above. U.S. Sprint urges the Commission to defer a ruling on the 1 plus issue as this was not argued during the case.

Commission Discussion

Curiously, the Commission is in a position to agree with each of the parties. We agree that the issue of 1 plus dialing was not well presented on this record. We agree that there are significant issues to be considered before ordering PNB or GTNW to provide intraLATA 1 plus dialing service to other

carriers. We also agree it was implicit in the proposed order that access equal in quality to that available to AT&T was necessary to justify charging a premium CCLC. With that understanding we affirm the proposed order. We do not rule out the possibility of a later redefinition of equal access based upon a more complete presentation of evidence and arguments.

F. State Toll Administrative Committee (STAC)

In response to a perceived need for a body to administer the gathering of market share information, resolution of disputes and administration of the Universal Service Fund, the proposed order suggested that a committee (STAC) be created consisting of representatives of LECs, carriers, and the Commission. Among the objections that this proposal generated were the following:

1. The Committee was unrepresentative.
2. The role of the Commission representative was inappropriate.
3. The Committee was unnecessary.
4. The Committee was harmful.

No provision of the proposed order received such uniform condemnation as did the STAC.

Commission Discussion

Little would be gained by analyzing each of the criticisms set forth in the exceptions. It is clear that the basic purpose of STAC is eliminated by our adoption of a CCLC based on usage. The administration of the Universal Service Fund (USF) probably can be managed satisfactorily by WECA or a similar organization of LECs. We will order that WECA submit, on or before March 2, 1987 an agreement endorsed by each LEC which wishes to participate in the USF. Upon approval by the Commission, the USF agreement will control the collection and distribution of these funds. It is anticipated that this timetable will coincide with the effective date of the CCLC tariffs required by this order. (See Finding of Fact 22, *infra*.)

G. Billing and Collection Charges

The proposed order found that AT&T witness John F. Sumpter's testimony was unrefuted when he stated that there was no justification for a billing and collection charge in excess of that established by the FCC. While noting that the FCC tariffs will expire on January 1, 1987, PNB, AT&T, and Commission staff all concur with the proposed order. WITA argues against the

adoption of the FCC tariff as a ceiling for billing and collection tariffs claiming that AT&T's argument violates prior agreements leading up to the ITP. PNB, AT&T, and WITA all argue for the flexibility to use contracts for billing and collection rather than tariffs. Public counsel adds that the present FCC tariff is an appropriate guide for determining reasonableness but should not be an absolute.

Commission Discussion

The Commission agrees with public counsel that the present FCC billing and collection level is an appropriate guide for determining reasonableness of a tariff. Each LEC may present evidence in support of another cost-based tariff rate and should bear the burden of proof. The proposed order stated only that Mr. Sumpter's testimony was unrefuted. This is true. It is useful to provide the LECs with a guide for their tariff filings and the present FCC level is the only guide available.

As for the use of contracts, again the record fails to support the use of contracts. This Commission faces a new problem with respect to monitoring contractual terms and conditions in lieu of tariff rates. Therefore, the Commission will require more justification before authorizing the use of billing and collection contracts.

H. Traffic Sensitive/Special Access Charges

By adopting the ITP (with modifications) the proposed order required each LEC to eventually file a traffic sensitive and special access charge tariff. The ITP does not specify a method for establishing these charges. The parties all seem to agree that the FCC separation/allocation rules (Part 67 and 69) provide an appropriate methodology. However, PNB would use the FCC procedures to set caps for the charges while long run incremental costs would provide the floors. AT&T argues for parity with FCC tariffs unless an LEC has cost-support for a different level. MCI concurs. Commission staff rejects PNB's attempt to set a floor for traffic sensitive tariffs based on long-run incremental costs. The WITA companies again accuse AT&T of violating prior agreements by advocating parity with FCC tariff levels.

Commission Discussion

Again, the Commission is presented with a need to provide guidance in the filing of tariffs, guidance which was not found in the ITP. AT&T's position, as we understand it, is that LECs should file at parity with FCC levels unless they can

justify a different level. This is not an extraordinary requirement. Given the obligation of the LECs to provide support for their filings anyway, the FCC levels can hardly be characterized as more than a guide or "bench mark". We agree with Commission staff that the record does not support the adoption of a "floor" for such tariffs based on long-run incremental costs. The fully distributed cost methods found in the FCC Parts 67 and 69, cost separations and allocations rules are appropriate. However, since each LEC has costs which vary from state or national averages, each LEC should be able to support a company specific traffic sensitive or special access charge which is different from the current FCC approved tariff. This conclusion is consistent with the terms of the ITP.

I. Universal Service Fund

The proposed order adopts without modification the provisions of the ITP for establishing a universal service fund. According to the testimony and exhibits, this fund will receive approximately .12 cents per minute of use from all carriers. These funds will be disbursed to high cost companies in an amount totalling $4.3 million dollars per year. PNB, in its exceptions offered the following clarifying correction to the proposed order.

> Universal Service Fund (USF)
>
> An important element of the ITP is the Universal Service Fund, the purpose of which is to provide partial support for LECs whose loop costs exceed the state-wide average loop cost by at least 115 percent. LEC's loop cost, as well as the state-wide average, are determined pursuant to a 25 percent allocation of the unseparated NTS revenue requirement. By totalling the support amounts for all LECs and dividing by the total intrastate access minutes, the USF surcharge is derived. According the witness Leonard, the USF usage charge is $.0012/mou. The documentation for this rate is contained in WITA'S Exhibit No. 213.

The only substantial objection which has been raised to the USF is that of Asotin Telephone Company (Asotin). Asotin argues that the USF as proposed is inadequate to meet the needs of companies like Asotin, which have very high traffic sensitive (TS) costs. Asotin asks that the USF be expanded to include TS costs in a manner similar to that proposed for NTS costs. PNB replied that the USF as proposed does provide temporary relief

for some TS costs (during the first year). PNB goes on to argue that Asotin's proposal is beyond the scope of the record in this proceeding.

Commission Discussion

This debate has caused the Commission to carefully review the USF provisions as set forth in the ITP. We find these provisions lacking in necessary detail. In some aspects, the ITP language is inconsistent with the obvious intent of the parties as evidenced by Exhibit No. 213. We note that the ITP makes companies with loop cost of at least 115 percent of statewide average eligible to "participate". However, it is clear that all companies will contribute and companies will only be compensated for cost above 115 percent of statewide average. Therefore, unless the company's loop costs exceed 115 percent, it will not receive USF funding. The method of calculating the USF support requirement (ITP page VIII A-G) is confusing and appears to be inconsistent with Exhibit 213.

More importantly, the ITP establishes a "base" for determining what "high cost" is which is calculated at 25 percent of the state unseparated loop costs. When one recalls that PNB has an intrastate SPF of 16.95 percent it becomes apparent that the average intrastate allocation of loop costs is much lower than 25 percent. If the USF were funded on the basis of actual intrastate allocation using SPF, it is likely that the USF fund would be much larger and the contribution from toll carriers to that fund proportionally greater. These issues, like the one presented by Asotin demonstrate the complexity of this proceeding. If the Commission were to delay for another 6 months or longer, we might resolve more of these issues. Unfortunately, there is a great need to reach a decision, and that decision must be based upon this record. The Commission believes the concept of the USF should be approved with specific details to be furnished by WECA in its March filing. Ambiguities may be resolved by reference to Exhibit 213 where appropriate.

The USF, as outlined in the ITP is designed to be a transitional mechanism, not a permanent source of LEC support. The Commission is mindful of the controversies surrounding pooling at the national level. Therefore, we will carefully scrutinize the USF agreement that is to be submitted by March 2, 1987, to assure that it is truly transitional in nature.

J. AT&T Revenue Requirement

The proposed order elected to not resolve the dispute between AT&T and Commission staff with respect to AT&T's revenue

requirement. AT&T initially requested an additional $16 million revenue requirement. After making certain adjustments, Commission staff suggested an additional $10.2 million revenue requirement. By its exceptions, AT&T has now stipulated to the $10.2 million level. Both AT&T and the staff contend that it was error for the proposed order to fail to make a ruling on this controversy.

Commission Discussion

Given the above-mentioned stipulation, the concerns expressed in the proposed order are satisfied. The additional revenue requirement as stipulated, is consistent with the record and is opposed by no party. It shall be adopted.

K. Volume Discounts

The proposed order made no ruling upon the optional calling plans (volume discounts) proposed by PNB, but expressed support for the concept. Only public counsel commented on this portion of the proposed order, arguing that the final order should specifically condemn PNB's proposal to include restrictive contract provisions in its optional calling plans.

Commission Decision

The Commission disagrees with public counsel on this point. The proposed order correctly concluded that "the concept of volume discounts is rational, consistent with the development of competition in this state, and can be nondiscriminatory if properly designed."

There is no justification to anticipate PNB's next filing and condemn in advance the inclusion of restrictive provisions. The question in each case should be whether under all of the circumstances a particular restrictive provision is fair, just and reasonable. The Commission should not prejudge such an issue.

L. Adoption of the IntraLATA Telecommunications Plan (ITP) as Modified

In the proposed order, the Administrative Law Judge elected to adopt the ITP with certain modifications rather than to restate the provisions in his own terms. In its exceptions, both public counsel and the Commission staff urge the Commission to not adopt the IntraLATA Telecommunications Plan itself, but rather state in the Commission's own words each of the provisions which it has adopted. In response to public counsel's concern,

PNB points out that it attempted to rewrite the ITP so as to incorporate the modifications but found it difficult to "recast the provisions as modified and still preserve the structure in a form recognizable to the parties that negotiated it." PNB had a concern that an attempt to rewrite the ITP would result in another round of exceptions, adding additional ambiguities, and attempts to renegotiate the plan.

Commission Discussion

The Commission agrees with public counsel that it is appropriate for the Commission to state its findings, conclusions and rulings affirmatively rather than to simply adopt the intraLATA telecommunications plan by reference. At the same time, we agree with PNB that the ITP is an important memorandum of understanding among the parties. In implementing the final order, the parties will be justified in referring back to the ITP as a reference source for purposes of resolving any areas of ambiguity which may be present in this final order.

M. Short Haul Toll Reductions (IntraLATA)

The Commission recognizes that the proposed order places the greatest burden on customers of the WITA companies. Only these customers face the possibility of substantial local rate increases. The Commission believes that equity demands an offsetting benefit to these customers. Of particular concern to the Commission was public testimony showing that many rural customers need to make a short toll call to reach their schools, medical facilities and governmental agencies. These customers do not receive the benefits of the large "free calling" areas enjoyed by urban customers.

As the partial shifting of non-traffic sensitive costs to the end user takes place, this inequity is bared. To mitigate this, the Commission orders each company whose SPF factor was below 25 percent to add 25 cents per month to each subscriber's access line. This money is to be paid to the dominant intraLATA toll carrier (PNB) which will then be expected to lower its rates on mileage bands 1-10 and 11-16. We estimate that this will approximate an 8 percent reduction in those rates. PNB, GTNW, and Asotin will file tariffs to accomplish these general purposes.

The Commission appreciates that this appears contrary to the goal of transitioning to the 25 percent allocator. This is not intended to be anything but an exception to address a problem that was not satisfactorily resolved. The Commission solicits a longer term solution to the short haul toll inequity from parties to this case prior to its review of 1988 NTS cost transition.

Wherefore, having generally discussed each of the issues presented on exceptions and replies thereto, the Commission does hereby adopt findings of fact, and conclusions of law, incorporating by this reference all findings and conclusions of the proposed order not inconsistent with this order including all findings and conclusions to which no specific exceptions were drawn.

FINDINGS OF FACT

1. The complaining companies and the respondent companies as previously identified are telecommunications companies doing business in the state of Washington.

2. Said companies are engaged in (among other things) the joint provision of long distance telecommunications services in the state of Washington within and/or between local access and transport areas as defined by RCW 80.04.010.

3. The Washington Utilities and Transportation Commission is an agency of the state of Washington, charged by statute with the duty to regulate telecommunications companies in this state in the public interest. The Commission has the authority to require telecommunications companies to provide toll services jointly and may establish a reasonable division of reasonable "joint rates" under RCW 80.36.160.

4. The industry compensation structure for jointly provided toll services must be changed to conform to the requirements of a competitive intrastate (interLATA and intraLATA) telecommunications industry. The proposal in the IntraLATA Telecommunications Plan (ITP) to replace the existing settlements contracts with a system based on the use of tariffed access charges applied in a nondiscriminatory manner to all intrastate toll carriers meets these requirements. Modifications of some of the provisions of the ITP and addition of some provisions as detailed herein will reduce the anti-competitive potentials of the ITP as submitted.

5. The proposal to transfer $4 per access line per month over a two-year period from NTS revenue requirement from toll to local exchange service would have the effect of reducing the toll supported intrastate NTS revenue requirement of the state's largest local exchange company (PNB) to less than 2 percent.

6. The availability of the local loop to interexchange companies is an asset equal in value to interstate carriers as it is to intrastate carriers. An allocation of NTS costs 50 percent to local exchange, 25 percent to interstate toll, and 25

percent to intrastate toll, as proposed by Commission staff is reasonable.

7. The public interest does not require that companies which now have a Subscriber Plant Factor (SPF) below 25 percent (GTNW, PNB, and Asotin Telephone Company) be required to transition up to 25 percent at this time.

8. The annual transition amount of $2 per access line per month noted in the ITP is a reasonable phase in mechanism for companies whose intrastate SPF now exceeds 25 percent.

9. The threat of bypass in this state is not so imminent as to require the substantial NTS cost shifts proposed by the ITP. Neither does the threat of bypass require the use of a bulk-billed CCLC. The moderate NTS shifts provided in this order will be sufficient to address current conditions and may, upon a demonstration of public interest, be adjusted to meet future needs.

10. The proposed bulk-billed CCLCs as presented in the ULAS proposal, the ITP and as further modified in the proposed order have the potential for anti-competitive effect. The record does not support a finding of need for a bulk-billed CCLC.

11. To be applied on a nondiscriminatory basis, access charges must be applied to all interexchange carriers (IECs) uniformly. This requires modification of the ITP to explicitly provide for companies such as PNB which provide both exchange and toll services to account for an access charge payable by the toll services accounts to the local exchange accounts.

12. To avoid unfair and anti-competitive impacts on new IECs, a nonpremium discount mirroring that approved by the FCC must be incorporated into the CCLC. The discount should not be available to IECs which choose nonequal access when equal access is available. "Equal access" means access equal in quality to that which is available to AT&T.

13. Due to the substantial modifications to the ITP recited above, the revenue impacts on the LECs will vary. Therefore, tariffs filed herein are not supported by this record and have not been shown by a preponderance of the evidence to be fair, just and reasonable. If refiled in a manner consistent with the guidelines of this order, tariffs will be fair, just and reasonable.

14. Proposed toll rate reductions of PNB, likewise, are based upon the proposed ITP and are not supported by the record given the modifications to the ITP required by this order.

15. The concept of volume discounts to customers who are potential "uneconomic bypassers" has merit and is not inherently discriminatory. The use of such discounts to discourage uneconomic bypass is worthy of consideration.

16. The moderate cost shifts incorporated in this order when further modified by the Universal Service Fund will not be inconsistent with the state policy of fostering universal service.

17. It is appropriate for each LEC to file intrastate Traffic Sensitive Access Charges and Special Access charges using FCC Part 67 and 69 allocations procedures. Where said charges vary from those approved by the FCC, the LECs should be prepared to justify the variance.

18. It is appropriate for each LEC to file a tariff for Billing and Collection services. Recognizing that these services are being de-tariffed by the FCC, it is still reasonable for the LEC to bear the burden of proof if the intrastate tariff varies from the FCC tariff which was in effect on December 31, 1986. The use of Billing and Collection contracts has not been justified on this record.

19. The question of AT&T's additional revenue requirement has been resolved by stipulation. An intrastate revenue requirement of an additional $10.2 million on an annual basis is supported by this record.

20. The Universal Service Fund tentatively approved by this order will require administration. The Washington Exchange Carrier Association (WECA) would be an appropriate body to perform this function. WECA should be directed to file an agreement of LECs which would participate in the USF. This agreement should be subject to Commission's approval. Disputes regarding the agreement would be properly presented to the Commission as petitions or complaints.

21. The pleadings raise additional issues of discrimination among the parties, however, specific evidence of discriminatory activity has not been presented and said allegations must be deemed abandoned.

22. In the following provisions the Commission revises and restates the ITP in its own words. These provisions for the joint provision of telecommunications services in the state of Washington are fair, just and reasonable:

I. In the two Washington LATAs and the Washington portion of the Portland, Oregon LATA, PNB shall be designated the carrier for switched intraLATA toll ,(Bell to Bell, B-B), (Bell to Independent, B-I), (Independent to Bell, I-B), and (Independent to Independent, I-I).

It is PNB's responsibility to:

A. Design and develop the intraLATA toll rates. PNB will continue to serve in its present role as the designated carrier of intraLATA toll among it own exchanges, among it exchanges and those of the other local exchange companies, and among the exchanges of the other local exchange companies, and to continue to serve as "carrier of last resort" for intraLATA toll customers not served by other intraLATA carriers. These roles do not preclude other carriers from the intraLATA toll market, or preclude the other local exchange companies from becoming the carrier of toll traffic to or from their exchanges. As designated carrier, PNB will file intraLATA toll tariffs in which other local exchange companies may, but are not obligated, to concur. These responsibilities of PNB are in the public interest and are not anti-competitive.

B. Continue to coordinate with the Local Exchange Company (LEC) the design and development of the intraLATA toll network, including operator services and private line (PL). Each LEC in whose exchange territory intraLATA toll transmission or switching facilities connecting to its end offices or transitioning its territory are or will be located, shall have the right of first refusal to construct, own and maintain such facilities on competitive terms, conditions, and specifications unless the carrier and the LEC by contract agree otherwise.

II. Until April 1, 1987, the current compensation arrangements will continue and the Special Toll Pool will be terminated April 1, 1987, or coincident with the WUTC approval of the NTS tariffs described below. Beginning April 1, 1987, the compensation arrangement for intraLATA switched services will be similar to interstate access charges. The LEC's will file intrastate specific access tariffs. It is intended that the NTS tariff and corresponding local rate increases are to be effective no later than April 1, 1987. Also, it is intended that Traffic Sensitive (TS) tariffs are to be effective no later than July 1, 1987.

A. An LEC could elect to have an intrastate specific traffic sensitive tariff effective earlier than July 1, 1987. In 1987 then, an LEC could have an intrastate specific traffic sensitive tariff effective as early as April 1, 1987. The 1987 intrastate specific traffic sensitive tariff would, at the LEC's option, be filed at the LEC's specific authorized intrastate rate of return, or PNB's authorized intrastate rate of return or a return specified by the WUTC, and would reflect projected 1987 revenue requirements.

B. Until there are approved traffic sensitive tariffs, the LECs will use the following compensation arrangements for switched access.

1. The 1987 intrastate, intraLATA traffic sensitive revenue requirement using PNB's authorized intrastate rate of return will be developed by the LEC and paid by PNB. The LEC will select one of two options:

a. A prospective, mutually agreeable, contractual amount between PNB and each LEC (possibly an arrangement similar to the option 1A used for interstate purposes). The LEC will provide the necessary data to PNB by April 1, 1987. The contract will be signed no later than July 1, 1987.

(OR)

b. The LEC will provide an estimated 1987 revenue requirement to be used for interim compensation purposes by April 1, 1987. Final 1987 revenue requirements will be provided to PNB for review, true-up and approval. If the LEC selects this option, a contract substantially the same as the 1985 traffic sensitive contract, to the extent applicable, will be signed no later than July 1, 1987.

c. Upon approval of an LEC's state specific traffic sensitive access tariff, (based on FCC procedures Parts 67 and 69) the aforementioned contracts selected by the LECs are cancelled.

2. Current intrastate traffic sensitive access tariffs will remain in effect for interLATA services until intrastate specific access tariffs are approved.

(The rates within the current tariffs can be changed.)

C. The projected 1987 intrastate non-traffic sensitive revenue requirement will be developed by the LEC. At the option of the LEC the rate of return used will be one of the following: (1) LEC's authorized intrastate specific rate of return, (2) PNB's authorized intrastate rate of return, (3) a return specified by the WUTC. The 1987 NTS revenue requirement will be adjusted to recognize the total amount previously transitioned in 1984-85.

For LEC's other than PNB and GTNW, an additional adjustment will be made to reflect a transition amount calculated by applying a rate per access line of $2 per month. However, at the LEC's option, the minimum transition per access line will not exceed what is required to take an LEC to an intrastate gross allocator of 25 percent. The public interest does not require that a company which now has a Subscriber Plant Factor (SPF) below 25 percent (GTNW, PNB, and Asotin Telephone Company) be required to transition up to 25 percent at this time. The annual transition amount of $2 per access line per month noted in the ITP is a reasonable phase in mechanism for companies whose intrastate SPF now exceeds 25 percent. Variance from this adjustment may be approved upon a showing of extraordinary hardship.

D. The NTS Revenue Requirement calculated in Paragraph II C above will be limited to that which is assigned to the intrastate jurisdiction. This Revenue Requirement will then be adjusted to exclude any intrastate Universal Service Fund (USF) amounts calculated in Paragraph VIII, except the amount determined pursuant to sub-paragraph F thereof. The remaining NTS Revenue Requirement will be recovered via a usage (MOU) based Carrier Common Line Charge (CCLC). The formula for calculating the CCLC will be as follows:

$$R = \frac{\$}{(.5 \times NP) + P + IA}$$

R = Premium CCLC rate
$ = LEC's intrastate toll NTS revenue requirement.
NP = LEC nonpremium interLATA access minutes
P = LEC premium interLATA access minutes
IA = LEC intraLATA access equivalent minutes
.5R = Nonpremium rate

The portion of the CCLC will include an additional minute of use charge applied to all intrastate minutes and will be added to fund a Universal Service Fund as defined in Paragraph VIII. The LEC, at its option, may pool or may file its own tariff and bill and keep the CCLC. Pooling of all the USF funds collected by the LECs is mandatory. The USF pool will be administered by WECA or a similar organization nominated by WECA under an agreement filed with the Commission by March 1, 1987 and approved by April 1, 1987.

E. Tariffs reflecting the CCLC described in Paragraphs C and D of this section will be filed with the WUTC no later than January 30, 1987 to be effective April 1, 1987, unless otherwise specified by the WUTC. It is understood the NTS compensation arrangements between the carrier and the LECs will be based on the filed tariffs following approval of those tariffs by the WUTC. All filings will be accompanied by complete work papers, in hard copy and on diskette if available.

F. Average Schedule LECs will be treated in a fashion similar to that of Cost LECs. Average Schedule LECs will develop a surrogate for its 1987 NTS revenue requirement. This requirement will be adjusted to reflect the amounts transitioned for prior periods as stated in Paragraph II C plus transition amount <u>not to exceed $2.00 per access line per month</u>. The transition per access line will not exceed what is required to take an Average Schedule LEC to a level that is equivalent to a 25% gross allocator for a Cost LEC.

G. An LEC may offer an alternative CCLC which differentiates between originating and terminating MOU. In such case, a study detailing the advantages and disadvantages of the alternative CCLC must accompany the filing.

III. In 1988 the following compensation arrangements will be used for switched access (subject to WUTC approval):

A. The compensation plan for intrastate traffic sensitive (TS) services will be as follows:

1. LECs will obtain intrastate specific access tariffs for switched services.

2. LECs will utilize projected 1988 revenue requirements.

3. FCC procedures under part 67 and 69 will be used.

4. At the election of the LEC, the rate of return will be the LECs authorized specific intrastate rate of return or PNB's overall intrastate authorized rate of return or a return specified by the WUTC.

B. The compensation plan for intrastate non-traffic sensitive (NTS) revenue requirement will be as follows:

1. LECs will obtain state specific access tariff for recovering NTS revenue requirement (CCLC).

2. LECs will utilize projected 1988 revenue requirements less the amounts transitioned for prior periods (including 1986 and 1987) in accordance with Paragraph II C. 1988 NTS adjustments may include shift of another $2.00 per access line or a lesser amount if it takes the LEC to an intrastate gross allocator of 25%. These additional amounts will also be deducted from the NTS revenue requirement.

3. At the election of the LEC, the rate of return will be the LEC's authorized specific intrastate rate of return, or PNB's overall intrastate authorized rate of return, or a return as specified by the WUTC.

4. The Universal Service Fund will continue subject to further review by the WUTC.

C. Each Average Schedule LEC will develop its 1988 traffic sensitive and non-traffic sensitive revenue requirements in a manner as provided in Paragraph II F above.

D. Each LEC will submit a study by January 30, 1988 which details the effects of the 1987 CCLC. This study should provide for any proposal to continue or modify the transition to a 25 percent gross allocator.

IV. Special access tariff charges will apply to dedicated private line (PL) or channel services and will be tariffed no later than July 1, 1987 by the LEC. Such tariffs may utilize projected revenue requirements. FCC rules for determining cost allocators shall be applied. The LEC will be expected to justify variation from comparable FCC rates.

A. Tariffs filed to be effective in 1987 will be developed based on the following rate of return options: (1) their authorized specific intrastate rate of return, (2) PNB's authorized intrastate rate of return, or (3)

a return specified by the WUTC. In 1987 prior to tariffs being approved, PL compensation would be on a 1987 revenue requirement at PNB's authorized intrastate rate of return.

B. For tariffs effective in 1988, at the option of the LEC, the rate of return will be at each LEC's authorized specific intrastate rate of return or at PNB's intrastate authorized rate of return, or a return directed by the WUTC.

C. If PL is designated a competitive service or deregulated, such jointly provided PL will be compensated by contractual agreements among the affected LECs and PNB. The contracts could refer to access charges or sharing of revenues derived from these PL services. Also, I-I PL will be the responsibility of the LECs if PL is deregulated.

V. LECs with intraLATA, interexchange non-access services and/or facilities other than Billing and Collection may provide such services and or facilities to the carrier on a contractual basis beginning April 1, 1987. Specifically, through 1988, Operator Services will continue to be provided under contract by those LEC's providing them as of December 1, 1986. Unless PNB and the LEC agree otherwise this contract will base compensation on a continuation of the existing intraLATA TS agreement. In 1987 at the option of the LEC the rate of return will be PNB's authorized intrastate rate of return or the LEC's specific intrastate authorized rate of return. In 1988, at the option of the LEC, the rate of return will be at PNB's authorized overall intrastate rate of return, or the LEC specific intrastate authorized rate of return.

VI. Billing and collection services for intrastate toll will continue to be provided by the LECs. Billing identification and customer data is proprietary to the LECs. Until applicable tariffs are approved, billing and collection revenue requirements will be recovered as outlined in Paragraph II B. LECs are expected to determine Billing and Collection in a manner consistent with the establishment of FCC tariffs in effect on December 31, 1986. Variations from FCC rates must be based on competent evidence.

VII. B-I Extended Areas Services (EAS) compensation for 1987 will be exempt from any access tariff filing(s). Compensation will be effected by mutually agreeable contracts. 1988 B-I EAS compensation agreements will be addressed in 1987 by those LECs involved.

VIII. Universal Service is a principal objective of recent legislation and is as socially desirable goal to favor the addition of customers to the network. To continue to achievement of this goal, this plan incorporates a Universal Service Fund. The purpose of the Universal Service Fund is to provide partial support for the LECs whose NTS loop costs exceed the state average. Based upon Exhibit 213 in this record, the amount of the support to be provided shall be calculated as follows:

A. An amount equal to 25 percent of the unseparated revenue requirement of the state average loop shall be established as a base. This will be per access line per month.

B. An amount equal to 25 percent of the unseparated revenue requirement of each LEC-specific loop shall be determined per access line per month.

C. The amount in A above which is the state average loop cost using a 25 percent allocation, shall be increased by 15 percent, and only those LECs with loop costs greater than this loop cost shall receive funds from the USF. All companies shall pay into the USF.

D. The LECs eligible to receive funds from the USF shall be determined by subtracting C above from B above when C is less than B.

E. The amount of revenues each LEC shall receive from the USF shall be determined by multiplying D above for each specific LEC by its access lines and annualizing the amount by multiplying by 12.

F. To the sum total of each of the calculations in E above will be added the administrative cost of the USF and any shortfall developed through the use of mirrored interLATA traffic sensitive access charges for NECA LECs. This additional cost for the NECA LEC shortfall shall be only done in 1987 to accommodate the interim process.

G. The aggregate of revenue requirement as determined in E and F above, divided by all intrastate access charge minutes shall establish the actual rate per access minute to be collected by LECs from all intrastate interexchange carriers and remitted to the USF administrator.

H. Any ambiguities in the above calculations may be resolved by reference to Exhibit 213 in this record.

IX. When intrastate specific TS access tariffs are approved, intraLATA official company charges (toll and/or PL) will be included in the LEC's expenses and will be recovered through access charges.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the parties to this proceeding and the subject matter herein.

2. The ITP as modified in the body of this order and restated at Finding of Fact 22 conforms to the guidelines of RCW 80.36.160 and provides a reasonable arrangement for the sharing of revenues and expenses related to jointly provided intrastate toll services.

3. All tariffs filed herein are without sufficient evidentiary support upon which to base a conclusion of reasonableness. Each should be rejected, revised, and refiled in a manner consistent with this order.

4. All matters raised by the pleadings not specifically addressed in this order lack evidentiary support and are deemed abandoned.

5. All rulings on evidence and procedure made in the course of this proceeding are affirmed.

Wherefore having made the above Findings of Fact and Conclusions of Law the following order is entered.

O R D E R

1. The Intrastate Telecommunications Plan set forth in Finding of Fact 22 is hereby approved and adopted as the procedure for implementing the provisions of RCW 80.36.160.

2. All tariffs filed in this consolidated cause are hereby rejected in their entirety, subject to being refiled if appropriate in a manner consistent with this order.

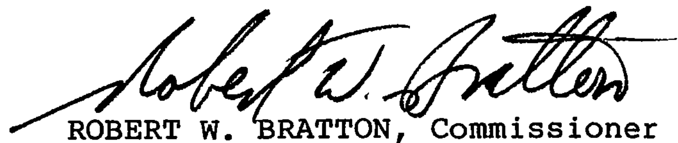
3. Except as specifically addressed in this order all complaints and petitions in this consolidated proceeding are hereby dismissed and/or rejected.

4. All rulings on evidence and procedure made in the course of this proceeding are affirmed.

5. The timetable for filings shall be as set forth herein.

DATED at Olympia, Washington and effective this 30th day of December, 1986.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



ROBERT W. BRATTON, Commissioner

SEPARATE CONCURRING OPINION
OF COMMISSIONER RICHARD D. CASAD

Circumstances beyond our control force us to develop a new system for apportioning the costs of jointly provided telecommunications services. The industry must have, in a timely fashion, a structure to accommodate new realities of increasing competition. Therefore, I concur in the order although, in my view, it contains serious shortcomings. In the absence of Section II.M. (which provides some offsetting benefits for rural and small community ratepayers) the order would be unacceptable.

The Commission is acting properly in adopting the framework of the ITP, but then reduces its utility by discarding many of its benefits. As noted in the proposed order, the ITP was the result of an impressive display of industry unity and willingness to compromise inconsistent positions. Essential to the ITP was the attempt to share the costs and benefits of lowering carrier access charges in a manner which would result in a "win-win" situation for both the urban, and the rural and small community customers. In the absence of the short haul toll reductions required at Section II.M., rural and small community ratepayers receive absolutely nothing except the opportunity in many cases to pay $2.00 more per month for telephone service. Without this provision, this order would impose a drastic and unnecessary hardship upon a class of customers we should be trying to protect.

This record provides no clear and convincing proof that rural and small community ratepayers, or for that matter any residential ratepayers, have caused a particular level of costs. The mere fact that federal regulators (FCC) state that cost of service equities are seriously flawed because rural and small communities allegedly do not pay their fair share, does not make it so, or right, or good for the state of Washington. Recent history is replete with examples of seriously flawed federal policies.

A more serious principle is at issue here. If one accepts pure cost justification as a criterion to establish rates, much of this country would wallow in darkness, because there would have been no rural electrification. Universal service in the telephone industry would be a myth instead of a reality. On a pure cost of service basis, it would not be economically feasible to pay for installation of poles, wire, etc. to serve one, or a small group of customers in a remote geographic area--there is a benefit to all by using the accumulation of capital to extend services to our rural and small community citizens.

No longer will ratepayers accept the imposition of increased rates without offsetting benefits. By including

Section II.M. in this order, the Commission has allowed urban, rural and small community customers to share the benefits of lowering intraLATA toll rates, a significant portion of the phone bills of most ratepayers. For this reason I concur in this order.

DATED at Olympia, Washington and effective this 30th day of December, 1986.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

RICHARD D. CASAD, Commissioner

SEPARATE OPINION OF CHAIRMAN SHARON L. NELSON
CONCURRING IN PART AND DISSENTING IN PART

I dissent from that part of the Commission's order which authorizes the creation of a fund which will be applied to the reduction of short haul intraLATA toll rates. While we may hold differing views about the policies that have been set in motion at the federal level, the underlying theme of the proposed order, and of the principles enunciated in this final order, was to move toward a system of pricing telephone service which sends more correct price signals to companies and users and which harmonizes our state compensation scheme with the federal system. Bringing down the SPFs of some companies to more reasonable levels is a necessary part of this process. However, this short haul toll "exception" to those principles undermines the logic and rationale of the rest of the order.

While the short haul toll ratepayer may be a deserving person for subsidy, the record on this question is anything but clear. Moreover, it is not certain whether the proposal adopted by the majority will achieve its intended end. In essence, the majority imposes a 25 cent tax on 80 percent of the population, primarily urban and suburban ratepayers, in the hope that this will assuage the concerns of ratepayers living in rural areas. The reasoning is that the local rate increase which may be imposed on some rural ratepayers as a result of this order should be offset by reducing the rates for those who are required to make toll calls to obtain some basic services. This reasoning leads to a number of problems. First, how many rural ratepayers live a short haul toll call away from their doctor or county seat is simply not indicated on this record. As a result, we may be creating a significant subsidy with no estimate of need or use patterns. Second, the majority is creating a false linkage. An increase in one rate element should not be linked to a decrease in another service, unless such a result is dictated by cost justification or explicit policy objectives. The record is not established here. And, while the majority characterizes this proposal as a one-time exception, there will be no principled way to distinguish the next case in which we are asked to reduce toll contribution to local service. Third, the majority's short haul toll rate reduction plan may or may not be cost justified. Because of the lack of cost justification, PNB's lowered short haul toll rates may be anticompetitive. The adoption of this plan diminishes the persuasiveness of what otherwise is a pragmatic, reasoned, and appropriate order.

If the parties are concerned that rural residential ratepayers will be burdened by local rate increases which will follow from this order and believe that a countervailing reduction

in short haul toll may be desirable, I would have directed that such evidence be presented to the Commission in another case. The evidence on cost-price relationships of short haul toll could have been more clearly presented in an additional proceeding. If found to be justified, the appropriate relief for the short haul toll ratepayer might come from many other revenue sources in PNB's multi-service structure. The recently reopened PNB depreciation case, Cause No. U-85-52, might have provided the more appropriate vehicle in which to consider such adjustments without doing violence to the logic and principles enunciated in this order.

DATED at Olympia, Washington, and effective this 30th day of December, 1986.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Sharon L. Nelson

SHARON L. NELSON, Chairman