

**DOCKET UT-100562**

**COMMENTS OF THE WASHINGTON INDEPENDENT  
TELECOMMUNICATIONS ASSOCIATION**

**JUNE 16, 2010**

The Washington Independent Telecommunications Association ("WITA") welcomes the opportunity to comment on these very important issues related to universal service and access reform. The work of the Washington Utilities and Transportation Commission ("Commission") to establish state universal service policies will determine if there will be a robust communications network in the State of Washington, particularly in rural areas of the state.

In responding to the various questions posed in Attachment A to the Notice of Workshop issued by the Commission on May 26, 2010 ("Notice"), WITA will explain in detail the reasons for WITA's fundamental position in this docket. To be very clear, WITA's fundamental position is that a state universal service fund is needed and is needed now!

## SUMMARY

WITA welcomes the opportunity to provide these Comments. In these Comments, WITA will demonstrate the factual basis for the need for a state universal service fund. In addition, these Comments will focus on the basic policy objectives that the State has established that communications services should be widely available and affordable and that the State should continue to improve the availability of communications services. A state universal service fund is needed. A state universal service fund will be the basis upon which the State of Washington can continue to meet its objectives for communications and economic development in the modern world. A state universal service fund is needed now. Projected changes in intercarrier compensation and federal universal service support make that need even more pressing.

Key to all of this is the fact that advancing and preserving the communications network that exists today will play a pivotal role in the communications for tomorrow, including the provision of broadband service in rural Washington.

## COMMENTS ADDRESSING QUESTIONS POSED IN THE NOTICE

In this section, WITA will address each of the questions posed in the Notice. The comments will follow the numerical order of the questions that were posed.

1. What is the role of the public switched telecommunications network operated by incumbent local exchange carriers (ILECs) in providing universal service in the state of Washington?

The public switched telecommunications network ("PSTN" or "network") is key to the delivery of telecommunications and broadband service to customers in rural Washington. The network is the foundation for communications services, whether wireline, wireless or broadband. In fact, with the help of today's support mechanisms, what we have called the PSTN in the past is rapidly evolving into the broadband network of the future.

It is obvious to most observers that wireline telecommunications depends on the network. However, wireless traffic also rides on the PSTN to a substantial extent. Wireless traffic is not truly "wireless" in that it does not travel through the air from cell tower to cell tower to ultimately reach the handset of the person on the called end of the communications. Instead, it is most often carried from cell tower to a landline connection and then over the PSTN to reach the cellular provider's switch and then routed out to the called party, again often traveling over the PSTN.<sup>1</sup>

It is also imperative to understand that a wireless customer can never terminate a call to a wireline customer without the PSTN. Failure to support a viable PSTN reduces the value to users of wireless service if they cannot complete a call to a wireline customer. Further, the wireless customer's service is degraded if they cannot receive a call from a wireline customer.

In rural Washington, broadband services are dependent on the PSTN. While the general public may believe that the broadband traffic accesses a "cloud" and thereby is transported by some unknown means to various web sites, the truth is that the PSTN provides the means to get a broadband user's Internet connection to the Internet backbone.

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<sup>1</sup> This network reality is documented in *Wireless Needs Wires: The Vital Role of Rural Networks in Completing the Call*, published by the Foundation for Rural Service in March, 2006. This paper states in part: *Without thoughtful consideration by policymakers of the challenges of providing wireless services in rural America, as well as the dependence of wireless services on wireline networks, portions of the nation are likely to remain underserved ... Most importantly, one must recognize that without the underlying wireline network, wireless networks could not exist in their current form. In spite of this obvious fact, large wireless carriers and policymakers alike continue to pursue practices and policies that will in fact undermine the critical wireline network. While discussions on how to modify reciprocal compensation, access charges, and universal service continue, attention must be placed on ensuring these mechanisms are capable of maintaining the fiscal health of that wireline network.*

These concepts are depicted in the following diagrams that illustrate how the network is used for wireless and broadband services.

## Nearly every call and every technology relies on a robust wireline network.

Path of calls between a Granddaughter in Seattle and her Grandmother in Ritzville who uses a traditional Long Distance Service.



Path of calls between a Granddaughter in Seattle and her Grandmother in Ritzville who uses a Cellular service.



Path of calls between a Granddaughter in Seattle and her Grandmother in Ritzville who uses a Voice Over Internet Protocol (VoIP) Service.

- Local Phone Company Facilities used in completing the call
- Facilities of other carriers
- Portion of call that is wireless



A key consideration in understanding why it is important to support the rural PSTN and why there is the need for a state universal service fund is relative density of

service areas. The relatively low density of the areas served by most WITA members makes it very expensive to provide the PSTN.<sup>2</sup> The relative density of the areas served by WITA's members are set out on Table 1.

Table 1

DENSITY ANALYSIS

Company	Square Miles Served*	Working Loops**	Density (loops/sq. mi.)
Asotin	303	1,217	4.02
CenturyLink	20,800	206,161	9.91
Ellensburg	1,373	18,812	13.70
Hood Canal	14	1,377	98.36
Inland	367	2,645	7.21
Kalama	120	2,968	24.73
Lewis River	156	5,717	36.65
McDaniel	190	4,041	21.27
POTC	1,027	1,941	1.89
Pioneer	800	765	0.96
Rainier Connect	91	3,652	40.13
Skyline	12	139	11.58
St. John	238	614	2.58
Tenino	100	3,421	34.21
Toledo	127	2,020	15.91
Wahkiakum	110	1,169	10.63
Whidbey	82	12,780	155.85
Hat Island	1	83	83.00
YCOM	176	10,880	61.82
Beaver Creek	32	28	0.88
WITA Average	26,119	280,430	10.74

Verizon 36.5 lines/sq. mile

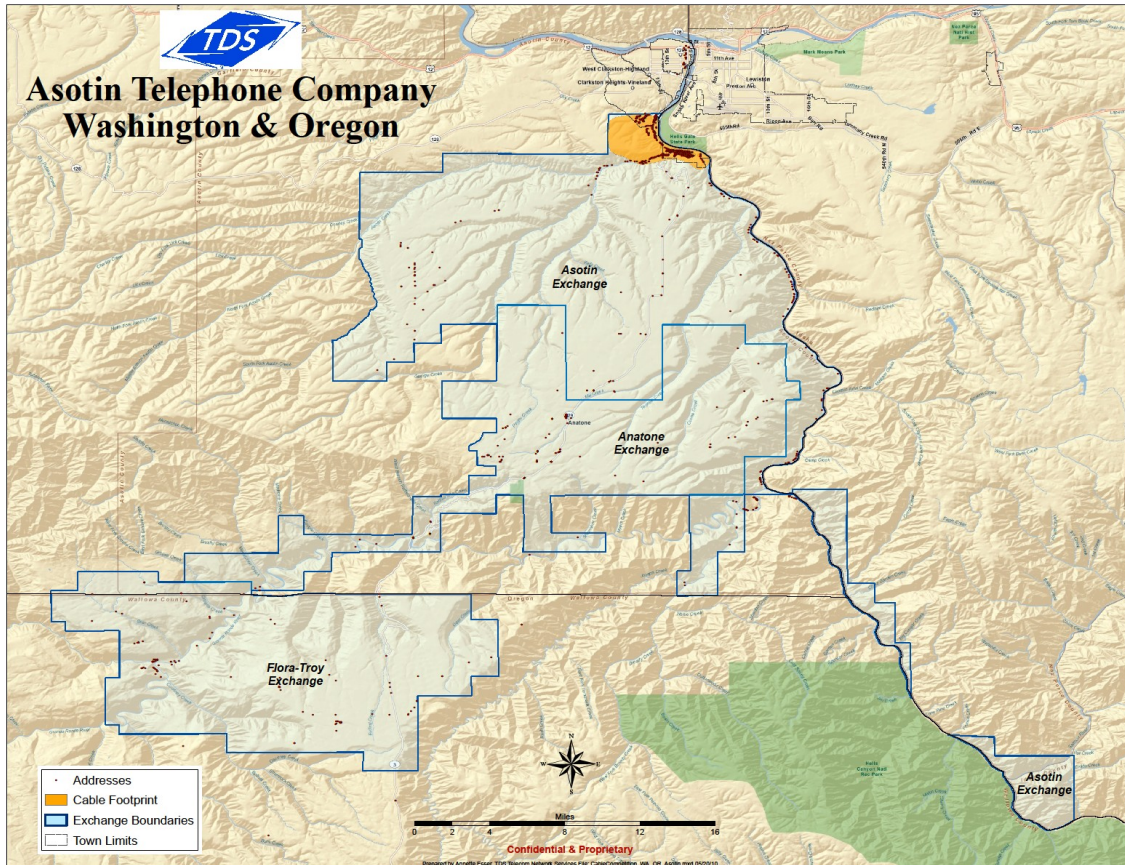
Qwest 107.81 lines/sq. mile

\*As reported by the company

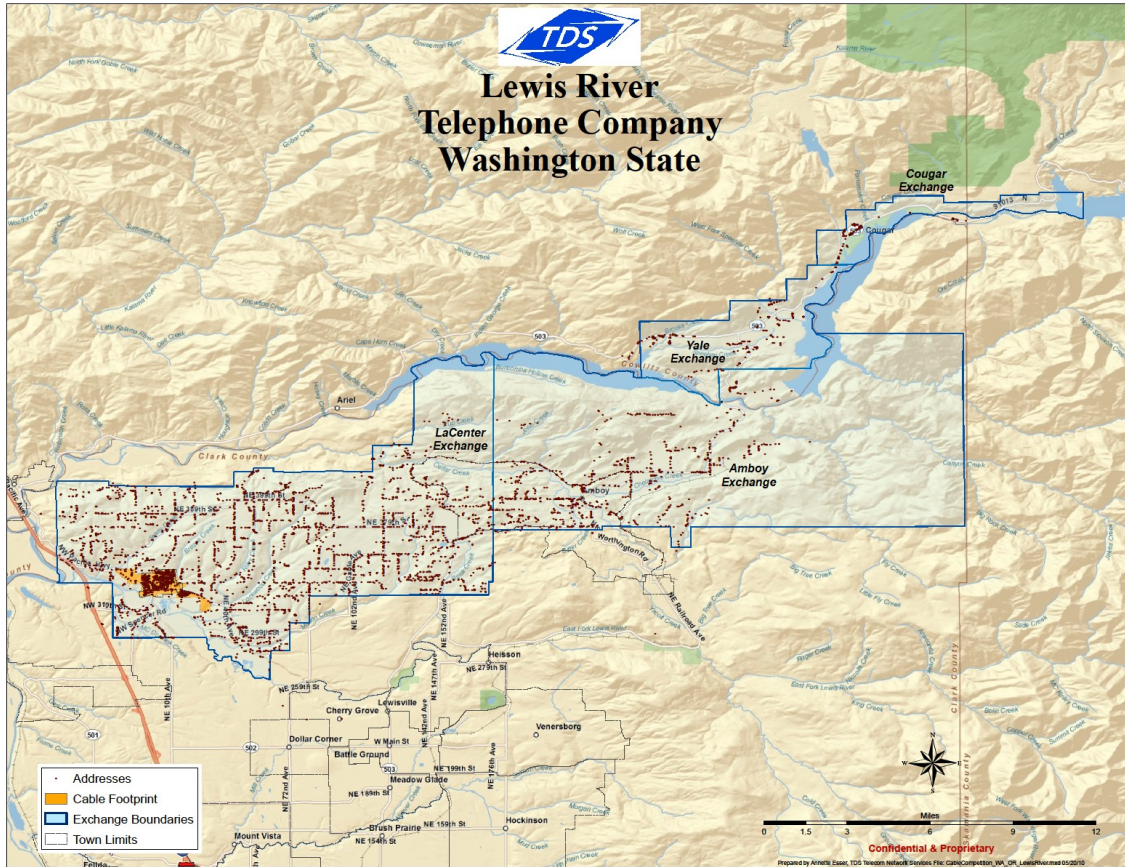
\*\*From USAC Report HC05, 3rd Quarter 2009

<sup>2</sup> This does not even begin to take into account issues related to geography, which also present significant challenges to many WITA members.

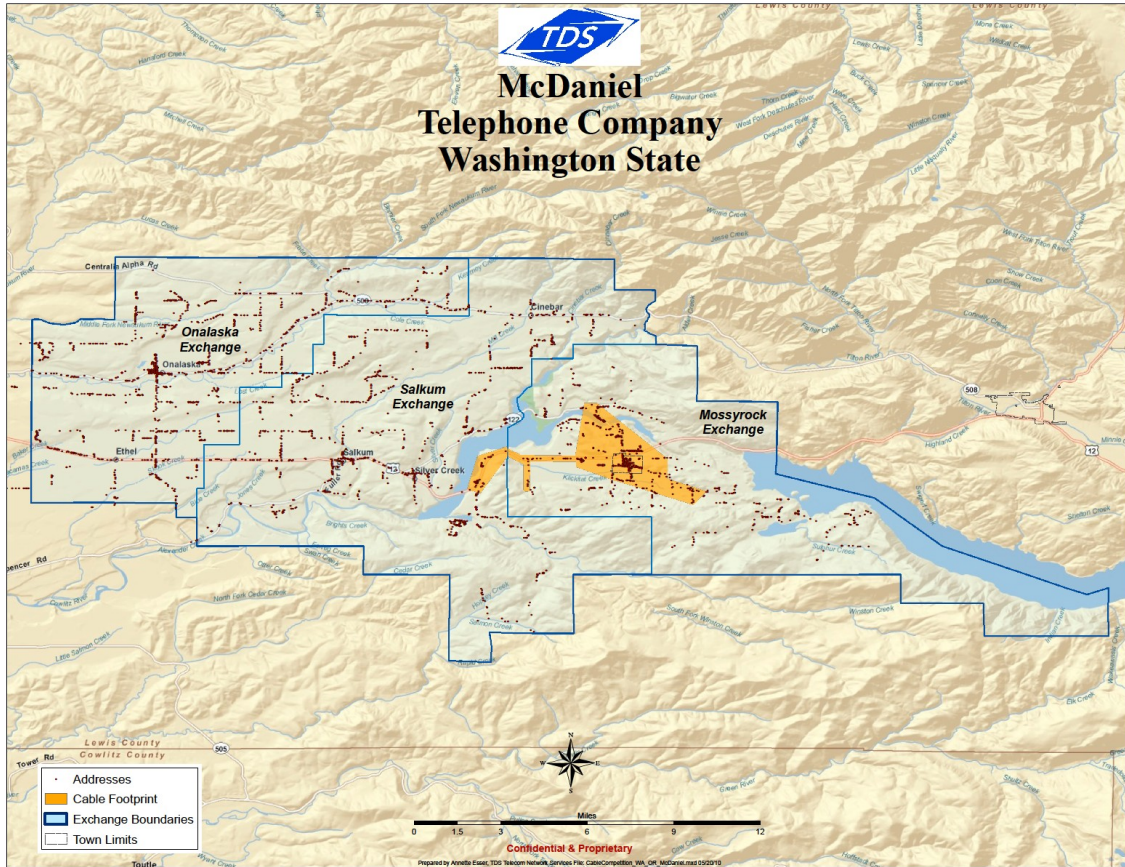
In addition to density, the concept of the "donut hole" serves to emphasize just how rural some of these areas are. Set out below are three diagrams for TDS's Asotin, Lewis River and McDaniel operating companies. These show that even though they are relatively sparsely populated to start with, once the "hole in the donut" concept is taken into consideration, providing service to areas outside the "donut hole" becomes very expensive because of the extremely sparse population.



Please note that these diagrams also serve the purpose of demonstrating that even if there is wireline competition in the form of cable company entry, there is a need to provide support for the far-flung population in the exchange. The areas outlined represent TDS' best estimate of existing cable company footprint. Obviously, cable serves only areas of relatively greater density. The challenges of providing telecommunications and broadband to the widely dispersed population cannot be understated.



This is a very clear demonstration of the "donut hole" concept. Cable is only in the most dense portion of the LaCenter exchange. Cable does not even begin to reach the Amboy, Vale and Cougar exchanges. That is cream skimming, not competition.

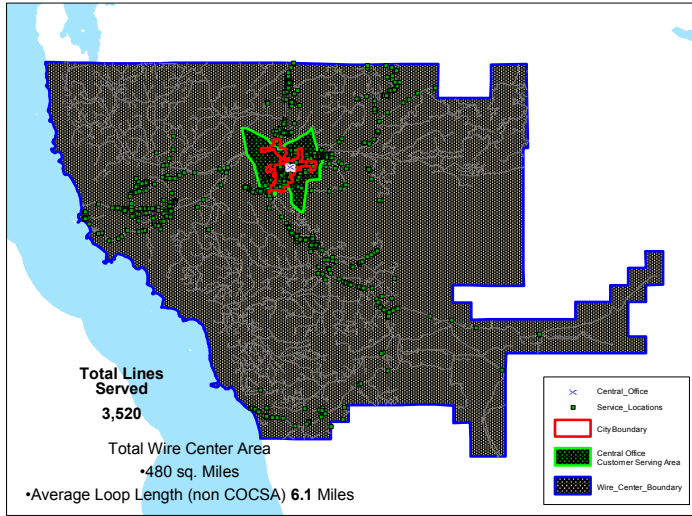


Another good example of the donut hole.

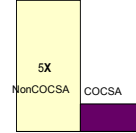
In the next two diagrams, CenturyLink has provided estimates of the difference in cost in serving the donut hole versus the rest of the exchange. These estimates are based on CenturyLink's costs of providing service. Based on these estimates, the cost to serve the outlying area is five to six times higher than the cost to serve the relatively more dense core.



# Forks, Washington

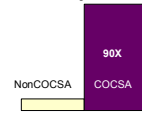


### Investment per Line Ratio



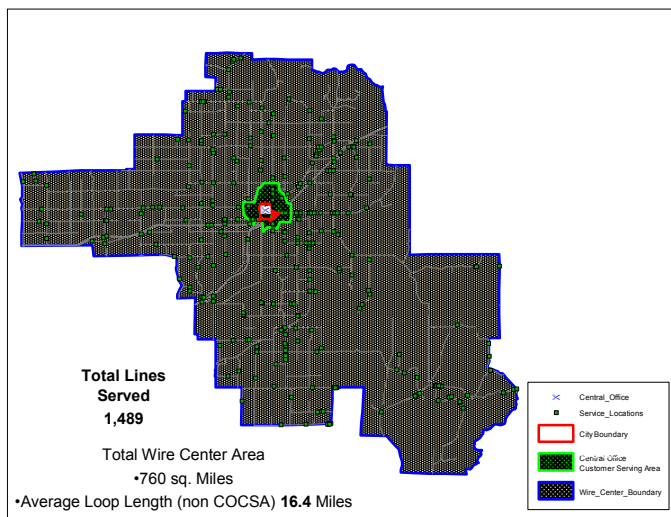
The Investment per line that is required to serve customers outside of the Central Office Customer Serving Area is **5 times** greater than to serve the more dense Central Office Serving Area.

### Density Ratio

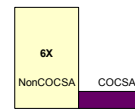


The Central Office Customer Serving Area is **90 times** more dense than the non Central Office serving area.

# Ritzville, Washington

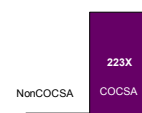


### Investment per Line Ratio



The Investment per line that is required to serve customers outside of the Central Office Customer Serving Area is **6 times** greater than to serve the more dense Central Office Serving Area.

### Density Ratio



The Central Office Customer Serving Area is **223 times** more dense than the non Central Office serving area.

Without the PSTN, rural Washington would be isolated from the communications world. Connection for business, communication and recreational purposes would not be possible. As the PSTN evolves into a broadband network, it will continue to play a fundamental role in bringing these broadband-based communications to rural Washington.

2. Does the UTC need to address intrastate switched access rates to ensure universal service and the widespread availability of telecommunications services at reasonable rates in Washington? What statutory or rule changes are needed in order to do so?

It is not a mandate that the Commission address intrastate switched access rates to ensure universal service at reasonable rates in Washington. However, it is WITA's position that in the context of creation of a state universal service fund, the Commission should address intercarrier compensation issues that are within its jurisdiction, which in this case means intrastate switched access rates. Failure to address the complete package opens the door to further arbitrage. Arbitrage only benefits the "creative party" to the detriment of the majority of users who pay for the traffic they create.

The National Broadband Plan, which is discussed later in these Comments, contains a proposal to lower intrastate switched access rate levels to the interstate switched access rate levels. However, there is no corresponding proposal in the National Broadband Plan to replace these funds other than perhaps by increasing subscriber line charges to the end user customers and moving local rates higher. As these Comments will demonstrate, those are not acceptable outcomes.

It is WITA's position that new legislation is needed to address universal service issues and should be advanced in the 2011 Legislature. New legislation may well require further rulemaking action by the Commission.

3. Should there be a Washington Universal Service Fund (WUSF)? If so, what factors should the State of Washington consider in weighing the need for establishing a WUSF? Commenting parties are encouraged to address the following factors:
  - a. trending reductions to incumbent carrier's intrastate access charge revenues,
  - b. the need for comprehensive or streamlined earnings review including determination of the effective intrastate or overall rates of return of recipients of WUSF funding,
  - c. revenues from regulated services,
  - d. revenues from both regulated and unregulated services,
  - e. carrier of last resort obligations of potential WUSF recipients,<sup>3</sup>

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<sup>3</sup> This issue will be addressed under Questions 9 and 11.

- f. any other factors that should be used in determining the need for establishing a WUSF.

RCW 80.36.300 declares that the policy of the State is to "[p]reserve affordable universal telecommunications service." The statute further declares it to be the policy of the State to "[m]aintain and advance the efficiency and affordability of telecommunications service." As these Comments demonstrate, affordable universal telecommunications service is in jeopardy in the State of Washington. The fundamental policy of the State established by the Legislature is at risk. There absolutely must be a Washington universal service fund ("WUSF"). There is a need for a fund to facilitate intercarrier compensation reform. There is a need for a fund in light of the National Broadband Plan.<sup>4</sup> To be very clear, there is a need for a WUSF whether the National Broadband Plan exists or not. The National Broadband Plan provides additional impetus for the WUSF. However, the WUSF is needed independently from the National Broadband Plan.

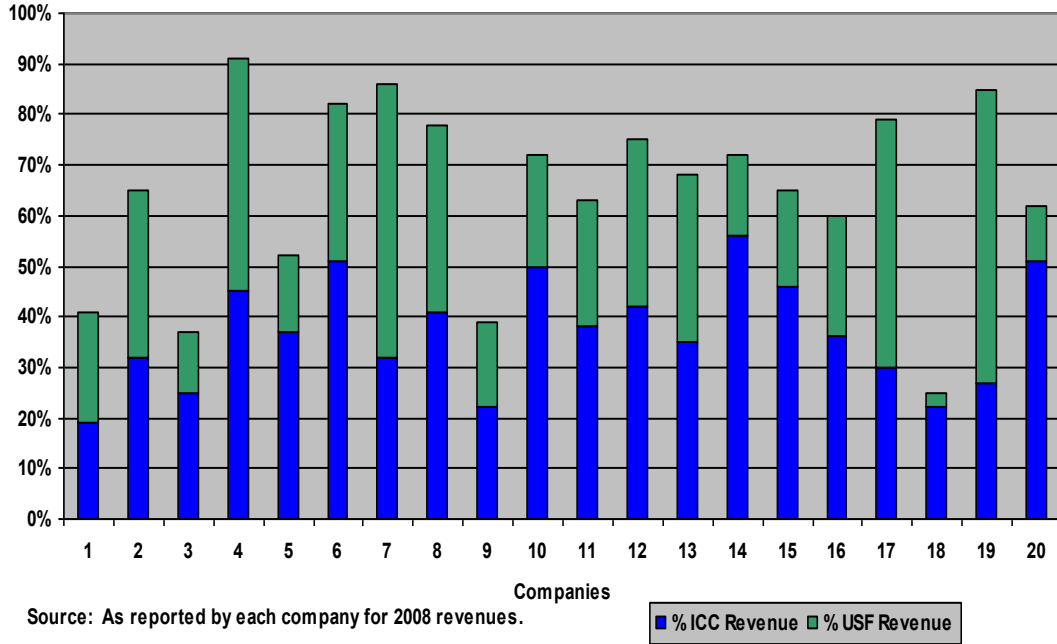
The network that facilitates telecommunications and broadband of all types for the rural areas served by the WITA member companies is critical to maintaining communications and economic viability of those rural areas. It is also a huge value to urban residents and businesses to advance and maintain rural infrastructure. Without a viable rural PSTN, all communications related to rural commerce (agriculture, hydropower, call centers, etc.) will revert to means employed in the early 1900s.

The rural portion of the PSTN is supported in large part by revenues that WITA member companies receive from intercarrier compensation and federal universal service funds. As Table 2 demonstrates, on average WITA member companies receive sixty-five percent of their regulated revenue from intercarrier compensation (access charges) and federal universal service funds.

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<sup>4</sup> This matter will be addressed in response to Question 4.

Table 2  
WITA Member Companies  
Percent Total Regulated Telecommunication Revenue From ICC/USF  
(Company Average - 65%)

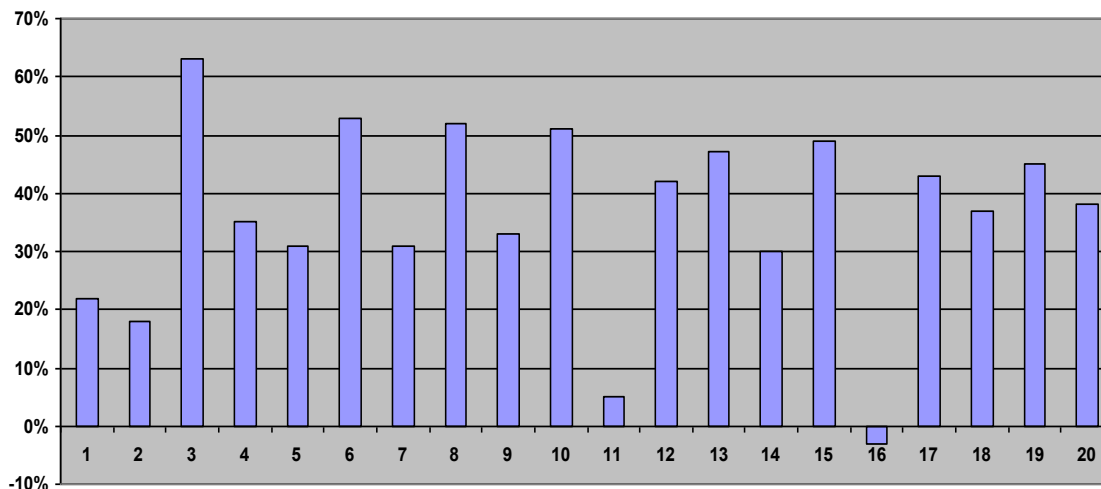


As will be discussed in response to Question 4, under the National Broadband Plan, federal universal service revenue is at risk. The National Broadband Plan proposes to freeze federal universal support at existing levels and, over time, to transition that support away.

In addition to the fact that federal USF support has been placed at risk, it is also the case that arbitrage and access avoidance have placed intercarrier compensation revenues at risk.<sup>5</sup> As demonstrated by Table 3, intercarrier compensation revenues, which are based upon access minutes, are declining as those access minutes have substantially declined over the past several years. These factors place the Legislature's policy goals of preserving and advancing affordable universal telecommunications service in peril. This basic policy of the State needs to be in the forefront in developing a WUSF.

<sup>5</sup> WITA members receive a small amount of reciprocal compensation. However, the great majority of intercarrier compensation comes from access charges.

Table 3  
 WECA Member Companies  
 Percentage Intrastate Access Minute Loss  
 Total Minutes (2004-2009)  
 Average (All Companies): 42%



Source: Calculated from data reported by the Washington Exchange Carrier Association for calendar years 2004 and 2009.

Companies

Intercarrier compensation revenue is at risk through carriers that either intentionally try to disguise minutes so that they are not included as access minutes or use voice over Internet protocol (VoIP) originated traffic and claim that such traffic is not subject to access charges. Intercarrier compensation is also at risk under the National Broadband Plan, which proposes to completely phase-out per minute charges by 2020.<sup>6</sup>

WITA understands the need for accountability in a WUSF. To that end, WITA supports using a streamlined earnings review. That streamlined earnings review would address total company regulated results of operations. WITA has developed a streamlined earnings test proposal that is attached to these Comments as Exhibit A. This streamlined earnings review would enable the Commission and contributors into the WUSF to be assured that WUSF funds are needed to support the network in the areas where they are distributed. WITA believes the streamlined approach fairly balances the transactional costs of a Commission proceeding with the benefits of accountability.

4. What is the role of the National Broadband Plan in evaluating the need for a WUSF? If Congress and the Federal Communications Commission (FCC) implement the recommendations in the National Broadband Plan, what would be the role of a state USF? What are the possible effects on Washington consumers

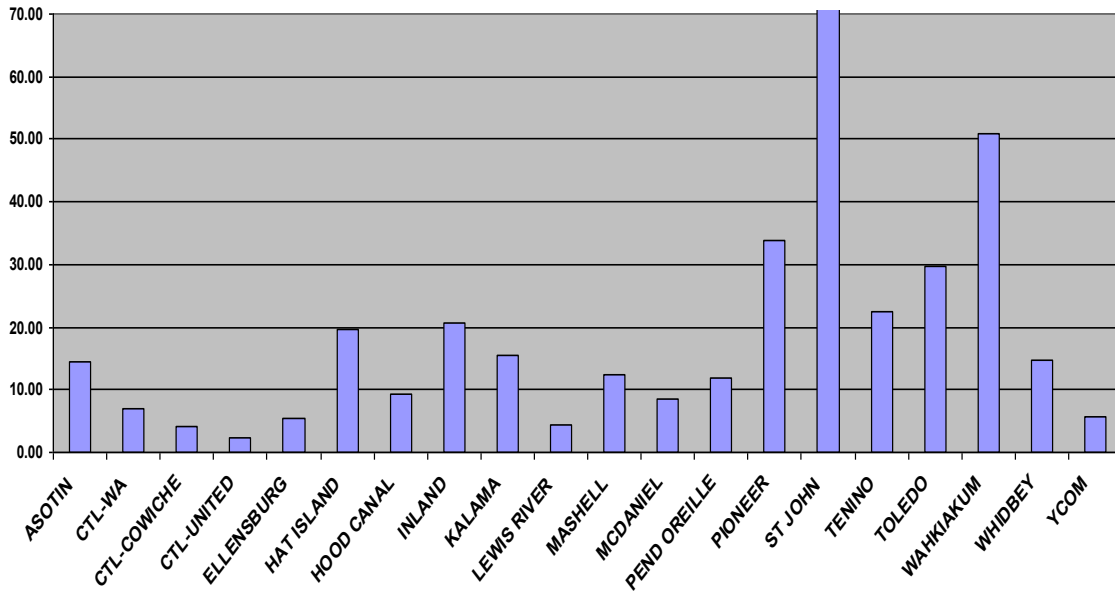
<sup>6</sup> National Broadband Plan at p. 150.

of the changes to federal rules contemplated in the National Broadband Plan if there is no state universal service fund? Does the National Broadband Plan alleviate or intensify the need for Washington to address intrastate access charge reform and universal service issues at this time?

For several reasons, the National Broadband Plan ("NBP") intensifies the need for a WUSF. First, under the NBP, changes are contemplated to the federal universal service fund which place even more urgency on developing a WUSF. The NBP proposes that Interstate Common Line Support ("ICLS") be frozen on a per line basis and that all federal funding that exists today be ultimately transitioned away. The FCC proposes that existing federal support would be replaced by a Connect America Fund ("CAF"). How the CAF will work or who will receive money from that fund is unclear. This uncertainty creates a huge disincentive to continued investment in the network.

As an example, Table 4 sets out the support that WITA member companies currently receive from Interstate Common Line Support ("ICLS"). This support exceeds \$70.00 per month per line for one company and exceeds \$10.00 per month per line for many of the companies. As federal USF elements are frozen and transitioned away, more pressure is placed on local rates. The bottom line is that the PSTN cannot be supported in rural Washington solely by local revenues.

Table 4  
WITA Member Companies  
Frozen Per Line ICLS (IAS)



Source: USAC Report HC01 1st Quarter 2010; Loops from USAC Report HC05 2nd Quarter 2010

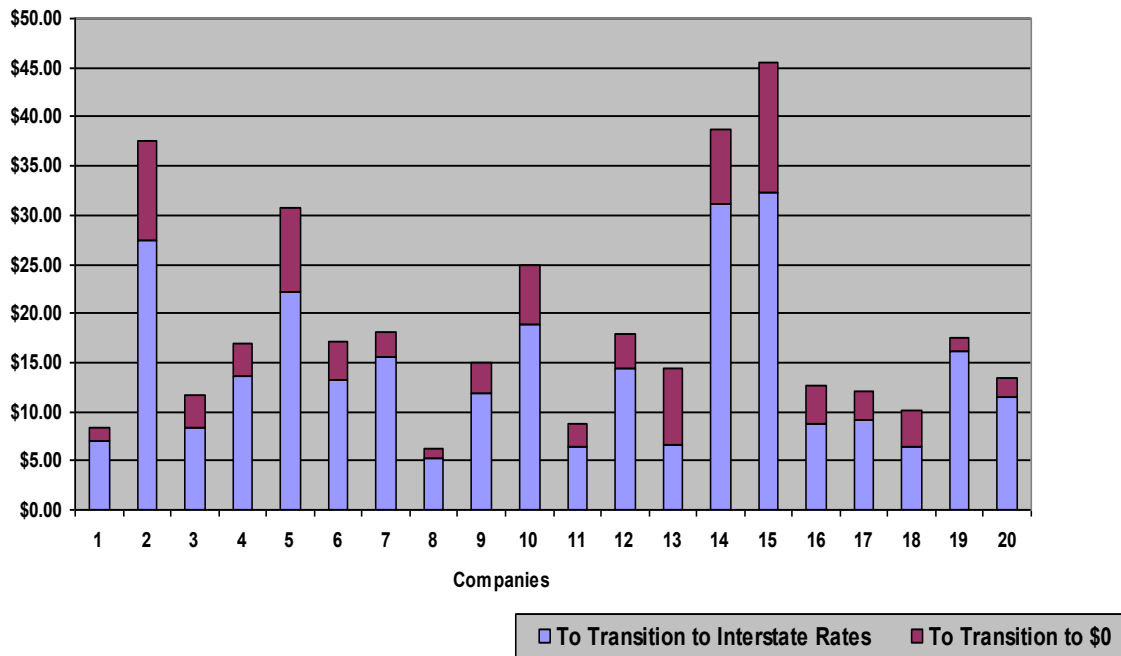
Second, the NBP provisions for intercarrier compensation reform call for intrastate access rate levels to transition to interstate access rate levels over two to four years.<sup>7</sup> The NBP then calls for intrastate and interstate switched access rates to be transitioned to zero.<sup>8</sup> As set out in Table 2, above, WITA member companies receive a substantial percentage of their overall revenue from switched access charges.

Table 5 shows the amount per loop per month to transition the composite level of intrastate switched access rates to the composite level of interstate switched access rates. It does not include the effect of transitioning interstate access rates to zero, which means the amount per loop would be even larger than set out on Table 5. For many companies, this exceeds fifteen dollars per month per line and for one company exceeds forty-five dollars per month per line.

<sup>7</sup> National Broadband Plan at p. 148.

<sup>8</sup> National Broadband Plan at p. 150.

Table 5  
WITA Member Companies  
Amount Per Loop Per Month to Transition to Interstate Access Rate Level



**Source: Calculated from the difference between 2009 interstate access rates and intrastate access rates contained in tariff using 2008 intrastate access minutes as reported by the Washington Exchange Carrier Association. Loop counts taken from USAC Report HC05 for 3<sup>rd</sup> Quarter 2009.**

What these figures demonstrate is that it would be impossible to expect the end user to pay these monthly amounts. The FCC has signaled in the NBP that federal funds will not be available to offset the transition of intrastate switched access rate levels to the interstate switched access rate level. A WUSF is needed to provide support for the network in the rural, high-cost areas. Without the WUSF, the Legislature's policy of affordable communications service will be lost.

The third area under the NBP that points to the need for a WUSF is what the NBP establishes a target for support for broadband in high cost areas at four megabits per second ("Mbps") up and one megabit down while at the same time proposing 100 Mbps down and 50 up in lower cost urban areas which will not need support. These disparate targets will lead to a digital divide between rural communities and urban communities if all the NBP will support with a new broadband fund is the four Mbps up and one Mbps down standard. It will be important for Washington economic development that a more robust standard be developed and it may be that support from the WUSF is needed for this higher standard. Under the current proposal in the NBP, anything above the minimum 4/1 could fall to the State's responsibility for funding.



5. If the UTC addresses intrastate access charge reform, to what extent is there a need for a WUSF to replace some or all intrastate access charge revenues of ILECs in order to preserve and advance the telecommunications network in the State of Washington? Are statutory changes necessary in order to do so?

As set out on Table 5, intercarrier compensation reform, without a WUSF, would result in local rates rising in a range from an increase of just over five dollars per month per line to over forty-five dollars more per month per line. For ten of WITA's members, the increase in the local rate would exceed fifteen dollars per month per line. It is important to keep in mind that these potential customer rate effects do not include the possible loss of federal universal service support. As Table 4 demonstrates, considering just from the loss of ICLS, the pressure on local revenues could be as much as an additional \$70 per month per customer.

Table 6 sets out the local rates that would be in effect following access rate transition without a WUSF. The column labeled "Post Transition Rate" shows the rate level after transition of the composite intrastate switched access rate level to the composite interstate switched access rate level. The column labeled "Post Transition '0' Access Rate" depicts the local rate level after transition of intrastate and interstate switched access to zero. The last column reflects post-transition rates with the current SLC level.<sup>9</sup> The local rates range from just under thirty dollars per month per line to over sixty dollars per month per line for two companies. There are another six companies with rates between forty dollars and sixty dollars per month. Again, Table 6 does not include loss of federal universal service support. Nor does it include any modifications to current special access rates. Even without these factors, the resulting local rates are frightening.

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<sup>9</sup> This does not include the increase to the Subscriber Line Charge ("SLC") as proposed by the FCC as a part of the proposed solution.

Table 6  
Residential Rate Increase  
from Transition of  
Access Rates

Company	Current Rate*	Post Transition Rate**	Post Transition "0" Access Rate	Rate with \$6.50 SLC
TDS (Asotin)	\$17.20	\$33.36	\$34.70	\$41.20
CenturyLink (WA)	\$25.90	\$35.08	\$47.07	\$53.57
CenturyLink (Coville)	\$19.00	\$25.71	\$40.13	\$46.63
CenturyLink (Embarq)	\$16.40	\$22.83	\$32.85	\$39.35
FairPoint (Ellensburg)	\$8.47	\$19.90	\$21.84	\$28.34
FairPoint (YCOM)	\$16.00	\$22.99	\$24.27	\$30.77
Hat Island	\$15.00	\$21.37	\$23.71	\$30.21
Hood Canal	\$13.75	\$26.96	\$30.86	\$37.36
Inland	\$13.80	\$46.16	\$59.36	\$65.86
Kalama	\$13.00	\$21.35	\$24.64	\$31.14
TDS (Lewis River)	\$26.00	\$31.30	\$32.20	\$38.70
TDS (McDaniel)	\$14.30	\$28.65	\$32.11	\$38.61
POTC	\$14.50	\$26.45	\$29.42	\$35.92
Pioneer	\$9.00	\$40.16	\$47.79	\$54.29
Rainier Connect	\$13.75	\$29.31	\$31.94	\$38.44
St. John	\$9.50	\$31.70	\$40.18	\$46.68
Tenino	\$12.00	\$20.66	\$24.57	\$31.07
Toledo	\$30.94	\$49.75	\$55.79	\$62.29
Wahkiakum	\$13.40	\$40.86	\$50.91	\$57.41
Whidbey	\$9.40	\$22.94	\$26.23	\$32.73

\*Taken from Exhibit TWZ-3 prepared by Commission Staff Member Mr. Zawislak in Docket UT-081393. Where a company has different rates for different exchanges, the rate for the most populated exchange was chosen.

\*\*Transition of composite intrastate switched access rate level to composite interstate switched access rate level.

**Note:** Loop counts taken from USAC Report HC05, 3rd Quarter 2009. Amount of transition to interstate rate levels calculated using 2009 interstate and intrastate tariffed rates and 2008 intrastate access minutes reported by the Washington Exchange Carrier Association. Amount of transition to "0" access rate based on 2008 revenue figures reported by the companies.

These are not sustainable customer rate levels. This level of rates for the local customer would bring an end to the network in rural Washington. WUSF support is absolutely needed if rural Washington is to remain a player in tomorrow's economy. This requires statutory change and that statutory change must take place in 2011.

6. What direct benefits, if any, will there be to consumers in Washington by addressing intrastate switched access and universal service reform? If intrastate access charge reform is implemented, how will access charge cost reductions realized by current interexchange carriers in Washington be flowed through to Washington consumers?

A WUSF will allow the PSTN to continue to support wireline, wireless and broadband connectivity in rural Washington. This has very substantial social and economic ramifications. If families cannot communicate between rural and urban portions of the state on an efficient and affordable basis, social ties become severed or there is an increase in migration of the population from rural to urban areas. If rural communications cannot be provided on a robust and affordable level, economic development in rural Washington will cease. Rural communities will become more isolated than they are today.

It is the policy of the State to preserve affordable universal telecommunications service. RCW 80.36.300(1). Beyond just preserving affordable universal service, the Legislature has declared that it is the State's policy to "Maintain and advance the efficiency and availability of telecommunications service." RCW 80.36.300(2). In addition, the Legislation has directed that customers are to pay only reasonable charges for telecommunications service. RCW 80.36.300(3). A WUSF is needed. A WUSF can produce a strong rural network which, in turn, strengthens the economic viability of the State of Washington.

7. Should intrastate switched access reform apply to all providers of intrastate switched access in Washington? What statutory or rule changes would be necessary?

WITA takes no position on whether CLEC access rates need to change. The role of modifications to WITA member's intrastate switched access rates and the need for legislation is discussed throughout these Comments.

8. Assuming implementation of the National Broadband Plan, is there a need for a state WUSF during the period in which federal universal service support transitions to support for broadband?

There is an absolute need for a state WUSF. The NBP provides additional impetus for the WUSF, but it is not the only reason. A WUSF is needed even if the NBP did not exist. The facts and reasons for a WUSF that are displayed in Tables 2 through 6. The accompanying discussion in these Comments absolutely demonstrates why there is a need for a WUSF.

In addition, the establishment of a WUSF could reduce some of the uncertainty created by the loss of access minutes today and the transition from a known federal USF to an unknown CAF. This reduction in uncertainty would allow those companies building and maintaining the network required to bring broadband to the State of Washington to continue their important work.

9. If a WUSF is established, what should be the criteria for eligibility to draw from the fund? How should the size of the fund be determined? What should be the basis of the amount of support to be received?

In order to draw from the WUSF, a carrier will need to assume the carrier of last resort (COLR) obligations. The existence of a COLR means that there is a carrier who will commit to provide service when no one else will provide service. A COLR obligation is a key to a successful universal service policy. It is the means by which the policy goals of RCW 80.36.300 are met.

For a carrier to draw from the fund, the carrier will need to commit to bring its composite intrastate switched access rate level to be equivalent to that carrier's composite interstate switched access rate. If the WUSF will support more than one carrier in a geographic area, the carrier that is not the ILEC must agree to be subject to the Commission's regulation to the same extent that the ILEC is subject to that regulation, and would not be eligible for support in any area in which an ILEC does not receive support. That carrier will be subject to the same simplified earnings review as an ILEC would be subject to and subject to the same benchmark imputation rules (see Question 12, below). That carrier must agree to perform the role of COLR.

WITA has provided an estimate of the size of the fund in response to Question 12, below. To the extent that the WUSF is used for additional purposes, a means would need to be developed to estimate the cost of fulfilling those purposes.

10. What, if any, is an appropriate contribution basis for a WUSF? To what extent should other telecommunications providers, including wireless and VoIP service providers (nomadic and fixed) contribute to a WUSF? If so, on what basis should they contribute?

WITA supports moving to a contribution mechanism based on working telephone numbers, or successor protocol. A connection based contribution system is also worth considering. All of the entities that supply working telephone numbers to end users should contribute to the WUSF. By assigning working telephone numbers (or successor protocol), carriers are acknowledging that the PSTN will be used as a critical component of service. The network needs to be supported in high-cost rural areas in order for there to be a robust communications and broadband service base in rural Washington.

It may be appropriate that if the WUSF is transitioned to a broadband fund, consideration should be given of moving to a capacity-based or connection-based system of contribution at some future date.

11. What is the role of carrier of last resort in a state universal service fund? Should any carrier that receives support from the universal service fund be required to assume the obligations of carrier of last resort with respect to traditional voice services, with respect to broadband service, or both? Should the fund support more than one provider per geographic area? How should "area" be defined?

As pointed out earlier, the carrier of last resort or COLR obligation has an important role in a state universal service fund. It is key to accomplishing the policy objectives of affordable rates and the availability of communications services throughout the State. A carrier that receives support from the WUSF should be required to assume the COLR obligation with respect to traditional voice services. As use of the network is transitioned to a broadband basis, the COLR obligation should exist for broadband service as well.

WITA has proposed that the WUSF fund support for no more than one wireline and one wireless provider per geographic area. If the WUSF size is projected to be too large as a result, then WITA would support funding only one provider per geographic area.

This question also seeks comment on how the term "area" should be defined. The definition of "area" should be the service area of the incumbent local exchange carrier on an exchange or wire center basis. This is consistent with the approach the Commission has used in the past for disaggregation and federal universal service matters. In addition, this is the only way that the network in the rural areas can be supported. It is the only real way to define the COLR obligation.

If the service area for determining where one would serve as COLR is the incumbent service area, that does not mean that support necessarily has to be calculated on that same basis. If the Commission wishes to further disaggregate support, it could be done on a census block or census block group basis.

12. Should a state universal service fund include a local rate benchmark? If so, for what purpose and how should it be determined?

WITA supports using a local rate benchmark for universal service funding purposes on a limited basis. A benchmark can be used in conjunction with calculating the amount of WUSF support for a company which has reduced its composite intrastate switched access rates to a level equivalent to the composite interstate switched access rates. The benchmark should be used on an imputation basis. That is, if a company is below the benchmark, a certain amount of revenue will be imputed to the company if it does not commit to raising local rates to the benchmark.<sup>10</sup> This imputed amount would be subtracted from the amount the company would otherwise receive under the WUSF. How this works is discussed in response to Question 13.

Using 2008 data, WITA has estimated the size of the fund needed to reduce intrastate access rates to the interstate level. This estimate took the difference between each ILEC's composite intrastate switched access rates and its composite interstate switched access rate (not including direct trunk transport)<sup>11</sup> multiplied times the minutes of use for 2008 reported by the ILEC to the Washington Exchange Carrier Association. Using a \$16.00 local rate benchmark, which was compared to each ILEC's existing local residential rate, including mandatory extended area service, an offset was calculated based upon the working loops reported on USAC Report HC05 for the third quarter of 2008. Where a carrier had multiple rates for different exchanges, the most densely populated exchange was estimated and the rate for that exchange was used. On this basis, the estimated size of the WUSF in Year 1 is 35 million dollars.<sup>12</sup> The estimated size of the WUSF after completion of the transition contemplated in these Comments is 27.5 million dollars. This estimate does not include funding more than one carrier per area.

13. Should there be a transition period from the current state universal service mechanism to a new WUSF? If so, how long should the transition period be?

Yes, a transition period should be incorporated. Under the NBP, the proposal is to use a two to four year transition to bring intrastate switched access rates to the interstate level. WITA proposes using a goal of a three year transition period. The amount of transition would be calculated using a base year, perhaps 2009, and then the transition would occur in three equal steps of a minimum of \$2.00 per line per month in each step.<sup>13</sup> The access reductions would occur in Year 1 as the first step, along with a \$2.00 step (if the carrier chose to make that step), towards the benchmark. If a carrier chose not to raise local rates towards the benchmark, then the revenue that would have been created by that step would be imputed to the carrier as a reduction in the carrier's draw from the WUSF. Steps 2 and 3 would follow the same procedure on the benchmark side of the equation, reducing the draw from the WUSF.

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<sup>10</sup> WITA does not support using the WUSF to reduce existing local rates that are above the benchmark to the benchmark.

<sup>11</sup> The intrastate switched access rate design does not include direct trunk transport so there was no basis on which to do a comparison.

<sup>12</sup> This assumes a first year transition of \$2.00 per line. See the response to Question 13.

<sup>13</sup> This means that for some companies the transition may be more than three years. However, the effect of a longer transition for some companies on the size of the WUSF should be de minimis.

14. Currently intrastate universal service support consists of at least two elements that are incorporated into intrastate access charges billed to intrastate interexchange carriers (the Universal Service rate element that is billed by all LECs on both originating and terminating intrastate interexchange usage and the Interim Terminating Access Charge (ITAC) that is billed only on terminating minutes by some carriers but not all). The administration of the traditional USF is currently performed by the Washington Exchange Carrier Association (WECA); but the LECs each administer their own ITACs. Should WECA continue to administer all of the ITACs in conjunction with the Traditional USF? Should WECA continue to administer any USF (traditional or otherwise)? Should the WECA Board be expanded to include the interests of contributors?

Since the movement of the composite intrastate switched access rate level to the composite interstate switched access rate level would result in the elimination of the ITAC for each company, WITA does not see a need for WECA to administer the individual company ITACs. WECA should continue to administer the state universal service fund as it does now, related to the administration of access charges as that pool is transitioned. There will be a continuing need to manage intrastate switched access rates so long as the pool exists.

WECA has had a track record (operating since 1987) of administering the existing mechanisms fairly. It would not appear necessary to expand the WECA Board to include interests from contributors if all that WECA is going to do is manage the WUSF as proposed by WITA. If WECA is going to manage a USF mechanism that is dynamic and changes from year to year, then it would be appropriate to expand the WECA Board to include the interests of contributors and recipients.

15. In designating entities to be eligible for WUSF funding, should there be an eligible telecom carrier (ETC) designation process that is distinct from the existing federal ETC designation process, or should they be combined?

Yes, there should be a separate process. The WUSF will serve interests that are, at least in part, different from the existing federal mechanism.

16. What other kind of oversight, if any, should the UTC have over administration of the WUSF?

The Commission should have continuing oversight over administration of the WUSF. The Commission will need to establish many of the initial details for the WUSF and its operation. The Commission will need to implement the simplified earnings review. The Commission will need continuing enforcement authority to be sure the WUSF is fairly administered and that contributors pay their fair share into the fund.

## ADDITIONAL COMMENT

Although some of the questions in the Notice do contain some elements of broadband consideration, it appears to WITA that there is a question that is missing which should be asked. That question is whether the new WUSF should be transitioned over time to a broadband fund.

WITA believes that this is an appropriate step in the creation of a new WUSF. The PSTN will still continue to be a necessary component of any communications network in the State of Washington, including broadband. However, it is clear that circuit switched telecommunications are giving way to Internet protocol based communications. In other words, broadband will play an increasingly important role over time.

As stated in the National Broadband Plan, "Broadband is becoming a prerequisite for economic opportunity for individuals, small businesses and communities. Those without broadband...are becoming more isolated from the modern American economy."<sup>14</sup> WITA believes that this is an accurate statement and should be part of the focus in developing a long-range objective for the State of Washington.

The PSTN as a broadband network cannot simply be constructed and then presumed to operate as if by magic. The network takes ongoing operation and maintenance and continual upgrades as more and more is demanded of the broadband network (which is really the PSTN). While there will be different considerations than a voice circuit-switched based network, if rural Washington is going to have economic and social viability, there will need to be a broadband fund over time. The new WUSF can be used to manage the transition to that fund. The new WUSF can and should be transformed into a broadband fund over time. This will ensure that Washington has a public broadband network (the evolution of the PSTN) that will serve Washington's communication and economic development needs in the future.

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<sup>14</sup> National Broadband Plan at p. 265.