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May 29, 1996

VIA UPS OVERNIGHT MAIL

Office of the Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D.C. 20554

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Re: In the Matter of the Local Competition Provisions of the
Telecommunications Act of 1996
FCC 96-182; CC Docket No. 96-98

Dear Secretary:

Pursuant to C.F.R. Sections 1.415 and 1.419, enclosed is the original and 18 copies of Reply Comments of the Washington Utilities and Transportation Commission (including two copies marked "Extra Public Copy") regarding the above referenced matter.

Very truly yours,

STEVEN W. SMITH
Assistant Attorney General

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Enclosures

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Before the
Federal Communications Commission
Washington, D.C. 20554

FCC 96-182

In the Matter of)
)
Implementation of the Local Competition)
Provisions in the Telecommunications Act)
of 1996)
)

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MAY 30 1996
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CC Docket No. 96-96

REPLY COMMENTS
OF
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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I. INTRODUCTION AND SUMMARY

The Washington Utilities and Transportation Commission (Commission or Washington UTC), in these reply comments, wishes to emphasize three main points. First, this Commission fully supports the goal of the Telecommunications Act of 1996 ("the 1996 Act") to bring competition to the marketplace for telecommunications. This goal will be best achieved by a cooperative relationship between the FCC and the state commissions. State authority over fundamental aspects of local competition, including pricing, is clearly preserved under the 1996 Act. This is appropriate, since much progress towards competition has already occurred, and will continue to occur, at the state level. At the same time, the Washington UTC recognizes the FCC's strong interest in ensuring that the goals of the Act are achieved in an effective and efficient manner by adoption of national standards. This Commission believes these efforts can be complementary. National minimum standards, within the bounds of the FCC's authority, will be of significant assistance in the introduction of competition. Concurrently, the ability of states to implement existing and future state programs and to develop standards appropriate to unique local conditions will be a powerful tool to enhance local competition. Section II of these reply comments discusses specific examples of factors which affect local costing and pricing in Washington.

Second, the Washington UTC addresses the relationship between Section 251 and Section 254 of the 1996 Act. We urge the FCC to reject the suggestions of some parties to include in this proceeding a wide range of other telecommunications issues. Broadening the issues in this fashion would create a serious risk of decisional gridlock. While universal service and other issues are important and must be addressed, the experience of this Commission is that local competition issues can be best addressed in a focused manner, without the need to resolve all related issues such as universal service simultaneously in the same proceeding.

Third, these reply comments address reciprocal compensation issues. A number of commenters have argued against the use of "bill and keep" as a compensation mechanism. The Washington UTC has found in its own interconnection proceedings that bill and keep is an appropriate and fair compensation mechanism on an interim basis.

II. STATES MUST RETAIN THE FLEXIBILITY TO ADDRESS UNIQUE ISSUES OF COST AND PRICE

As noted above, it is the position of the Washington UTC that explicit and detailed pricing and costing determinations should be left to the states. Apart from legal jurisdictional issues, this area, like a number of others, is not well suited to uniform national solutions. Local conditions and individual company factors are so varied as to defy the use of centrally administered formulae with accuracy.

Any standards in this area must seriously consider the differences between urban and rural, and large and small LECS, in an attempt to fashion a method for the determination of incremental costs. The Washington UTC notes, for example, the initial comments in this proceeding filed by GVNW, Inc., in which the operational, organizational and cost structures of urban/rural and large/small LECS are discussed. The differences discussed by GVNW for its sample group are evident to some degree among Washington LECS, which range in size from 91 to 2,466,847 access lines.

Attachment A to these comments illustrates some of the variations in the statistics for the majority of LECS in Washington. In addition to the wide variations in the number of lines served by these companies, the ratios of wire miles per line and total plant in service per line illustrate differences between the companies that are not necessarily due to economies of scale or scope, but occur because the companies have unique operating characteristics. For example, the company with the fewest miles per line is the one with the fewest lines; companies with almost identical numbers of lines vary widely in overall plant cost and miles of wire. These differences are caused in part because of the differing configurations, switch types, density and operating characteristics of the companies. These differences should be considered in determining how to price interconnection regardless of the costing methodology used in doing so.

Additionally, the Washington UTC has recently adjudicated rates for U S WEST in a general rate case.¹ In that proceeding substantial detail was provided which shows that many categories of monthly costs per line vary significantly depending upon the density of access lines. Attachment B, a copy of an exhibit filed in the rate case, shows these variations. That information was developed using the Hatfield model.

III. RELATIONSHIP BETWEEN SECTIONS 251 AND 254 OF THE ACT

Some of the initial comments for this proceeding suggest introduction of a number of other issues which could potentially drive the rulemaking into decision gridlock. Cincinnati Bell, for example, has suggested that "many economic inefficiencies will follow any attempt to implement the provisions of Section 251 without a complete overhaul of the current universal service support structure to remove all implicit subsidies from LEC rates, without access charge reform, and without allowing LECs to rebalance and deaverage their current rates." (Cincinnati Bell Initial Comments, pp. 4-5.) U S WEST goes into even greater detail, identifying related topics including entry/exit regulation and separations. (USWC Initial Comments, pp. 12-13.)

¹ Docket UT-950200, a copy of the Commission's Fifteenth Supplemental Order was provided in our initial comments.

While the Washington UTC agrees with U S WEST that "the Commission should not treat interconnection in a vacuum," id., the Commission also believes that the FCC should not be distracted from its goal of establishing efficient interconnection policies. In order to advance this goal, the FCC need not address the entire range of regulatory issues simultaneously in this proceeding. The Washington UTC approach to dealing with competitive issues has been to move cautiously but steadily through the proceedings, anticipating but not prejudging what actions may be needed in the future. For instance, in our interconnection proceeding, access reform, universal service and other issues were raised by the incumbent LECs. Although these were significant issues, we did not find it necessary to address them in a proceeding focused on how competitors should interconnect.

U S WEST suggested assigning a "universal service charge" to every minute of local traffic it terminated for a competitor to compensate U S WEST for its "carrier of last resort obligations." Without such a charge, U S WEST argued it would lose the "implicit" subsidies from its business customers that were necessary to support service to residential customers.²

² Docket No. UT-941464 et al. There was no demonstration in the case that U S WEST would lose business customers. Instead, there was anecdotal testimony to indicate that new entrants were either acquiring new businesses as customers or were selling additional lines to customers who remained with U S WEST for their initial business.

The Washington UTC rejected the proposed universal service charge for a variety of reasons but principally because there was no justification for burdening the establishment of interconnection guidelines with alleged concerns over what will happen when competition flourishes. Six months later, the Washington UTC found, in a separate proceeding, that U S WEST rates were, in fact, sufficient to cover residential service and that no such subsidy existed.³

Access reform poses another potential diversion from interconnection. In the Washington interconnection docket, the incumbent LECs argued that there was no difference between termination of local calls and toll calls. Thus, the LECs argued that local interconnection should be patterned after toll access since eventually they will need to be priced similarly. The Washington UTC did not disagree with this claim but it refused to design local interconnection in the image of toll access. Instead, the Washington UTC based its interconnection decisions on how costs were generated and the preference of Washington customers for flat-rated local service. The Washington UTC called on the companies to establish flat-rated capacity charges and firmly rejected basing local interconnection on existing toll access tariffs, including the minutes of use access rate structure.

³ Docket No. UT-950200. U S WEST residential rates were found to exceed TSLRIC and provided a significant contribution to shared and common costs.

Universal service concerns were not ignored, however. In ordering capacity charges, the Washington UTC required the companies to file TSLRIC studies but did not foreclose the option of including some level of shared and common costs in the capacity charges. The Washington UTC also was aware that it would soon be reviewing all of U S WEST rates in the rate case, allowing it the flexibility to allocate shared and common costs in a manner that was based on costs but also preserved local telephone service affordability.

This flexibility is essential. To that extent, the Washington UTC agrees with the comment by Pacific Telesis that "if the Commission preempted the States' authority to set all intrastate rates, then applied price ceilings that prevented the recovery of incumbent LECs' total costs, the Commission would force the states to make up the shortfall elsewhere; and the only way they can do that is by raising local rates or increasing universal service funding burdens." (Pacific Telesis, Initial Comments, p. 11.) The Washington UTC does not, however, agree with the concern of incumbent LECs over the need to avoid "takings" and to cover total costs, beyond what is fair, just and reasonable. This Commission is concerned that state commissions might be foreclosed from basing pricing decisions on the facts and from establishing rate designs that are both compensatory and preserve affordable service.

The FCC interconnection docket should follow a similar approach to that followed in Washington. That is, it should deal with the facts of each proceeding and ignore unsubstantiated speculation. It should be cognizant of universal service concerns but should not try to respond to those concerns in the interconnection docket. It should be cognizant of toll access reform but should design local access guidelines based on what is efficient and fair, leaving it up to the toll access reform proceeding to deal with the issue of whether toll and local access should converge. And finally, it should preserve state commission flexibility to ensure that generic federal guidelines do not result in an undesirable consequences for ratepayers.

IV. RECIPROCAL COMPENSATION FOR TRANSPORT AND TERMINATION OF TRAFFIC (NPRM ¶¶ 227-244)

Some commenters have said that use of a bill and keep method of reciprocal compensation sends the wrong economic signals (i.e., that use of a network incurs no costs). The Washington UTC has examined the issue in great detail, as discussed in our initial comments on the matter. The obligation to terminate traffic on a bill and keep basis is a reciprocal obligation. The Washington UTC has found that bill and keep is a simple method for companies to interconnect with one another and exchange services in a way that benefits their customers. It is already in use by the industry for exchange of EAS traffic. In those circumstances where companies with similar technologies interconnect and maintain balanced traffic, bill

and keep produces the same result, i.e, no exchange of money, as would the alternatives that rely on specific rates.

The primary advantage of mutual traffic exchange as a compensation structure is that, in the near term, it provides a simple and reasonable way for two competing companies to interconnect and terminate each other's calls. Adopting a bill and keep compensation mechanism will let the incumbents and the new entrants focus on the technical aspects of efficient interconnection without concerns over costly measurement or accounting procedures and without having to revisit existing interconnection agreements for EAS. Bill and keep offers the best opportunity to get new entrants up and running, with a minimum disruption to customers and existing companies.

Interconnection is a reciprocal relationship; otherwise, it would be "connection" instead of "interconnection." One company is providing call termination to a second who, in turn, is providing call termination to the first. Regardless of the pricing structure or the prices themselves, no net money would change hands in those situations where two companies are obtaining identical services from one another.

We would not have adopted bill and keep if it appeared that new entrant ALECs would be imposing more costs on the incumbents than they would be incurring by terminating incumbents' traffic. This might happen if all traffic were from the new LECs to the incumbent LECs. Both would incur the cost of

establishing an interconnection, but with no traffic going to the new entrant, the cost incurred by the incumbent provides it no benefit. However, the opponents of bill and keep have not demonstrated that this situation is likely to occur, at least in the near term when bill and keep will be in place. To the contrary, the only evidence that we have seen favors the theory that traffic will be close to balance.

It is impossible to say exactly what will occur as competition develops further, but every indication at this point is that the new entrant LECs will be seeking to provide full-service telecommunications. Their customers can be expected to receive calls as well as make calls. Incumbent and entrant, each seeking to satisfy the demands of its own customers, will have the same need for interconnection. We find little potential harm and much potential gain to having competition begin under an interim bill and keep arrangement.

This is not to suggest that prices are irrelevant when traffic is in balance and no money is changing hands. The structure and level of prices would affect companies' incentives and decisions in many areas, including investment in new capacity, retail rate structure, and marketing strategies. We concluded that limiting bill and keep to an interim period minimizes the adverse effects posited by such incentives and long-term decisions.

Over the long-term, however, the bill and keep mechanism neither reflects sound economic principles nor provides the flexibility to accommodate the diversity likely to result from competition among local exchange companies, even though it

may be an appropriate long-term mechanism under some circumstances. The Washington UTC is hopeful the industry will negotiate a replacement for the bill and keep mechanism on its own, a replacement that sets prices for services based on the costs of those services and is based on capacity, not minutes of use. However, the Commission realizes that the continuing unequal bargaining positions of the two sides, and the preference of most new entrants for bill and keep as a permanent compensation mechanism, will make it difficult for the industry to reach a solution. Failing such an agreement before July 1996, the we have ordered U S WEST and GTE to file prior to July 15, 1996, a capacity charge that is supported by reasonable cost studies. If the proposed charge provides a contribution above total service long-run incremental cost (TSLRIC), the cost studies must justify the existence and magnitude of that contribution.

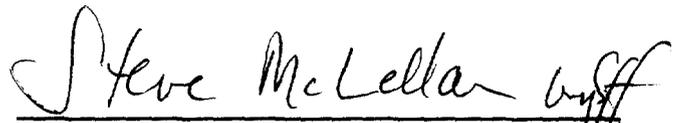
Any characterization of bill and keep as "punishment" to create pressure to implement true number portability is plainly wrong and unfair. There is ample support for bill and keep as an appropriate and fair compensation mechanism at least on an interim basis.

V. CONCLUSION

The Washington UTC looks forward to a cooperative role with the FCC as local competition is implemented under the 1996 Act and under state competition policies. State flexibility is particularly important to deal with issues such as pricing and costing, where the wide range of unique local factors is not amenable

to a "one size fits all" national approach. The FCC should maintain its focus in this docket on interconnection and local competition and not unnecessarily encumber the proceeding with universal service and other issues as some parties suggest. Finally, we urge the FCC to view "bill and keep" as a reasonable interim solution to the issue of reciprocal compensation.

DATED this 29th day of May, 1996, at Olympia, Washington.


STEVE McLELLAN, Executive Secretary
Washington Utilities and Transportation
Commission

**Miles of Wire in Cable and No. of Access Lines
For the Year 1994**

	Washington Miles of Wire in Cable	Washington Total Telecommunications Plant in Service	Washington Lines	Miles Per Line	Plant Dollars Per Line
Asotin	10,106	5,397,375	1,063	9.51	5,077
Cowiche	15,022	4,986,976	1,841	8.16	2,709
Ellensburg	239,396	46,040,864	18,874	12.68	2,439
GTE Northwest	6,222,353	1,779,028,000	712,894	8.73	2,496
Hat Island	433	262,283	91	4.76	2,882
Hood Canal	9,036	3,727,496	955	9.46	3,903
Inland	30,599	7,485,610	2,004	15.27	3,735
Kalama	12,477	5,942,888	2,030	6.15	2,928
Lewis River	56,756	11,861,124	3,725	15.24	3,184
McDaniel	16,380	7,214,200	3,176	5.16	2,271
Pioneer	13,042	3,709,660	803	16.24	4,620
St. John	5,625	209,132	584	9.63	3,581
Telephone Utilities	1,439,896 *	345,923,328 *	146,266 *	9.84	2,365
Tenino	24,087	8,453,945	2,691	8.95	3,142
Toledo	8,699	4,305,747	1,600	5.44	2,691
United	488,913	268,363,369	69,168	7.07	3,880
U S West	24,378,487 *	4,125,004,000 *	2,466,847 *	9.88	1,672
Total or Average	32,971,307	6,629,798,186	3,434,612	9.60	3,152

*Adjusted to reflect the sale of 28 rural exchanges from U S West to Telephone Utilities in 1995.

Source for Data: 1994 Annual Statistics of Telecommunications Companies, WUTC.

Attachment 1B

U S WEST Communications
all Washington wire centers
Monthly local service costs per line
interoffice facilities included
modified fill factors

WUTC
DOCKET NO. WT 950200
EXHIBIT # 767
ADMIT W/D REJECT

Attachment B

	0 - 10 pop/km2	10 - 100 pop/km2	100 - 500 pop/km2	500 - 1000 pop/km2	1000 - 5000 pop/km2	> 5000 pop/km2	Totals
Annual Capital Cost	\$ 6,900,896	\$ 13,213,290	\$ 20,073,004	\$ 17,353,743	\$ 66,813,476	\$ 6,970,167	\$ 131,324,575
Capital Cost - Genl Supp	\$ 445,214	\$ 852,460	\$ 1,295,017	\$ 1,119,583	\$ 4,310,484	\$ 449,683	\$ 8,472,449
Network Expenses	\$ 1,340,721	\$ 2,798,396	\$ 4,215,608	\$ 3,706,955	\$ 13,830,258	\$ 1,359,130	\$ 27,251,077
Network Operations	\$ 1,248,670	\$ 5,449,718	\$ 13,594,490	\$ 14,693,052	\$ 62,623,421	\$ 7,977,726	\$ 105,586,977
Network Support	\$ 27,056	\$ 44,380	\$ 63,944	\$ 53,508	\$ 202,036	\$ 19,117	\$ 410,022
Billing, collection, and directory	\$ 204,271	\$ 891,586	\$ 2,224,114	\$ 2,403,844	\$ 10,245,448	\$ 1,305,189	\$ 17,274,462
Subtotal	\$ 10,166,727	\$ 23,249,821	\$ 41,466,177	\$ 39,330,685	\$ 158,025,140	\$ 18,081,011	\$ 290,319,551
other taxes	0.050	0.050	0.050	0.050	0.050	0.050	
overhead loading	0.060	0.060	0.060	0.060	0.060	0.060	
uncollectibles	0.011	0.011	0.011	0.011	0.011	0.011	
Total	\$ 11,568,242	\$ 26,450,308	\$ 47,174,283	\$ 44,744,807	\$ 179,778,316	\$ 20,559,978	\$ 330,283,915
Total residential lines	22,292	97,287	194,169	212,321	813,131	103,586	1,442,786
Total business lines	2,027	8,845	70,607	73,851	406,565	51,793	613,688
Total switched access lines	24,318	106,142	264,776	286,172	1,219,696	155,380	2,056,484
total/line/month	\$ 39.64	\$ 20.77	\$ 14.85	\$ 13.03	\$ 12.28	\$ 11.03	\$ 13.38