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APPENDIX “A”

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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	DOCKET NO. UT-950200
Complainant,	)	FIFTEENTH SUPPLEMENTAL ORDER
v.	)	
U S WEST COMMUNICATIONS, INC.,	)	COMMISSION DECISION AND ORDER REJECTING TARIFF REVISIONS; REQUIRING REFILING
Respondent.	)	

BACKGROUND: On February 17, 1995, U S WEST Communications, Inc. (USWC or Company) in Docket No. UT-950200 filed with the Commission certain tariff revisions designed to effect statewide a general rate increase of $204,613,922 over four years in its provision of intrastate telecommunications services. By order dated March 8, 1995, the Commission suspended the effective date of the tariff revisions pending investigation and hearing as to whether the proposed rates are fair, just, reasonable, and sufficient. The Company requested and received an extension of time to permit negotiations among parties and it waived the suspension date for a further two weeks to accommodate the hearing schedule.

COMMISSION: The Commission rejects the Company's request for increased rates and charges, and directs it to file tariffs to effect a decrease in rates of $91.5 million, which is approximately 9.8% of the Company's affected revenues.

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PART ONE:

OVERVIEW

This is an important proceeding. It comes at a defining time for telecommunications regulation in Washington state. It is among the longest proceedings the Commission has heard in years. The Commission heard from 52 expert witnesses, received nearly 800 exhibits, comprising over 10,000 pages of prefiled written testimony and documentation. The record ran to more than 4,200 pages of transcript testimony over 23 days of hearing, and 14 party intervenors participated in addition to the Company, Commission Staff, and Public Counsel. The proceeding generated as much intensity as any other Commission proceeding in recent memory.

The reason for this level of activity and intensity has been the nature, diversity, significance and magnitude of the issues posited by the Company's general rate increase filing. It is important from a historical perspective because it is the first general rate case filed by USWC since 1982, and thus the Commission's first opportunity in that time to examine the Company's overall operations. The Commission in February 1989 filed a complaint on its own motion against the Company's rates. A settlement agreement resolved the complaint and resulted in a $337.75 million rate decrease over five years. The agreement also instituted an alternative form of regulation (AFOR) for the Company, which reduced the Company's regulatory burdens.[1] The AFOR ended in December, 1994, and its termination was one of the reasons this case was filed.

This proceeding also is important from a forward-looking perspective as well: it considers policies and pricing that will carry USWC into the competitive environment mandated by the federal government in the Telecommunications Act of 1996.[2]

For years, this state's statutory and regulatory telecommunications policy has directed open markets and consumer choice, balanced by universal service concerns. This order is a key part of the foundation of a sustainable competitive marketplace. Because of its importance,

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[1] RCW 80.36.135 authorizes the Commission to "waive such regulatory requirements under Title 80 RCW for a telecommunications company subject to an alternative form of regulation as may be appropriate to facilitate the implementation of this section[.]" In adopting the plan, the Commission found that the public policy goals of RCW 80.36.300 would be achieved; that the goals delineated in RCW 80.36.135 would be met; and the conditions for approving the plan contained in that statute would be satisfied.

[2] The Federal Telecommunications Act of 1996, Pub.L.No.104-104, 110 Stat. 56, to be codified at 47 USC Sections 151, et seq. The Act will also be referred to in this document simply as "the Telecom Act."

and the amount of money at stake, the case has drawn unprecedented interest and participation by interested parties and the public. At public meetings, and through letters and telephone calls, the Commission has heard from more citizens about this case than any other. To the members of the public who took time to express their views, we extend our appreciation.

The details of the Commission's conclusions, and specific reasons for our findings, are contained in this Order. In this introductory section we briefly summarize some of the policy principles that governed our decision and describe a number of significant issues.

I. POLICY PRINCIPLES

State telecommunications policy is governed by the Regulatory Flexibility Act, which directs the Commission to preserve universal service, promote diversity in services, ensure that competitive services are not subsidized by monopoly rates, and permit flexible regulation of competitive telecommunications companies and services.[3] The recent federal Telecom Act federalizes that same policy. It begins a new phase of competitive development in which Congress envisions robust competition in all communications markets including, significantly, the local exchange. The Telecom Act reserves substantial roles for state regulatory commissions to effect such competitive development.

Whether robust competition develops will depend on how the law is implemented at both the state and federal levels. Despite some limited competitive entry, USWC is still by far the dominant player in its service territory for virtually all services. For consumers to have competitive choice, the USWC network must be opened up at terms that are fair to both USWC and new entrants. A key part of that process is determining the costs and fair prices for USWC's services. This case, the first general rate case involving USWC in over a decade, provides a comprehensive review of the Company's overall operations. As such, it establishes a baseline from which a sustainable competitive market can emerge.

II. ISSUES

In USWC's filings and in the evidence, several key issues emerged:

A. Is the Company Entitled to More Revenues?

USWC's general rate increase filing seeks approximately $205 million a year in additional revenues, phased in over four years. It proposed approximately $95 million of that total as an immediate rate increase. After reviewing the Company's operations and making a

[3] L. 1985 ch. 450, amended L. 1989 ch. 101, codified in various provisions in chapter 80.36 RCW.

number of factual, technical and legal decisions, the Commission finds that instead the Company is over-collecting approximately $91.5 million per year. The Company will be directed to reduce rates by that amount.

B. Are Residential Rates Priced Below Cost?

Contending that residential rates are heavily subsidized, USWC proposed more than doubling residential rates over 4 years, and charging rural ratepayers significantly more than urban ratepayers. In the final year of the USWC proposal, urban ratepayers would pay $21.85 per month for service and rural ratepayers $26.35. The current statewide average rate for the service is $10.50.

USWC's own cost data -- which supports the cost study relied on by the Commission -- shows that the incremental cost of local service is less than $5 per month. Even if the entire incremental cost of the "loop" -- the facilities needed for the connection between the central office and the consumer's telephone which also carry long distance and specialized services, such as voice mail, as well as local service -- is allocated to the local ratepayer the price covers that cost. There simply is no local service subsidy.

USWC's own data show little cost difference between its rural and urban service territories. The Commission directs the Company to eliminate extended area service surcharges and establish a statewide residential rate of $10.50 per month, the average rate in effect today. The $10.50 rate covers the cost of local residential service and provides a substantial contribution to shared and common costs.

Because USWC is overearning, the Commission is also ordering a number of rate decreases, for business rates, toll service, access service, and hunting service. This approach targets rate reductions to services where the rates are the most above incremental cost.[4] Bringing these rates closer to incremental cost should stimulate demand to the benefit of ratepayers and the Company.

C. Competition

USWC argues that it needs to meet existing and impending competition with sharply higher rates for residential customers, and lower rates for other, more competitive services. While higher local rates simply are not supported by the record in this proceeding, the Commission agrees that the Company needs pricing flexibility to respond to competition when it appears. As a result, the Commission is authorizing the Company to file banded rates for any service it chooses. The rate set in this order will be the top end of the band. The Company may

[4]Incremental costs of a single service do not include any shared or common costs that the Company is also entitled to recover. Overall, the Company's rates must be set above incremental cost to avoid unlawfully taking its property.

choose any level above incremental cost for the bottom of the band. Within that band USWC may change prices on ten days notice to customers and the Commission -- exactly the same notice as competitors are required to file. This flexibility gives the Company the ability to drop prices where competition requires, while restraining its ability to raise the rates of captive customers.[5] Of course, the Company is always free to propose increases in the rate caps if it can prove increased costs. The Commission retains jurisdiction to review the Company's use of banded rates to assure that they are not used in an improper manner or inconsistent with the terms of this Order.

D. Service Quality

The Commission finds that USWC is providing service that is substantially worse than that which the Company provided only a few years earlier, at the beginning of its AFOR.[6] The Commission's frequent and consistent attempts to achieve improvement in service quality have been unsuccessful. We find major problems with the Company's ability to install service when needed and its ability to provide repair service when needed, caused in part by lack of facilities and in part by restructuring and downsizing.

The Company's inability to meet its basic service obligations hurts individual ratepayers and it hurts the state economy as a whole. This Commission has not micro-managed USWC's re-engineering and restructuring efforts and does not intend to do so. We are concerned with results. To that end, we are ordering the Company to provide customer service guarantee programs and reducing the Company's return on equity by 0.5% to the low end of the reasonable range, to reflect the level of service it is providing and provide incentive for improvement. We also are ordering improved service quality statistics reporting, and disallowing management team and merit awards that are not clearly and directly linked to meeting service quality targets. When the Company can demonstrate that it is providing adequate service, it may petition to lift any or all of these requirements.

The Company has argued that it cannot invest in Washington state because of uncertainty about its future ability to recover its capital investment. Ex. 101-T, p. 13. The record in the case demonstrates this to be unfounded. Under the AFOR (January 16, 1990 to December

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[5]The protection thus accorded captive customers will further the public policy goals enunciated by the Legislature in RCW 80.36.300, especially:

> "(4) Ensure that rates for noncompetitive telecommunications services do not subsidize the competitive ventures of regulated telecommunications companies[.]"

[6]It is unfortunate that the Commission's attempts to reduce the regulatory burdens on USWC appeared to result in the violation of one of the most important conditions for approving an AFOR, that it "[w]ill not result in a degradation of the quality or availability of efficient telecommunications services[.]" RCW 80.36.135(3)(e).

31, 1994),[7] the Company was authorized to earn an attractive 11% rate of return, and it retained excess profits of $77 million. At the same time, it was cutting investment and reducing staffing levels in the state. Instead of re-investing its earnings in Washington State, the Company is generating funds by dis-investing in the state and failing to provide minimum levels of service to the harm of its citizens and economy. In this Order we authorize the Company to recover its proper costs of operating and to earn a market-based rate of return on its investment.

Our order does not give USWC all it wants. Instead it gives the Company what it needs: fair rates based on the Company's actual costs, greatly increased flexibility to lower prices to meet market requirements, and meaningful incentives to improve service quality.

PART TWO:

SCOPE OF PROCEEDING

HEARINGS: The Commission conducted seven days of public hearings to receive testimony from customers of the Company on the proposed rate increases in Port Angeles, Tacoma, Vancouver, Seattle, Yakima, Spokane, and Olympia. The Commission held sixteen days of evidentiary hearings in Olympia for receipt and cross-examination of testimony and exhibits of the parties to this proceeding. The hearings were held before Chairman Sharon L. Nelson, Commissioners Richard Hemstad and William R. Gillis, and Administrative Law Judges C. Robert Wallis and Terrence Stapleton.

APPEARANCES: USWC was represented by Edward T. Shaw, Molly Hastings, and Douglas N. Owens, attorneys, U S WEST, Inc., Seattle, and Sherilyn Peterson and James M. Van Nostrand, attorneys, Perkins Coie, Seattle; Staff of the Washington Utilities and Transportation Commission (Commission Staff) by Steven W. Smith and Gregory J. Trautman, Assistant Attorneys General, Olympia; Public Counsel by Robert Manifold and Donald T. Trotter, Assistant Attorneys General, Seattle; Washington Independent Telephone Association (WITA) by Richard Finnigan, attorney, Vandeberg Johnson & Gandara, Tacoma; GTE Northwest, Inc. (GTE), by Richard Potter, A. Timothy L. Williamson, and Timothy J. O'Connell, corporate counsel, Everett; PTI Communications, Inc. (PTI), by Calvin Simshaw, corporate counsel, Vancouver; Electric Lightwave, Inc. (ELI), by Ellen Deutsch, corporate counsel, Vancouver; AT&T of the Pacific Northwest, Inc. (AT&T), by Daniel Waggoner and Gregory Kopta, attorneys, Davis Wright Tremaine, Seattle, and Susan Proctor, attorney, AT&T, Inc., Denver, Colorado; MCI Communications, Inc. (MCI), by Sue Weiske, corporate counsel, Denver,

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[7] In the "AFOR" program, an alternate form of regulation that the Company and the Commission agreed to in 1990, the Company was freed of some regulatory constraints and allowed to earn and keep in excess of its authorized return in exchange for sharing excess earnings with customers as directed by the Commission. The customers' share largely was applied variously to refunds and to reduce accumulated depreciation.

Colorado, Robert Nichols, Nichols & Hecht, LLC, Boulder, Colorado, and Clyde MacIver, attorney, Miller, Nash, Wiener, Hager & Carlsen, Seattle; Sprint Communications Company L.P. (Sprint) by Lesla Lehtonen, corporate counsel, San Mateo, California; Department of Information Services (DIS) by Roselyn Marcus, Assistant Attorney General, Olympia; Department of Social and Health Services (DSHS) by Leslie Birnbaum, Assistant Attorney General, Olympia; Department of Defense and Federal Executive Agencies (DOD\FEA) by Sheryl A. Butler, trial attorney, Arlington, Virginia; Enhanced Telemanagement, Inc. (ETI), by Gena Doyscher, external affairs director, Minneapolis, Minnesota; Northwest Payphone Association (NWPPA) and Metronet Service Corporation by Brooks Harlow, attorney, Miller, Nash, Wiener, Hager & Carlson, Seattle; American Association of Retired Persons (AARP) by Ronald L. Roseman, attorney, Evergreen Legal Services, Seattle; and, Telecommunications Ratepayers Association for Cost-based and Equitable Rates (TRACER) by Arthur A. Butler, attorney, Ater Wynne, Seattle.

Procedural History: On February 17, 1995, USWC filed with the Commission, under Advice No. 2617-T, revisions to its currently effective Tariffs WN U-30, -31,-32, with a stated effective date of March 21, 1995. The intended effect of the tariff revisions is an annual increase in the Company's revenue of approximately $95,301,836 for 1995; $22,602,847 for 1996; $46,785,542 for 1997; and $39,923,697 for 1998; the total annual revenue increase requested, phased in over a four year period, is approximately $204,613,922. On March 8, 1995, the Commission at its regularly-scheduled open public meeting suspended the operation of the tariff revisions pending hearings to determine whether the proposed tariff revisions are fair, just, reasonable, and sufficient.

A March 14, 1995 Notice of Hearing set a prehearing conference for April 6, 1995, at which time procedural aspects of the proceeding were determined, including invoking the discovery rule and establishing a schedule for prefiling and cross-examining testimony. The Commission entered a Protective Order governing the disclosure of proprietary and confidential information in this proceeding on April 24, 1995.

The Commission convened a prehearing conference on October 12, which was continued to October 17 and then to October 19, 1995, to receive oral argument on motions filed by USWC and Commission Staff. At the prehearing conference, USWC orally moved to continue the hearing schedule to permit the parties to engage in settlement discussions. The Company and Commission Staff believed that settlement of some or all issues was possible if the parties were given adequate opportunity to devote sufficient time and resources to mutually beneficial resolution of issues.

An October 19, 1995 Order of the Commission granted USWC's oral motion stating "[w]e continue to believe that those directly affected by the outcome of matters before the Commission are in the best position to protect their own interests through negotiation and alternatives to litigation." The Order was premised upon USWC's agreement to certain conditions which included proceeding with the public testimony hearing on service quality issues in Olympia on November 9; a deadline for filing stipulations or a settlement agreement; extending the statutory suspension period; and filing supplemental testimony on costing issues.

A January 4, 1996 Order of the Commission resolved the outstanding motions of USWC and Commission Staff. The Commission granted USWC's motions to compel AT&T to respond to data requests and to strike the testimony of AT&T witness Diane Toomey, but denied its requests to exclude certain issues raised by the Northwest Payphone Association and to exclude "yellow pages" revenue from this proceeding. The Commission granted the Staff motion to exclude certain depreciation changes from consideration.

The Commission conducted 16 days of evidentiary hearings, for cross-examination of prefiled testimony and exhibits of the parties, on November 9, 1995, re-convening January 8, 1996, and continuing for 15 days. The Commission was addressed by 52 expert witnesses, whose testimony required approximately 4,200 pages of transcript. The parties were permitted to file separate and simultaneous briefs on rate design issues by February 23, 1996, and revenue requirement issues by March 1, 1996; parties were allowed to file answering briefs no later than five days following each brief deadline. The Commission's Order is due not later than Friday, April 12, 1996.

Hearings for Public Participation. The Commission scheduled seven public hearings for receipt of testimony from members of the public as follows: Port Angeles on September 25; Tacoma on September 26; Vancouver on September 27; Seattle on September 28; Yakima and Spokane on October 2; and Olympia on November 9, 1995. The Commission was addressed by nearly 115 individuals and many more attended the hearings to express their position on this proceeding by virtue of their appearance.

The Commission had anticipated the many citizens who spoke in opposition to the level of the proposed rate increases, as well as the several who asked for fair treatment for the Company's needs. What the Commission did not expect was the huge outpouring of citizens decrying the poor service accorded them by USWC. These individuals related their experiences with USWC missing appointments for service installation, in some instances repeatedly, or the complete inability of USWC to deliver facilities to provide any service at all. Others described their experiences with extended delays in restoring service following an outage. Elsewhere in this Order we discuss service failures experienced by Internet entrepreneurs, large companies, and telecommunications company customers of USWC.

With either cause of poor service, customers were frustrated with their experiences attempting to contact USWC and seek information on the status of ordered service or reports of service outage. Many customers described the similar experience of phone calls to USWC being routed to different service centers in USWC's service area, sometimes during the same phone call but each time with multiple calls seeking assistance, from Minneapolis to Salt Lake City to Denver to Phoenix. And often they encountered service personnel who had no record of their service order or request for repair service, no information regarding the nature or cause of delays being experienced for either complaint, and who were themselves frustrated and simply unable to be of assistance.

USWC attended each public hearing with Company representatives from various operational areas who met after the hearings with individuals expressing service complaints.

PART THREE:

SERVICE QUALITY ISSUES

During the Commission's hearings for public testimony, conducted in seven cities around the State, customers repeated three themes time after time: the inability to get timely installation of service -- or in some instances, any service at all; delays experienced in getting service restored following an outage; and opposition to the magnitude of the proposed rate increase. The Commission scheduled a special hearing session to address customer service quality and sought information from top Company executives responsible for service.

This order segment begins with an overview of service quality problems in this state. It is followed by a discussion of the parties' recommendations on customer service issues and the Commission's decision.

I. Service Quality Problems

In January 1993, the Commission adopted rules establishing a minimum level of service quality to be observed by telecommunications companies providing service within this state[8]. These service quality standards and requisite service quality performance reports, when coupled with other service requirements of Chapter 480-120 WAC,[9] are designed to ensure all consumers of telecommunications services in this state timely installation and reasonable continuity of service, uniformity in the quality of service furnished, and safety of persons and property.

The Commission Staff became aware of a significant and disturbing trend in service quality degradation for the Company beginning in 1991. The number of informal service complaints reported to the Commission increased dramatically in the years 1992-1994, and appear to be escalating to an all-time high in 1995. These complaints largely address inability to obtain service in a timely manner, and undue delay in restoring service outages.

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[8] On January 27, 1993, in Docket No. UT-921192, the Commission adopted WAC 480-120-500,-505,-510,-515,-520,-525, -530,-535; the rules were filed with the Code Reviser on February 26, 1993, and became effective on March 29, 1993.

[9] Included among the more pertinent rules in this regard are WAC 480-120-041, Availability of information; WAC 480-120-051, Availability of service--Application for and installation of service; and WAC 480-120-086, Adequacy of service.

The Commission Staff during this timeframe, principally through the Commission's Consumer Affairs Section, diligently pursued not only resolution of individual complaints but also sought to gain the attention and support through ever-escalating levels of USWC's senior management in an attempt to reverse the trend. The Company constantly reassured Commission Staff, in meetings and in written communications, not only of its commitment to service quality, but of its intention to resolve permanently its service quality problems. Ex. 102-T, pp. 17-19; Ex. 107, 108, 109. The Company has been delinquent on both counts.

Commission Staff believes its attempts over the past several years to negotiate improvements in the Company's service quality informally and cooperatively have failed. It argues that the Commission must therefore take affirmative steps to address service quality issues, relieve the burdens on consumers engendered by poor service, and stimulate responses by the Company which will permanently resolve service quality problems in this state.

The Company's senior management has consistently pointed to unanticipated and unforecasted access line growth for its service quality problems. Ex. 107, 108. However, the testimony in this proceeding paints a picture of causes deeply-rooted in USWC's re-engineering and restructuring efforts aimed at reducing costs (Ex. 102-T. pp. 16-17), and reduced investment in Washington State infrastructure improvements (Ex. 101-T, p. 13, 11. 16-20).

USWC has undertaken simultaneously a massive re-engineering and restructuring program to revamp and consolidate operations and reduce costs. The re-engineering effort involves the design and implementation of new computer-aided systems and programs, replacing paper and manual handling of information, to increase efficiency and create opportunities to enhance productivity and expand the number of functions performable by one employee during a single customer contact.

This re-engineering effort included the consolidation of service centers. This consolidation resulted in significant reductions in this state of personnel familiar with the intrastate network and facilities -- a 30% reduction in engineering staff in Washington in just two years (TR 1007). The Company experienced significant errors when paper records containing faulty inventory of facilities were manually posted to electronic databases in the new systems; Washington State records at the time of entry into the new databases were apparently poorer than average, which the Company hopes to resolve in mid-to-late-1996. (TR 1007). Finally, these new computerized systems, while a significant technological leap over former manual systems, were intended to be a transitional step toward an even more automated engineering tool. Unfortunately, this more sophisticated tool was to come on-line in third quarter 1995, but its complexity was so overwhelming the Company now projects an on-line date no earlier than sometime in 1997. (TR 1029-1030).

The Commission believes the Company's restructuring and re-engineering efforts may well be appropriate in an emerging competitive environment. USWC has made tough decisions and moved decisively to implement those decisions. The transition has been difficult for all concerned -- the dislocated employees, the management struggling to bring new systems and programs on-line with little lead time, the employees attempting to master the re-engineered systems, at times with incorrect or inadequate information available to them, and in some instances without sufficient training, and the customers experiencing newly re-trained employees who with their inability to use the new systems successfully are as frustrated as the customers who are getting no satisfactory resolution of their problems.

USWC's Washington Vice President Dennis Okamoto admits that the Company's re-engineering effort has contributed to service quality problems. (TR 717-718). He also acknowledges that its employees are still on the "learning curve" in terms of mastering the newly re-engineered systems, and that process may take up to another year to complete. (TR 714-716).

The Commission expects, as Company witnesses represented, that once the "bugs" are eliminated, all systems are available, installed, operational, and in the hands of a qualified and trained work force, USWC will provide and its customers will experience the level of service to which they are entitled. The improvement however has yet to materialize.

The fact remains that USWC has failed to meet its minimum service obligations, failed in dramatic and painful ways for all classes of its customers, and failed increasingly, year after year.

USWC witness Dennis Okamoto testified that a hostile capital structure and capital recovery environment in this state has led the Company to reduce its Washington investment, and has led in turn to shortages of necessary facilities.[10] The record confirms that the Company's capital investment has fallen in Washington and continues to lag 1992 levels. The record shows that the Company earned a return of up to or exceeding 11% during the five years of its alternative form of regulation (AFOR) and kept over $77 million in excess earnings. The record also shows that the Company was significantly reducing its capital investment in this state during those same years.

Commission Staff notes the Company's Form M Annual Report to shows that new investment per year in Washington declined from $354 million in 1992 to $268 million in 1994, a decline of $86 million. Ex. 125-T, pp. 9-10. USWC witness Okamoto testified that the Company likely will have spent over $330 million on capital expenditures in Washington in 1995. TR 550. This level still represents a decline over 1992 investment, before accounting for inflation. The

[10] Mr. Okamoto, in response to questions from AT&T, acknowledged that internal competition for funds for capital investment purposes is keen, and that the payment of 100% of its dividend to the parent company, U S WEST, Inc., has resulted in substantial investment overseas and domestically outside its service territory. Mr. Okamoto asserted that "[t]he shareholders demand that managers of the business invest the capital dollars appropriately and where they can get the best returns[.]" (TR 729-732).

same Form M shows that depreciation expense has increased from $226 million in 1992 to $301 million in 1994, a $75 million increase. Ex. 125-T, p. 9. To the date of filing of its testimony in this case, Staff notes the Commission has authorized in 1995 additional adjustments to the normal depreciation reserve accruals of more than $30 million.

II. Held Orders and Service Interruptions

A. Complaint Levels

Commission Staff presented a study quantifying the number of informal service complaints being filed against USWC, and the number of resulting Commission rule violations from held order and service interruption complaints.

When compared to other local exchange companies (LECs) in the 1989-1994 time period, USWC's growth in access lines was comparable to other LECs only in 1991, and was less than other LECs for the remaining years in the study period. In all years but 1989 and 1990, USWC service complaints and rule violations per 100,000 access lines far exceeded those of other LECs. The Company did not substantiate its representations that growth is the root cause of its service quality problems. Ex. 103, 104, 105. Likewise, when compared only to itself in the 1989-1994 time period, USWC service-related complaints and rule violations show dramatic growth, indicating not only service quality deterioration, but continuing deterioration of unprecedented scale. Ex. 106.

Several exhibits illustrating trends in service quality identified in the Commission Staff study are reproduced in this order.[11]

In January 1995, Mr. Okamoto committed to corrective actions aimed at eliminating held orders and service interruption violations by April 1, 1995, reducing total 1995 complaints by 30% over 1994 levels, and reducing total 1995 rule violations by 75% in 1995. The Company showed some improvement between January and April 1995, but in May through August 1995, both total numbers of complaints and rule violations increased substantially. Ex. 110, 111, 112, 113. As of August 1995, held order and service interruption complaints were at their highest level and were continuing to increase rather than decline. Ex. 102-T, p. 21.

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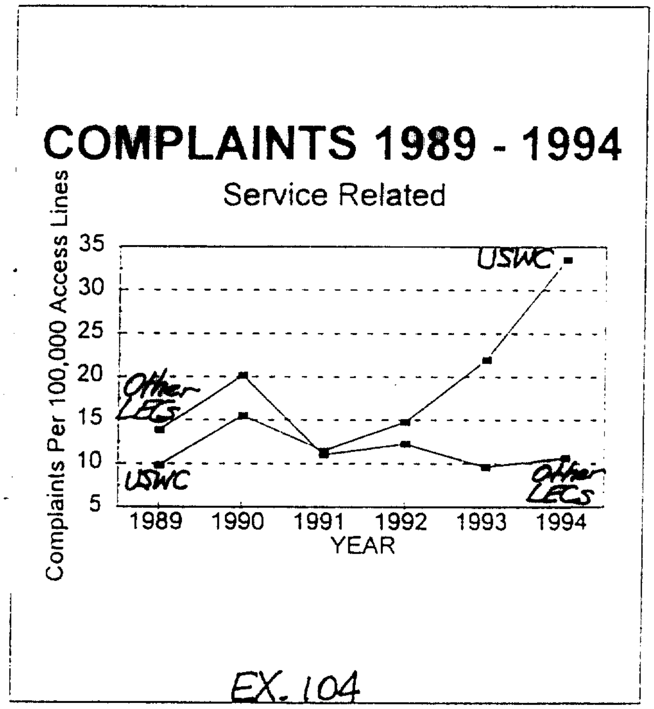
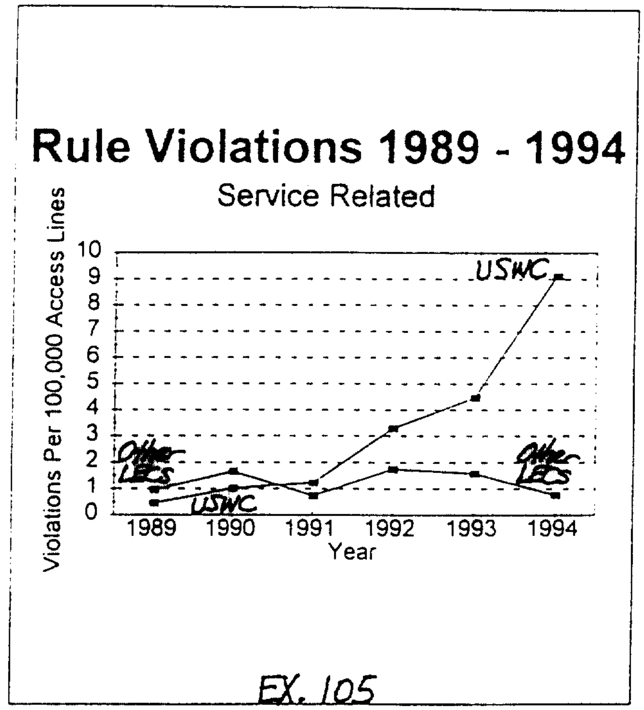
[11] Four of the exhibits are labelled "Rule Violations." However, this assessment is based upon Staff's analysis of recorded complaints, and does not represent a determination by the Commission after notice and an opportunity for hearing, that USWC has violated the Commission's rules.


COMPLAINTS 1989 - 1994
Service Related
Complaints Per 100,000 Access Lines
35
30
25
20
15
10
5
1989 1990 1991 1992 1993 1994
YEAR
USWC
Other LECs
USWC
Other LECs
EX. 104


Rule Violations 1989 - 1994
Service Related
Violations Per 100,000 Access Lines
10
9
8
7
6
5
4
3
2
1
0
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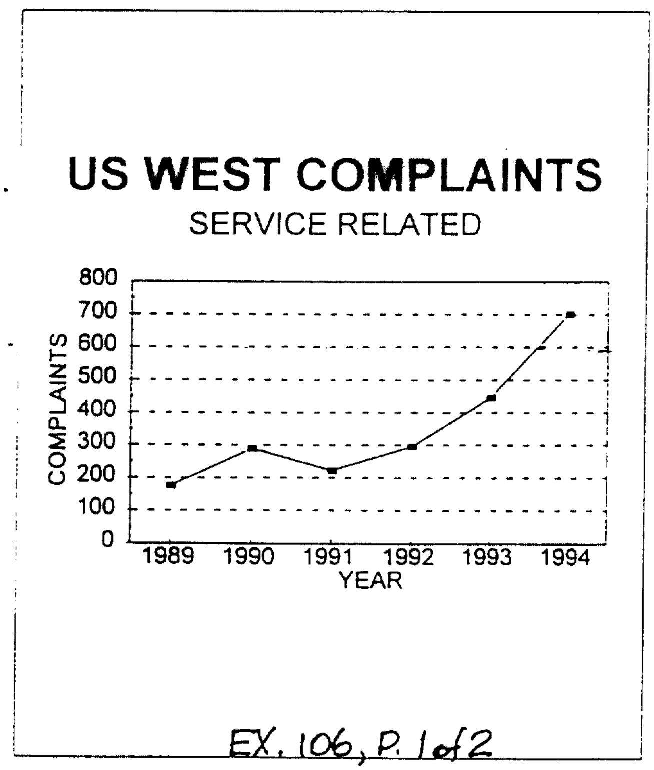
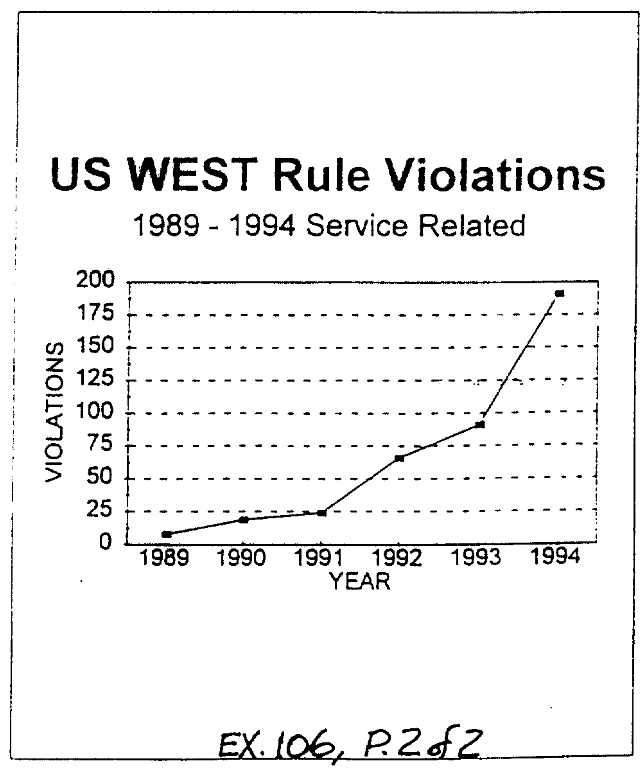
Year
USWC
Other LECs
USWC
Other LECs
EX. 105


US WEST COMPLAINTS
SERVICE RELATED
COMPLAINTS
800
700
600
500
400
300
200
100
0
1989 1990 1991 1992 1993 1994
YEAR
EX. 106, P. 1 of 2


US WEST Rule Violations
1989 - 1994 Service Related
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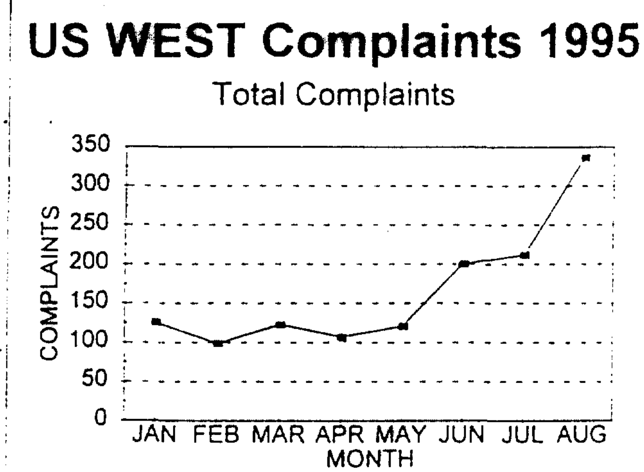
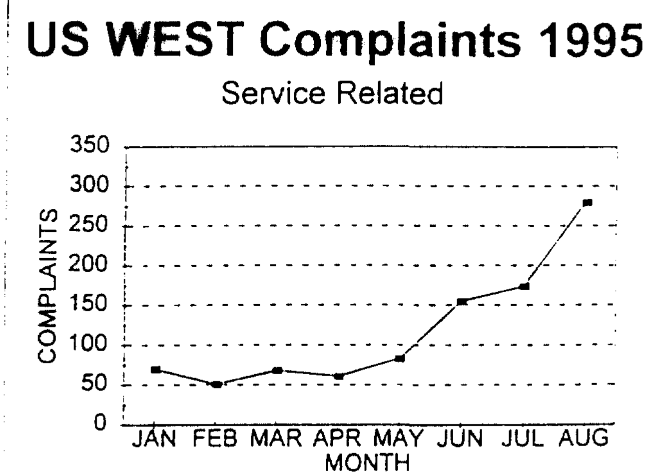
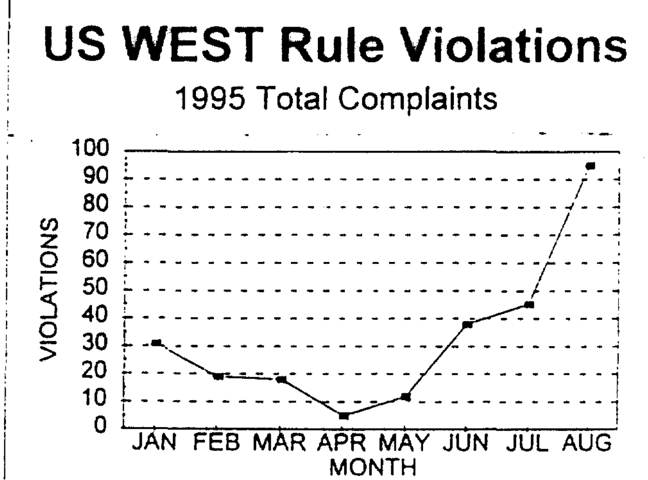
200
175
150
125
100
75
50
25
0
1989 1990 1991 1992 1993 1994
YEAR
EX. 106, P. 2 of 2



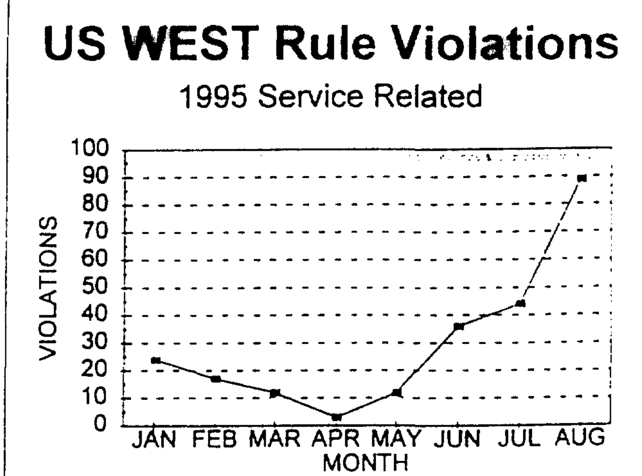
EX. 111



EX. 112



EX. 113



EX. 110

B. Rule Violations

Service quality complaints involving held orders and service interruptions largely reflect violations of two Commission rules. WAC 480-120-051 requires that if, prior to an agreed-upon date for installation of service, it becomes apparent that service cannot be installed as agreed, a company shall promptly notify an applicant of the delay and the reasons. Commission Staff reports a significant increase in the number of informal complaints where applicants are provided in-service dates by USWC, the installation is not completed as agreed, and applicants are given no notice that the date will be missed nor an explanation why the installation was missed.

WAC 480-20-520 requires that all reported interruptions of service shall be restored within two working days, except interruptions caused by emergency situations, unavoidable catastrophes, and force majeure. Again, Commission Staff notes significant increases in the number of informal complaints regarding restoration of service in the required timeframe. Based upon customer complaints and Company responses to informal service complaints, Staff believes failure to meet installation and repair obligations is due primarily to reductions in technical and engineering work force. Ex. 102-T, p. 15.

A majority of those testifying at public hearings around the state related personal experiences with poor service quality -- repeatedly delayed installation of new service, often without prior notice, and unreasonably delayed restoration of service outages. This testimony tracks the nature of the service complaints received by the Commission during the preceding four years.

C. Recommendations Addressing Service Quality Problems

A disagreement exists between the Company and Commission Staff over what constitutes a "held order" resulting in a rule violation. WAC 480-120-051(1) and (2) prescribe for all local exchange companies the explicit conditions for the installation of primary exchange access lines.[12]

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[12] WAC 480-120-051 reads in part as follows:

(1) As measured on a calendar monthly basis, ninety percent of a local exchange company's applications for installation of up to five residence or business primary exchange access lines in any exchange shall be completed within five business days after the date of receipt of the applications when all tariff requirements have been met by the applicant or subscriber. In those instances where a later installation date is requested by the applicant or subscriber or where special equipment or service is involved, this time period does not apply.

(2) Ninety-nine percent of all applications for installation of primary exchange access lines in any exchange shall be completed within ninety days after the date of receipt of the applications when all tariff requirements have been met by the applicant or subscriber.

First, under its system of record-keeping, the Company reports to the Commission the monthly total of orders held at a given point in time. The Company asserts that once an order is completed the record is deleted. The information is not reported in a detail that permits Commission Staff to determine the length of time any individual order was held by the Company. Thus, Staff cannot determine, for example, that in a January 31 report of 200 held orders the Company also had 700 held orders between January 1 and January 29 that were held longer than five working days but completed prior to the reporting date. Second, it is the Company's position that "primary exchange access" involves only the first line into a premise and that additional lines are not covered by the rule, despite the rule's clear directive that "up to five residence or business primary exchange access lines in any exchange shall be completed within five business days" when all other conditions of the rule are satisfied.

Commission Staff recommends that the Commission require USWC to provide monthly service order reports which, at a minimum, include the following information by exchange by class of service:

> The number of all orders for primary exchange access lines received in a given month;
>
> The total number of orders held beyond five business days, identifying the number not requiring special equipment or service and the number requesting a later in-service date; and,
>
> The cumulative reporting of all held orders until service is installed and in working condition.

The Commission will order the record-keeping and reporting requirements recommended by Commission Staff. These measures will provide information sufficient to permit verification of compliance with WAC 480-120-051 and afford the Commission the opportunity to pursue enforcement for violations of that rule.

Commission Staff witness Spinks recommended that the Commission order USWC to provide customers with cellular phone service when ordinary service cannot be provided within 30 days. Specifically, if customers are required to wait more than 30 days for service over Company facilities, the customer would be provided with cellular service, using a carrier of the customer's choice, at the same rate the customer would pay for the Company's service. The Company would pay the difference up to $150 in cellular service per month.

In its response to Bench Request No. 13, filed on February 12, 1996, USWC informed the Commission that it had recently introduced a service guarantee program throughout its 14 state service area. The program includes:

1. Service orders held over five business days, but less than 30 calendar days, will receive an installation credit of $31.00; the customer will also be offered at no cost a Market Expansion Line/Remote Call Forwarding service which includes assignment of the new telephone number, a USWC calling card, and a directory listing;

2. For service orders held more than 30 calendar days, Washington customers will receive either a credit for Basic Exchange Service of $10.75 for month or partial month the order is held, or a cellular subsidy payment of $105.00 for the first month and $75.00 for each additional month.

The Company indicated it would begin offering the new service guarantee program in Washington on March 5, 1996.

The Commission will order implementation of a customer service guarantee program along the lines of that voluntarily proposed by the Company, but with modifications, to be effective immediately. Specifically, the program will include the following until modified or discontinued by Commission order:

1. For service orders for up to one residential and two business primary exchange access lines in any exchange not completed within five business days: USWC will waive installation charges, and credit the basic monthly rate; provide at no cost Market Expansion Line\Remote Call Forwarding service which includes assignment of a telephone number, a USWC calling card, and a directory listing; and

2. For service orders for up to one residential and two business primary exchange access lines in any exchange not completed within 30 calendar days: USWC will offer a subsidy payment for cellular service at the rate of up to $150.00, less the recurring monthly rate for the local exchange service, for each month or partial month the order is held (and provide a cellular telephone) or voice messaging service or paging service or remote call forwarding service at the customer's option.

III. Other Service Failures

A. Large Customers

TRACER witness Bookey recounted service problems experienced by six large USWC customers, mostly relating to provisioning of new digital facilities which he claims generally takes from three to six months, but in many instances as long as one year. These customers range from Fred Meyer Stores, which claims every retail store in USWC's service territory has had significant problems, to the University of Washington which reports major problems with 1) trouble reporting, 2) service order processing, 3) ISDN and high capacity service provisioning, and 4) engineering. As troubling as the delay itself, for many of these customers, is communicating with USWC service personnel who are described as frustrated and inexperienced, who are frequently rude, and either fail to call back or leave customers on hold for long periods.

The placement of trouble calls to USWC which used to take a few minutes now may take from 1/2-hour to days. Inexperienced customer service staff lack sufficient technical knowledge to input trouble reports properly, resulting in faulty and insufficient information in USWC's trouble ticket tracking system. When engineering staff discover inadequate or inaccurate information, trouble tickets are closed and reported as a customer problem, requiring customers to re-start the whole process with a new trouble report.

B. Internet Service Providers

The Commission held hearings in seven cities around the state, and in all but two cities the Commission heard from entrepreneurs attempting to launch or expand Internet service provisioning businesses. Their experiences with obtaining Integrated Services Digital Network (ISDN), T-1 services, and other relevant services and assistance from USWC were varied, but all were unsatisfactory. The Company informed an applicant in Port Angeles that ISDN service would not be available in the immediate future, if ever; while in Vancouver an applicant who was told facilities and services were available to serve his proposed business location was denied facilities and service for so long that his venture capital had been exhausted and he faced the prospect of bankruptcy, having never been connected to the network at the location from which USWC had guaranteed its network was capable of serving his needs.

The Commission heard similar stories of requests for ISDN and T-1 service being met with indifference and delay in each of the other cities where Internet service providers testified. The similarity of experience of such entrepreneurs in all corners of the state from Port Angeles to Yakima, from Vancouver to Seattle, and the similarity of complaints about USWC's treatment of subscribers and attitude toward this growing segment of the economy is as disturbing as the Company's held orders and rule violations.