whose payments are not timely. It rejects this proposal, however, it finds credible the concerns raised by parties, particularly Commission Staff. The Company may refile at a later time if it considers Commission Staff suggestions. The Puget Power late charge provision should be considered as a starting point. Charges may not be applied to fees billed for third parties unless the Company can demonstrate costs incurred thereby. The rate of the charge may be comparable to that allowed Puget Power. The charge may not be applied to bills for local service until the local service portion is past due for the required period. The Company should also allow customers to establish a preferred billing date during the month.

There is no revenue requirement requiring an immediate refiling of this proposal. The Commission will not require or authorize its refiling as a compliance item in this proceeding, but the Company may file for such a change at a later date.

C. Operator Surcharges

USWC proposes changes that provide consistency between rates for toll and local operator surcharges and which have an annual revenue effect of approximately $1.8 million. Public Counsel/AARP oppose these rate increases because they condone oligopoly pricing and discriminate in favor of USWC's "best deal" customers. (Ex. 420-T, pp. 144-45)

The Commission rejects the Company proposal. There is no revenue need for the proposal, and it is not shown to be cost-based. The service appears to provide a reasonable level of contribution based on current rates. There appears to be no need for the increase, and there is no indication of any reason why interstate rates should be appropriate for intrastate services.

D. Listing Services

1 & 2. Residential and Business

USWC proposes to increase its monthly charges for nonlisted and nonpublished numbers[67] by 25¢ per month and to increase the non-recurring charge for each by $1. It also proposes to increase the Joint User Fee for business directory listings on resold Centrex lines. The Company responds that its current rates for these services are among the lowest in its region. The revenue effect is $6.5 million, net of repression.

DIS opposes this rate increase for it moves rates away from costs. Metronet argues that the Company's proposal to increase the Joint User Fee is unsupported by any evidence; is priced considerably above cost; and is discriminatory. Metronet argues for a lower rate set at LRIC or LRIC plus 10 to 20 percent.

[67] Nonpublished numbers do not appear in the directory but are available through directory assistance. Nonlisted numbers are not in the directory and are not available through directory assistance.

Public Counsel/AARP take issue with the proposed increases for non-listed and non-published numbers because they do not respect the legitimate privacy interests of customers.

The Commission rejects these requests. There is no cost justification for the proposals, and there is no unmet revenue requirement that would support a more general increase in rates and charges. We are also sensitive to the need of many persons for privacy for their own personal safety and to the possibility that the need may occur at all income levels.

E. Custom Calling

USWC proposes an increase in custom calling services, contending that it is appropriate because these services are perceived by customers as value added, discretionary services. Higher rates have been approved in other jurisdictions, says USWC, and this increase will enable USWC to provide its multi-state customers standard rates.

Commission Staff urges rejection of the increases because they have not been justified by any cost evidence. Public Counsel/AARP notes that these services are above cost at present rates but suggests that increases can be allowed if needed to meet revenue requirement.

The Commission rejects the proposal because there is no cost justification and because there is no revenue requirement that need be filled.

F. Centrex

USWC proposes offsetting any NAC rate increase with a decrease in the Centrex feature package price. Commission Staff's arguments are presented above in conjunction with our discussion of proposed changes to PBX, NACs and Centrex NARs.

Metronet contends that the Company proposal fails to meet the terms or the goals of the Centrex Plus order, that contemplate movement toward unbundling and nondiscriminatory treatment. It urges that no cost support has been produced for the discriminatory treatment. Pricing elements separately but requiring joint purchase is not unbundling. Metronet contends that USWC's actions violate the public service laws (RCW 80.36.150(5)); federal law, and the Centrex Plus order. The only excuse for such behavior, it argues, is to prevent arbitrage and protect services from competition.

Metronet reminds the Commission that it recognized the role of resellers and rebillers in the Centrex Plus case and that the Commission has identified the need to unbundle the NAC from the pricing of the feature package. It urges that this case offers the Commission the opportunity to enforce the parts of the order with which USWC is not now complying. In particular, Metronet contends, USWC should eliminate the location pricing structure that discriminates against resellers and it should unbundle elements of the Centrex Plus service. The result of location pricing and bundling is that USWC charges Metronet up to two and one-half times as much as it charges other similarly situated single customers. Metronet contends that, if the Commission accepts USWC's and staff's recommendations to lower business line rates before fully implementing the goals of the Centrex Plus Order, USWC competitors will likely be eliminated before a viable wholesale product exists for them. Under those proposals, Metronet contends that it would not break even charging the proposed rate until it had about 200 lines in a single central office. Metronet recommends revising the Centrex rate table to provide volume discounts based on the total number of NACs in the customer's system, regardless of location, and to revise the tariff to eliminate the requirement that the customer purchase a feature package for each NAC.

Enhanced Telemanagement, Inc. (ETI) argues that there is no need to relitigate the formula for aligning Centrex rates with private line NACs, NARs and PBX trunks. This formula is consistent with the Telecommunications Act's mandate to incumbents to offer resale of services. ETI contends that USWC's attempt to freeze Centrex service demonstrates that Centrex service is not competitive. It urges the Commission to reject USWC pricing proposals that would upset the existing Centrex Plus case formula.

TRACER and DIS believe the Commission should adhere to past orders where it found that the highest priced Centrex Plus station line should be set at the price of a private line NAC. The Commission should reduce the station lines to $7 (the private line NAC price proposed by DIS) and adjust the price of other Centrex Plus station lines accordingly. (Ex. 790-T, 7) The best available revenue impact estimate is a decrease of $11,405 supplied by Commission Staff.(Ex. 608)

The Commission finds that the existing arrangements are discriminatory and in practice they operate to benefit the Company. The Commission accepts Metronet's argument that it is high time for the Commission to order the Company to take the steps it encouraged the Company to take in the Centrex Plus compliance filing order.[68] The order and its predecessor[69] were clear in their terms and in their import. The Commission accepted a filing that fell short of perfection but enjoyed substantial agreement among most parties -- excluding Metronet -- and because it was a step in the direction ordered by the Commission. Now in this filing the Company has proposed measures that would regress from the imperfect arrangements now in effect.

The Company shall file tariffs effecting the unbundling of the Centrex elements, pricing the highest Centrex Plus station line at the private line NAC rate, and remove the station location requirement. Doing so is consistent not only with both of the Centrex Plus orders cited above but also with the federal requirement requiring resale and unbundling.

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68 Sixth Supplemental Order, Docket Nos. UT-911488, 911490 and 920252 (Dec. 1994)

69 Fourth Supplemental Order, Docket Nos. UT-911488, 911490 and 920252 (Nov. 1993).

G. Unbundled Loop

USWC contends that this issue need not be addressed in light of the Interconnection order and upcoming FCC rules mandating unbundled service. Commission Staff notes that the interconnection order deals with the issues, but urges adoption of the Commission Staff cost study recommendation in Mr. Lundquist's testimony (Ex. 385-T, pp. 22-30).

AT&T urges that the Commission forestall needless wrangling by resolving the cost and pricing issues now, with unbundled loops provided to competitors at USWC's TSLRIC of $8.96. MCI contends that the Company's proposals are not sufficiently unbundled, and supports the availability of the link and port components of the local loop at rates based on TSLRIC.

The Commission will require the Company to refile an unbundled Centrex service tariff consistent with the discussion above. The Company may not require the purchase of one separately priced item as a condition to purchasing another.

As to non-Centrex matters, the Commission has suspended the effective date of the unbundled loop service tariff filed by USWC. This filing was purported to be in compliance with the Commission's Sixth Supplemental Order in the Docket No. UT-941464 et al. The Commission needs time to analyze the comments and USWC's response before deciding whether to accept or reject the tariff filings. Unbundled loops will be dealt with in that proceeding.

X. Ordered Rates/Rate Spread/Summary Table

The table below summarizes the rates and revenue effects of the rate spread decisions set out above. The revenue amounts in this table reflect the full effect of rate changes that are phased in over more than one year.

Summary Table
Commission Decisions on Rate Spread

Service	Rate	Revenue Effect
Residential exchange		
Flat-rated (1FR)	$10.50/month	none
Measured (1MR)	$7.35/month	385,000
Business exchange		
1FB, PAL, semi-pub, hotel	$25/month	(31,831,000)
DSS, Centrex NARs	$14/month	(4,596,000)
Hunting charge	$.05/month	(3,780,000)
Local exchange usage	2.5¢ 1st min., 1¢ add.	minimal
Toll services		
Message toll service		(26,913,000)
Optional calling plans		(5,355,000)
Switched access		(34,372,000)
Dedicated/private line services	$11/month NAC	7,169,000
Directory assistance	2 free, $.35 addnl.	7,782,000
Total		(91,511,000)

Based on the entire record and the file in this proceeding, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

Having discussed above in detail both the oral and the documentary evidence received in this proceeding concerning all material matters, and having stated the Commission's findings and conclusions upon contested issues and the Commission's reasons and bases therefor, the Commission now makes and enters the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate findings stated below are incorporated into the ultimate findings by reference.

1. The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, and transfers of public service companies including telecommunications companies.

2. US WEST Communications, Inc. (USWC or Company) is engaged in the business of furnishing telecommunication service to the public within the State of Washington.

3. 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 and additional annual increases of $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. The filing was assigned Docket No. UT-950200.

4. By order entered March 8, 1995, the Commission suspended the tariff filing in Docket No. UT-950200, instituted a Commission Staff investigation, and ordered that hearings be held on the reasonableness of the revisions.

5. USWC's customer service performance has deteriorated significantly since 1991. USWC at times has insufficient facilities available to serve customer requests for service. USWC is reducing its annual capital investment in Washington State. USWC has restructured its operations, reduced the number of customer service centers, and reduced the number of staff persons available to install and repair the company's telephone service. Many callers for repair service have spoken with Company staff in distant cities who were unable to resolve their problems or dispatch repair service effectively. Follow-up customer calls were routed to distant cities, often different from the location answering the initial trouble report, and Company personnel were unable to find records of the initial report. USWC is failing to meet installation commitments because of insufficient staffing, the retirement or other loss of staff, lack of knowledge of the extent and location of existing facilities, and internal communication difficulties. Customers are often not advised of anticipated changes to service appointments or the reason for delay and are not advised of realistic installation times. Specific installation requests for installation of residential, business, and commercial services are at times delayed for months. Consumers, including small and large businesses, have been left without service during periods of delay. The delays impose considerable costs upon the Company's existing and prospective customers and upon the economy of the State. Company representatives have repeatedly pledged that circumstances would improve, but performance has continued to worsen as measured by objective criteria.

6. Existing customer service reporting requirements are insufficient to track accurately the Company's performance. Customer service reporting requirements as described in the body of this Order will allow the Commission to track sufficiently the Company's performance. The "customer care package" that USWC voluntarily proposed offers some benefit to customers unable to receive service. With the modifications described in the body of this Order, it will offer an effective alternative to customers seeking but not able to receive service and will properly balance their interests and the public interest with the interests of the Company.

7. Team bonus awards and merit payments are tied to standards putting a primary emphasis on the Company's financial performance to the point where total failure to achieve customer service goals may be totally offset by superior Company financial performance.

Such standards fail to tie bonus payments clearly and directly to customer service goals and permit emphasis on financial performance to the exclusion of customer service. Allowing the Company to petition for adjustment via a modification of this Order, and to secure the difference as found in this order upon a showing that the standards for payment of the awards meet Commission requirements and a showing of substantially improved, stable customer service performance, will provide incentive to the Company to improve its customer service performance.

8. Setting the Company's authorized rate of return on equity at the low end of the reasonable range and allowing the Company to petition for adjustment via a modification of this Order, and to secure the difference as found in this order upon a showing of substantially improved, stable customer service performance, will provide incentive to the Company to improve its customer service performance.

9. USWC voluntarily stipulated as a condition of the merger of its predecessor, Pacific Northwest Bell Telephone Company (PNB), with two other companies into USWC, that the merger would have no effect upon the imputation of yellow page earnings. U S WEST Direct, a division of Marketing Resources Group (USWD), benefits substantially from its existing relationship with USWC and from the former integrated operation as a part of PNB. Yellow page classified advertising directory publication constitutes a former regulatory asset of the Company. Neither PNB nor USWC received compensation for transfer of directory publication to another entity and USWC receives no licensing fee for directory publication although it receives a small fee for basic subscriber information at the same rate it charges all directory companies for the information. USWD's relevant yellow page advertising excess revenues during the test year were imputed at $50,934,378 to USWC's net operating income.

10. The test period beginning November 1, 1993, and ending October 31, 1994, is an appropriate period to examine for the Company's results of operation and should be adopted as the test year

11. Adjustments to test year revenues, expenses, and rate base pursuant to findings and reasoning in the body of this Order will portray the Company's test year results of operation and rate base properly for regulatory purposes.

12. Test year net operating income after all adjustments is $204,749,579. The proper net-to-gross conversion factor is 1.565458 to derive the revenue needed to produce a given level of net operating income.

13. USWC's adjusted Washington intrastate rate base is $1,561,793,482.

14. The appropriate capital structure for USWC's Washington operation is 38.9% long term debt, 9.1% short term debt, and 52.0% equity. USWC's adjusted cost of long term debt is 7.57% and its cost of short term debt is 6.0%.

15. A rate of return in the range of 9.367% to 9.887% on USWC's rate base will maintain its credit and financial integrity and will enable it to acquire sufficient new capital at reasonable terms to meet its service requirements. Setting the authorized return at 9.367% with the opportunity to increase the authorization to 9.627% upon satisfactory resolution of customer service quality problems will provide incentive to USWC to improve its customer service quality. The appropriate overall rate of return for USWC is therefore 9.367%.

16. A surplus of $91.5 million exists in USWC's adjusted test-year revenues under the Company's presently-effective rates, based upon the findings of revenue, net operating income, conversion factor, rate base, capital structure, and rate of return found appropriate herein.

17. The rates and charges for telecommunications service in USWC's existing tariff produce revenues and net operating income that exceed reasonable compensation for providing telecommunications service in the State of Washington and are not fair, just, or reasonable. Revisions of rates and charges made in accordance with the findings and instructions in this Order will yield a fair rate of return on USWC's rate base found proper herein, and if filed pursuant to the authorization herein will be fair, just, reasonable, and sufficient.

18. Costs of providing service are properly shown in a study of total service long run incremental costs (TSLRIC). The Company's cost studies do not appropriately measure the Company's incremental costs of providing service. Costs of the local loop are not properly included in the incremental cost of local exchange service. To achieve sufficient results for regulatory purposes, cost studies should use the latest previously approved depreciation rates; the latest approved rate of return; actual rather than objective fill factors; and actual required per-line wire pair requirements.

19. The Hatfield Model cost study identifies the Company's true costs of providing local exchange service more closely than the Company's study, and is sufficient for purposes of pricing local exchange service. USWC's cost study contains information that, when selected and adjusted as specified in this Order, is sufficient to provide a guide to the Company's costs for pricing purposes.

20. The Company did not demonstrate that it faces effective competition sufficient to constrain prices in any market for its regulated services. The Company did demonstrate that it may face such competition and that it requires additional flexibility to meet competition. That flexibility may be achieved by authorizing the filing of banded tariffs to comply with the terms of this order, provided sufficient protections are established to protect prospective competitors and the public interest.

21. For banded rate tariffs to offer effective protection to the public and to prospective competitors, they must be filed in compliance with the terms of this Order; must

identify a band whose ceiling is the rate specified in this Order and whose floor is no lower than the Company's TSLRIC cost of providing the service; must be subject to the Commission's continuing jurisdiction for study, review, evaluation and, in an appropriate reopening of this proceeding, such modification or termination as the Commission believes appropriate upon review of pertinent evidence; must show the initial rate as the rate established pursuant to this Order. To protect the public interest, any rate changes in a banded tariff must be made on no less than 10 days' notice to affected customers and the Commission and are subject to Commission complaint during that period, consistent with the terms of RCW 80.36.330. If the Commission complains against a rate change, the burden is on the Company to demonstrate that the rate is above its TSLRIC cost of providing service, and that it is fair, just, and reasonable, including that it is not anticompetitive.

22. The Company's public access line rate at the level directed in this Order does not impose a price squeeze upon independent pay phone providers.

23. The Company is required by federal law to provide its services for resale. The Company may comply with that requirement by refiling in compliance with this Order any tariff that now contains a resale restriction, without that restriction. The Company shall file a discrete general resale tariff providing 1) that it will file tariffs for sale for resale for specific services upon request; 2) that the wholesale rate shall be the existing retail tariff rate, less authorized avoided costs, and 3) that service may not be resold out of class. The tariff may provide for reasonable financial protections for the Company.

24. Centrex service tariffs that effect unbundling of the Centrex elements, price the highest-priced Centrex line at the level of the private line NAC, and remove the station location requirement will achieve the unbundling goals identified in prior Commission orders and will be fair, just, and reasonable.

CONCLUSIONS OF LAW

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

2. The test year adjusted results of operation and rate base herein found to be appropriate should be adopted for regulatory purposes.

3. The tariff revisions filed by USWC in this proceeding should be rejected in their entirety. USWC should be directed to refile revisions that will effect a reduction in annual revenues of $91,511,013 consistent with instructions in the body of this Order.

4. USWC should be directed to improve customer service quality. The

Commission should order USWC to modify its customer care package as described in the body of this Order, and to require USWC to offer it until modification or termination is approved by the Commission. USWC should be ordered to initiate new customer reporting measures as specified in the body of this Order within 30 days of the date of this order. USWC should be authorized to earn at the low end of the appropriate rate of return on equity. USWC may petition in this Docket to have the rate of return restored to mid-range and to authorize the team and merit award adjustment upon USWC's satisfactory demonstration that its service quality has improved, as specified in the body of this Order.

5. The Company's cost studies should be rejected. The Hatfield Model cost study should be approved for use in this proceeding. USWC cost study information, selected and adjusted as provided in the body of this Order, provide information that is sufficient for use in setting rates in this Order.

6. USWC does not face effective competition that is sufficiently strong to constrain prices. Competitors are beginning to enter the markets for US WEST services. The Company needs the flexibility to transition to the role of market competitor. USWC should be authorized to file banded rate tariffs to comply with the terms of this Order, consistent with the requirements and restrictions set out in law and in the terms of this Order.

7. The Company should be authorized to file banded rate tariffs in compliance with this Order, consistent with instructions in the body of this Order, subject to the conditions that the initial rate shall be the rate ordered in this Order; that the Commission retains the authority to revisit the banded rate provision of this order, and that rate changes shall be filed on ten days' notice, during which time the Commission may complain against the rate change. In such a complaint the burden will be on USWC to demonstrate that the tariff rate exceeds the Company's TSLRIC and that the price is fair, just, and reasonable, including a demonstration that it does not act in an anticompetitive manner.

8. The Company should be required to file tariff revisions removing prohibitions on resale of its services, and to file a discrete general resale tariff providing that it will resell services, consistent with the instructions in the body of this Order.

9. The Company should be required to file revisions to its Centrex services tariff or tariffs that effect unbundling as described in this Order.

10. All motions made during the course of this proceeding that are consistent with the findings, conclusions, and Order herein should be granted; those that are inconsistent should be denied.

Based on the foregoing findings, reasoning, conclusions, ultimate findings, and conclusions of law, the Commission makes and enters the following Order:

ORDER

The Commission hereby orders:

1. The tariff revisions filed by US WEST Communications, Inc. on February 17, 1995 in this proceeding are rejected in their entirety.

2. USWC's cost study is rejected. The Hatfield Model cost study is accepted for purposes of evaluating the costs of local exchange service. USWC's cost study elements as modified and limited in the body of this order are accepted for purposes of this proceeding for evaluating the costs of other services.

3. USWC is directed to improve customer service quality. USWC shall within 30 days begin making monthly service order reports which, at a minimum, shall 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 reports shall be in a form agreed by the Company and Commission Staff and approved by letter from the Secretary. USWC is directed to offer its customer care package, with modifications required herein, to customers who are unable to receive qualifying service, until the Commission authorizes modification or termination of the program.

4. USWC is authorized rates in this proceeding based on the low point on the range of reasonable rate of return. The Company is authorized to petition in this Docket to have its rate of return restored to mid-range and to authorize the team and merit award adjustment upon USWC's satisfactory demonstration that its service quality has significantly improved, as specified in the body of this Order.

5. USWC's cost studies are rejected. The Hatfield Model cost study is adopted for purposes of local exchange service, and information within USWC's study, selected and modified as provided in the body of this Order, is accepted for other services for the purposes of this Order.

6. USWC is directed to refile tariff revisions consistent with the terms of this order, as set forth in this order, no later than 5:00 p.m. on Friday, April 19, 1996. The tariffs shall bear an effective date of May 1, 1996. The filings shall reflect no retroactive rate treatment and shall be strictly limited to matters required or authorized in this Order. The filings shall bear the notation, "By authorization of Order of the Washington Utilities and Transportation Commission,

Docket No. UT-950200.

7. The refiling shall include revisions to any tariffs now providing restrictions against resale, to remove those restrictions. USWC shall file a resale tariff indicating that it will provide service for resale pursuant to specific tariffs to be filed; that it will file tariffs for resale within 30 days after a request to provide service is presented to it, unless an extension of time is approved by the Commission; and that service may not be resold out of class. The resale tariff may require reasonable assurance of financial and tariff compliance. Individual resale tariffs shall not be inconsistent with any existing resale arrangements or with the terms of this order contemplating resale.

8. USWC is authorized to file banded-rate tariffs consistent with this Order. The ceiling of such tariffs shall be the rates authorized herein. The floor of such tariffs shall be the Company's TSLRIC or its tariff rate for necessary services, whichever is higher. The initial filed rate shall be the rate established in this Order.

9. USWC is directed to file tariff provisions removing prohibitions on the resale of its services, and to file a general resale tariff, as found proper in this Order.

10. USWC is directed to file revisions to its Centrex tariff or tariffs that effect unbundling, as specified in the body of this Order.

11. Material in support of the manner in which the tariffs are constructed and in which the revenues herein authorized for USWC's telephone operations is obtained shall be submitted simultaneously with the filing to which it relates. Each filing shall be accompanied by a brief description of what the Company has accomplished by the filing and how it complies with the terms of this order, e.g., "This revision removes resale restrictions formerly in paragraph 2(e)" and by a legislative style version identifying changes.

12. A notice of the filings authorized in this Order shall be posted at each business s office of USWC in Washington, on or before the date of the filing with the Commission. The notice shall state when the filing is to become effective and advise that the filing is available for inspection at each such office. The notice shall remain posted until the Commission has acted upon the filings.

13. All motions consistent with this Order are granted. Those inconsistent with this Order are denied.

14. The Commission retains jurisdiction over all matters and the parties in this proceeding to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 11th day of April 1996.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Sharon L. Nelson

SHARON L. NELSON, Chairman

Richard Hemstad

RICHARD HEMSTAD, Commissioner

Wm R. Gillis

WILLIAM R. GILLIS, Commissioner

NOTICE TO PARTIES:

This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).

"APPENDIX"

US WEST COMMUNICATIONS
WASHINGTON INTRASTATE OPERATIONS
TWELVE MONTHS ENDING OCTOBER 1994
COMPARISON OF COMPANY, STAFF AND PC/TRACER

Docket No. UT-950200
Page 1 of 3

LINE NO	(A)	COMPANY REVISED (B)	STAFF REVISED (C)	PC/TRACER (D)		DIFFERENCE (E) = (D) - (B)
1	NET OPERATING INCOME - PER BOOKS	$89,076,000	$89,089,042	$89,076,000	(A)	$0
	RATE MAKING ADJUSTMENTS:					
2	RMA #1 DEREGULATED MOBILE RADIO	$278,544	$278,544	$278,544	(A)	$0
3	RMA #2 MERGER EXPENSE	8,797	8,797	8,797	(A)	(0)
4	RMA #3 AFUDC (MEMORANDUM IDC)	(2,499,012)	(1,624,358)	(2,499,012)	(A)	0
5	RMA #4 POLITICAL ACTION EXPENSE	9,819	9,819	9,819	(A)	0
6	RMA #5 DEPRECIATION REFUND AMORTIZATION	(3,003,268)	(3,003,268)	(3,003,268)	(A)	0
7	RMA #6 DEPRECIATION RESERVE	16,905,658	16,905,658	16,905,658	(A)	(0)
8	RMA #7 FLOW THROUGH OF NON-PROPERTY TAX	801,812	801,812	801,812	(A)	0
9	RMA #8 OPEB	97,331	1,851,775	97,331	(A)	0
10	RMA #9 SHARING ADJUSTMENTS	0	0	0	(A)	0
11	TOTAL RATEMAKING ADJUSTMENTS	$12,597,661	$15,226,759	$12,597,661		($0)
	RESTATING ACTUAL:					
12	RSA #1 OCCUPATIONAL WAGE ANNUALIZATION	($1,994,531)	($1,954,729)	($1,994,531)	(A)	$0
13	RSA #2 MANAGEMENT SALARY ANNUALIZATION	(824,342)	(755,854)	(824,342)	(A)	0
14	RSA #3 RATE REDUCTION	(4,442,152)	(4,442,152)	(4,442,152)	(A)	0
15	RSA #4 RENT COMPENSATION	(83,000)	(62,046)	(83,000)	(A)	0
16	RSA #5 AFFILIATED INTEREST BILLING ADJUSTMENT	181,248	1,232,375	181,248	(A)	0
17	RSA #6 PENSION CREDIT REDUCTION	(740,377)	(740,377)	(740,377)	(A)	(0)
18	RSA #7 FEDERAL INCOME TAX ADJUSTMENT	1,148,167	1,071,554	1,148,167	(A)	0
19	RSA #8 INSIDE WIRE AMORTIZATION	173,885	173,885	173,885	(A)	(0)
20	RSA #9 PRIMARY TOLL CARRIER	(3,929,557)	(3,929,557)	(3,929,557)	(A)	(0)
21	RSA #10 CLASSIFICATION ADJUSTMENT	711,913	514,069	711,913	(A)	0
22	RSA #11 PURCHASE REBATE ADJUSTMENT	282,169	282,169	282,169	(A)	(0)
23	RSA #12 COMPENSATED ABSENCE ADJUSTMENT	390,000	605,766	390,000	(A)	0
24	RSA #13 TEAM & MERIT AWARD ADJUSTMENT	1,721,000	6,384,966	1,721,000	(A)	0
25	RSA #14 BENEFIT EXPENSE ADJUSTMENT	711,076	668,764	711,076	(A)	0
26	RSA #15 PROPERTY TAX RESTATEMENT	84,787	84,787	84,787	(A)	0
27	RSA #16 FLOW THROUGH TAX RESTATEMENT	1,760,886	13,925,779	1,760,886	(A)	0
28	TOTAL RESTATING ACTUAL ADJUSTMENTS	($4,829,046)	$13,059,380	($4,829,047)		($1)
	RSA #17 OUT OF PERIOD ADJUSTMENTS					
29	OOP #1 PRE-DIVESTITURE TAX ISSUES	($73,855)	($73,855)	($73,855)	(A)	$0
30	OOP #2 ASSET CLEARANCE	222,024	222,024	222,024	(A)	(0)
31	OOP #3 ACCOUNT RECONCILIATION	821,489	821,489	821,489	(A)	(0)
32	OOP #4 INCOME TAX	(729,604)	(496,570)	(729,604)	(A)	0
33	OOP #5 PROPERTY TAX	(1,951,422)	(1,951,422)	(1,951,422)	(A)	(0)
34	OOP #6 LEGAL SETTLEMENT	(197,320)	(197,320)	(197,320)	(A)	(0)
35	OOP #7 INDEPENDENT COMPANY	894,215	894,215	894,215	(A)	0
36	OOP #8 PURCHASE REBATE	(1,227,247)	(1,227,247)	(1,227,247)	(A)	0
37	TOTAL OTHER OPERATING ADJS.	($2,241,720)	($2,008,687)	($2,241,721)		($1)
	PRO FORMA ADJUSTMENTS:					
38	PFA #1 OCCUPATIONAL WAGE INCREASE	($3,385,362)	($3,293,700)	$0	(B)	$3,385,362
39	PFA #2 MANAGEMENT SALARY INCREASE	(1,661,187)	(1,476,652)	0	(B)	1,661,187
40	PFA #3 PENSION ASSET	0	0	0	(A)	0
41	PFA #4 CASH WORKING CAPITAL	0	0	0	(A)	0
42	PFA #5 MATERIAL AND SUPPLIES	0	0	0	(A)	0
43	PFA #6 CAPITAL RECOVERY	(104,192,000)	5,049,375	0	(C)	104,192,000
44	PFA #7 RURAL SALES	(1,599,929)	(1,599,929)	(1,599,929)	(A)	(0)
45	PFA #8 AMORT. OF DEBT CALL PREMIUM EXPENSE	(1,001,476)	539,257	(1,001,476)	(A)	0
46	PFA #9 RESTRUCTURING ADJUSTMENT	0	11,408,953	13,224,250	(D)	13,224,250
47	PFA #10 OPEB CURTAILMENT LOSS	(5,010,872)	0	0	(E)	5,010,872
48	PFA #11 INTERCONNECTION WITH INDEPENDENTS	0	0	0	(A)	0
49	PFA #12 POSTAGE	(449,476)	(449,476)	(449,476)	(A)	(0)
50	TOTAL PRO FORMA ADJUSTMENTS	($117,300,302)	$10,177,827	$10,173,389		$127,473,671
	STAFF ADJUSTMENTS:					
51	SA #1 YELLOW PAGES	$0	$50,602,006	$53,835,000	(F)	$53,835,000
52	SA #2 HELD ORDERS	0	325,684	0	(A)	0
53	SA #3 JURISDICTIONAL SEPARATIONS	0	6,805,250	0	(A)	0
54	SA #4 MARKET RESOURCE GROUP	0	1,052,896	1,062,000	(G)	1,062,000
55	SA #5 INVESTOR SUPPLIED WORKING CAPITAL	0	0	0	(A)	0
56	SA #6 RURAL SALES SETTLEMENT	0	0	0	(A)	0
57	SA #7 AFFILIATED INTEREST ADJ	0	4,428,739	0	(A)	0
58	SA #8 ADVERTISING ADJUSTMENT	0	4,414,955	0	(A)	0
59	SA #9 REGULATORY FEE (COMPANY OOP #9)	47,416	178,682	47,416	(A)	0
60	SA #10 CHARITY CONTRIBUTIONS	0	0	0	(A)	0
61	SA #11 EXTERNAL RELATIONS	0	358,428	0	(A)	0
62	SA #12 OVERTIME AND CAPITALIZATION	0	2,384,882	0	(A)	0
63	TOTAL STAFF ADJUSTMENTS	$47,416	$70,861,582	$54,944,416		$54,897,000
65	NET OPERATING INCOME - ADJUSTED	($22,649,901)	$196,075,831	$159,720,678		$182,370,869
66	C-1 RECURRING REVENUE	$0	$0	$9,508,000	(H)	$9,508,000
67	C-4 LISTING AND PAY STATION [SEE SA#4 ABOVE.]	0	0	0		0
68	C-16 INTEREST SYNCHRONIZATION	0	1,029,331	5,273,427	(I)	5,273,427
69	C-11 OCCUPATIONAL ANNUALIZATION	0	0	1,676,000	(J)	1,676,000
70	C-12 MANAGEMENT ANNUALIZATION	0	0	4,790,000	(K)	4,790,000
71	C-6 BELLCORE DISALLOWANCE	0	0	606,000	(L)	606,000
72	C-7 USWAT PROJECT DISALLOWANCE	0	0	286,000	(M)	286,000
73	C-8 US WEST INC. CHARGES	0	0	1,426,000	(N)	1,426,000
74	TOTAL PUBLIC COUNSEL ADJUSTMENTS	$0	$1,029,331	$28,565,427		$28,565,427
75	NET OPERATING INCOME ADJUSTED	($22,649,901)	$197,105,162	$183,286,104		$205,936,006
76	PC/TRACER Ex. 397-C			182,330,000		
77	Difference [line 75-line 76]			956,104		
78	USWC Ex. 196 Modifications to "Non-Issues" (per PC/TRACER Ex. 397-C):					
79	RSA#2			213,000		
80	RSA#3			68,000		
81	RSA#5B			(96,000)		
82	RSA#7			761,000		
83	RSA#17			(21,000)		
84	Total "Non-Issue" Modifications			925,000		
85	Net Unreconciled Difference [line 77 - line 84]			$31,104		

SOURCE: Staff Exhibit 731 served as initial data source.

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"APPENDIX"

US WEST COMMUNICATIONS
WASHINGTON INTRASTATE OPERATIONS
TWELVE MONTHS ENDING OCTOBER 1994
COMPARISON OF COMPANY, STAFF AND PC/TRACER

Docket No. UT-950200
Page 2 of 3

LINE NO		COMPANY REVISED (C)	STAFF REVISED (D)	PC/TRACER (E)		DIFFERENCE (E) = (D) - (B)
1	AVERAGE RATE BASE - PER BOOKS	$1,473,014,000	$1,473,014,993	$1,473,014,993		$993
	RATE MAKING ADJUSTMENTS:					
2	RMA #1 DEREGULATED MOBILE RADIO	($813,085)	($813,085)	($813,085)	(A)	$0
3	RMA #2 MERGER EXPENSE	(239,206)	(239,206)	(239,206)	(A)	0
4	RMA #3 AFUDC (MEMORANDUM IDC)	23,140,741	24,015,395	23,140,741	(A)	0
5	RMA #4 POLITICAL ACTION EXPENSE	0	0	0	(A)	0
6	RMA #5 DEPRECIATION REFUND AMORTIZATION	16,796,490	16,796,490	16,796,490	(A)	0
7	RMA #6 DEPRECIATION RESERVE	128,295,423	128,295,423	128,295,423	(A)	0
8	RMA #7 FLOW THROUGH OF NON-PROPERTY TAX	4,547,980	4,547,980	4,547,980	(A)	0
9	RMA #8 OPEB	(7,036,296)	(7,304,128)	(7,036,296)	(A)	0
10	RMA #9 SHARING ADJUSTMENTS	(19,304,152)	(50,634,616)	(32,707,152)	(O)	(13,403,000)
11	TOTAL RATEMAKING ADJUSTMENTS	$145,387,871	$114,664,232	$131,984,871		($13,403,000)
	RESTATING ACTUAL:					
12	RSA # 1 OCCUPATIONAL WAGE ANNUALIZATION	$181,051	$0	$0	(P)	($181,051)
13	RSA # 2 MANAGEMENT SALARY ANNUALIZATION	74,176	0	0	(P)	(74,176)
14	RSA # 3 RATE REDUCTION	0	0	0	(A)	0
15	RSA # 4 RENT COMPENSATION	0	0	0	(A)	0
16	RSA # 5 AFFILIATED INTEREST BILLING ADJUSTMENT	0	0	0	(A)	0
17	RSA # 6 PENSION CREDIT REDUCTION	0	0	0	(A)	0
18	RSA # 7 FEDERAL INCOME TAX ADJUSTMENT	1,870,466	1,173,328	1,870,466	(A)	0
19	RSA # 8 INSIDE WIRE AMORTIZATION	134,000	133,758	134,000	(A)	0
20	RSA # 9 PRIMARY TOLL CARRIER	0	0	0	(A)	0
21	RSA # 10 CLASSIFICATION ADJUSTMENT	0	0	0	(A)	0
22	RSA # 11 PURCHASE REBATE ADJUSTMENT	0	0	0	(A)	0
23	RSA # 12 COMPENSATED ABSENCE ADJUSTMENT	0	0	0	(A)	0
24	RSA # 13 TEAM & MERIT AWARD ADJUSTMENT	(156,000)	0	(156,000)	(A)	0
25	RSA # 14 BENEFIT EXPENSE ADJUSTMENT	(64,341)	0	(64,341)	(A)	0
26	RSA # 15 PROPERTY TAX RESTATEMENT	0	0	0	(A)	0
27	RSA # 16 FLOW THROUGH TAX RESTATEMENT	23,818,426	16,465,840	23,818,426	(A)	0
28	TOTAL RESTATING ACTUAL ADJUSTMENTS	$25,857,780	$17,772,926	$25,602,553		($255,227)
	RSA # 17 OUT OF PERIOD ADJUSTMENTS					
29	OOP # 1 PRE-DIVESTITURE TAX ISSUES	$0	$0	$0	(A)	$0
30	OOP # 2 ASSET CLEARANCE	0	0	0	(A)	0
31	OOP # 3 ACCOUNT RECONCILIATION	0	0	0	(A)	0
32	OOP # 4 INCOME TAX	0	(1,202,379)	0	(A)	0
33	OOP # 5 PROPERTY TAX	0	0	0	(A)	0
34	OOP # 6 LEGAL SETTLEMENT	0	0	0	(A)	0
35	OOP # 7 INDEPENDENT COMPANY	0	0	0	(A)	0
36	OOP # 8 PURCHASE REBATE	0	0	0	(A)	0
37	TOTAL OTHER OPERATING ADJS.	$0	($1,202,379)	$0		$0
	PRO FORMA ADJUSTMENTS:					
38	PFA # 1 OCCUPATIONAL WAGE INCREASE	$307,303	$0	$0	(P)	($307,303)
39	PFA # 2 MANAGEMENT SALARY INCREASE	149,477	0	0	(P)	(149,477)
40	PFA # 3 PENSION ASSET	69,915,604	0	69,915,604	(A)	0
41	PFA # 4 CASH WORKING CAPITAL	(3,020,000)	0	(3,020,000)	(A)	0
42	PFA # 5 MATERIAL AND SUPPLIES	4,701,000	0	4,701,000	(A)	0
43	PFA # 6 CAPITAL RECOVERY	(104,192,000)	1,165,240	0	(Q)	104,192,000
44	PFA # 7 RURAL SALES	(43,542,000)	(32,752,326)	(43,542,000)	(A)	0
45	PFA # 8 AMORT. OF DEBT CALL PREMIUM EXPENSE	0	0	0	(A)	0
46	PFA # 9 RESTRUCTURING ADJUSTMENT	0	(11,766,524)	0	(R)	0
47	PFA # 10 OPEB CURTAILMENT LOSS	0	0	0	(A)	0
48	PFA # 11 INTERCONNECTION WITH INDEPENDENTS	0	0	0	(A)	0
49	PFA # 12 POSTAGE	0	0	0	(A)	0
50	TOTAL PRO FORMA ADJUSTMENTS	($75,680,616)	($43,353,610)	$28,054,604		$103,735,220
	STAFF ADJUSTMENTS:					
51	SA # 1 YELLOW PAGES	$0	$0	$0	(A)	$0
52	SA # 2 HELD ORDERS	0	0	0	(A)	0
53	SA # 3 JURISDICTIONAL SEPARATIONS	0	(35,722,831)	0	(A)	0
54	SA # 4 MARKET RESOURCE GROUP	0	0	0	(A)	0
55	SA # 5 INVESTOR SUPPLIED WORKING CAPITAL	0	(46,460,902)	0	(A)	0
56	SA # 6 RURAL SALES SETTLEMENT	0	(16,600,000)	0	(A)	0
57	SA # 7 AFFILIATED INTEREST ADJ	0	113,213	0	(A)	0
58	SA # 8 ADVERTISING ADJUSTMENT	0	0	0	(A)	0
59	SA # 9 REGULATORY FEE	0	0	0	(A)	0
60	SA # 10 CHARITY CONTRIBUTIONS	0	0	0	(A)	0
61	SA # 11 EXTERNAL RELATIONS	0	0	0	(A)	0
62	SA # 12 OVERTIME AND CAPITALIZATION	0	0	0	(A)	0
63	TOTAL STAFF ADJUSTMENTS	$0	([illegible],680,520)	$0		$0
65	AVERAGE RATE BASE - ADJUSTED	$1,568,579,035	$1,462,205,641	$1,658,657,021		$90,077,986
66	C-1 RECURRING REVENUE	$0	$0	$0		$0
67	C-4 LISTING AND PAY STATION	0	0	0		0
68	C-16 INTEREST SYNCHRONIZATION	0	0	0		0
69	C-11 OCCUPATIONAL ANNUALIZATION	0	0	0		0
70	C-12 MANAGEMENT ANNUALIZATION	0	0	0		0
71	C-6 BELLCORE DISALLOWANCE	0	0	0		0
72	C-7 USWAT PROJECT DISALLOWANCE	0	0	0		0
73	C-8 US WEST INC. CHARGES	0	0	0		0
74	TOTAL PUBLIC COUNSEL ADJUSTMENTS	$0	$0	$0		$0
75	AVERAGE RATE BASE - ADJUSTED	$1,568,579,035	$1,462,205,641	$1,658,657,021		$90,077,986
76	PC/TRACER Ex. 397-C			1,657,080,000		
77	*Difference [line 75-line 76]*			1,577,021		
78	USWC Ex. 198 Modifications to "Non-Issues" (per PC/TRACER Ex. 397-C):					
79	RSA#7			189,000		
80	PFA#4			1,386,000		
81				0		
82				0		
83				0		
84	Total "Non-Issue" Modifications			1,575,000		
85	Net Unreconciled Difference [line 77 - line 84]			$2,021		

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APPENDIX "B"

Building The Road Ahead:

Telecommunications Infrastructure inWashington State

First Report of the
Governor's Telecommunications Policy
Coordination Task Force

THE SEAL OF THE STATE OF WASHINGTON 1889

April 1996

GTE has offered ISDN on a flat rate plus usage basis since May 1993. GTE's tariff offers a number of "a la carte" items which the customer may choose, but generally the rate is $41.60 per month plus usage. GTE has petitioned the Commission to rebalance its rates. In an effort to avoid a litigious rate case, GTE and the Commission staff have agreed to make ISDN as well as other services subject of mutual gains negotiations. The rates that will result from this process are unknown at this time.

The Task Force agrees that local exchange carriers have been slow to respond to requests by educational institutions and others to deploy ISDN and other high-capacity infrastructure. Because the WUTC is currently addressing the issue of ISDN deployment in the context of US WEST and GTE rate rebalancing proceedings, the Task Force makes no recommendations at this time.

However, the Task Force observes that the problems faced by state agencies requesting advanced services, including ISDN, will be alleviated by pursuing policies that encourage the development of full and fair competition, ease of market entry, and open systems in the commercial sector. New local telephone companies are building their systems to provide broadband capabilities without the need for ISDN, although to date the reach of these fiber networks is limited to predominantly commercial sectors of Seattle, Vancouver, and Spokane. At least one company claims that it could offer GTE and US WEST customers ISDN services if it were allowed to lease from those companies the copper lines (often referred to as "unbundled loops") that run to the local exchange customers' homes and businesses. With the benefit of pro-competitive policies at the state and federal level, the Task Force believes the private telecommunications market will respond quickly to the service demands of both government agencies and private businesses and consumers.

2. Government and Educational Tariffs

Some state agencies have requested that the WUTC be directed to establish favorable tariffs in those cases where a compelling need can be found for local infrastructure for schools, hospitals, libraries and other public institutions seeking advanced infrastructure from local exchange companies. With limited exceptions current state law prohibits a telecommunications company from charging rates different from those specified in its rate schedule as filed with the WUTC, and from providing free or reduced-rate services.

Other states, including Tennessee, Texas, and Louisiana, currently allow schools to obtain reduced tariffs for specified educational purposes. In Louisiana, the tariff is a 67 percent rate reduction and one T1 connection per school or library, linked to a statewide network. In California, PacTel proposed wiring schools with ISDN free, and introducing a reduced fee after one year, in anticipation of an educational tariff. In that case, funding is proposed from various sources, including telephone surcharges and telecommunications surplus funds.

The new federal telecommunications law establishes favorable rates for schools in rural areas as part of a telecommunications carrier's universal service obligations. Section 254(h)(1)(A) directs telecommunications companies to provide services that fall within the definition of universal service to all elementary schools, secondary schools, and libraries at rates "less than the amounts charged for similar services to other parties." It directs the

WUTC to determine the discounts for intrastate services as necessary "to ensure affordable access," and authorizes that the amount of the discount be subtracted from the company's contribution to universal service funds.

In essence, educational tariffing is a subsidy to schools that is paid indirectly by telephone ratepayers. In Washington, where US WEST is guaranteed a rate of return between 9.25 and 10.53 percent, and a percentage of earnings above that, subsidies would come largely from reduced negative surcharges or rate restructuring.

While the public benefits of educational tariffing are significant and straightforward, there are policy arguments against it. Because it is a hidden subsidy that is conditioned upon the use of the local exchange company for service, it potentially inhibits the market entry or competitive strength of competing companies, whose presence would work to lower prices and increase quality of service on a community-wide basis. Without competition in the telecommunications marketplace, state agencies — even those with a favorable tariff — would still pay based on *monopoly* rates, as opposed to competitive market-based rates. Incipient competitors and some educators argue that subsidies, if available at all, should be available for all willing participants who compete to provide services.

In this regard, they also note that government and schools are a large and desirable market for telecommunications service providers, and as such have substantial leveraging power in bidding for services. Where monopolist service providers are further entrenched through subsidies, they take away the leverage of government and schools as customers, and in turn remove the companies' incentives to provide better service at lower prices. Indeed, many assert that US WEST's failure to deploy ISDN lines in a timely fashion is a direct result of its lack of competitive motivation in areas where it faces no direct competition. By better utilizing their leveraging power, through master contracts and cooperative purchasing, state agencies and local school districts can reduce their costs considerably and still ensure a high quality of service.

While the Task Force is resigned to educational tariffing for schools and libraries contained in the federal law, it declines to recommend favorable tariffing at this time for other public institutions, including higher education, insofar as it creates a subsidy to a single telecommunications provider, and may work as an impediment to future competition and a disincentive to quality service. Moreover, it urges the Commission, when determining whether the rates would be "affordable," to analyze the long-term effects on prices for telecommunications services.

3. Procurement Procedures for Telecommunications Services and Equipment

Some university officials complain that the procurement process for telecommunication services is burdensome and expensive. While they express no problem with state guidelines for procurement of telecommunications services, they assert that additional procedures requiring reviews and approval add both time and expense to their projects. They asked the Task Force to explore methods to streamline the procurement process.

5. Telecommunications Infrastructure Deployment to Facilitate Health Care Services

During its 1995 hearings, the Task Force heard testimony from several health care and medical research professionals regarding the use of advanced telecommunications as a means of reducing costs of medical services and expanding health care to unserved and underserved communities. These individuals, including representatives of the University of Washington School of Medicine and the Battelle Research Center, testified that the State of Washington could be a significant force in defining the future direction of telecommunications applications to health care delivery.

Currently, several hospitals in Washington State are using or considering telemedical services, primarily in three areas. The first is in the area of "teleradiology" — the digital transmission of X-rays, CAT scans, ultrasounds, and other radiological images from one location to another. Hospitals and clinics in outlying areas transmit these images to specialists in other cities or states for consultation without the need or expense of patient travel. The University of Washington hospitals are currently using high-speed networks for these purposes, and the deployment of these networks has resulted in technology transfer to the private sector, such as licensing of high-performance medical imaging workstations.

The second is teleconferencing, using two-way video to provide consultations between doctors and patients, or doctors and other health care professionals in diagnosing and treating a specific patient. It also can provide a distance-learning function, providing medical training or continuing medical education throughout the state.

The third is integrated medical records management. Administrative expenses now comprise more than 20 percent of total health care costs in the United States. Broader deployment of telecommunications systems could allow hospitals and clinics to share administrative tasks such as record-keeping, billing, and purchasing, potentially reducing health care costs significantly.

In addition, Washington State was selected this year to become just the second state to participate in a national Center for Disease Control (CDC) database project linking local health departments with the Department of Health (DOH), the CDC, the Internet, and to each other. The project, the Information Network for Public Health Officials (INPHO), is funded by an initial $2.2 million from CDC. DIS, DOH, the University of Washington, and US WEST are working cooperatively to design Washington's network.

The widespread use of telemedical services is frustrated to some degree by several factors. These include, first, the difficulty hospitals and universities have encountered in obtaining needed services and infrastructure, such as ISDN or T1 lines, from the local exchange carriers. Second, state medical licensing boards have been slow to adopt registration procedures allowing qualified out-of-state physicians to participate in telemedicine. Third, medical insurance providers, including Medicare, are largely unwilling to cover the costs of telemedicine services, even where the costs would be less than cost of more traditional services.

The federal government and other states are beginning to address these concerns. Section 709 of the Telecommunications Act of 1996 directs the Secretary of Commerce, together with the Secretary of Health and Human Services and other departments and agencies, to examine issues of patient safety, the efficacy and quality of the services provided, and other legal, medical, and economic issues related to telemedicine, and report its findings to Congress by January 31, 1997. The Oregon Legislature last year considered a bill directing the Oregon Health Resources Commission to assess telemedicine technology and report its findings and recommendations to the Oregon Health Council. The bill also asked the Oregon Board of Medical Examiners to adopt rules establishing registration procedures for out-of-state physicians. California adopted similar legislation in 1995.

Those testifying before the Task Force requested a similar approach in Washington. They asked that a body representing health care professionals, researchers, hospitals, telecommunications services providers, state government, insurers, the State Insurance Commissioner, and the public be appointed to develop policy for Washington in setting telemedicine infrastructure and implementation standards; procedures and standards for the evaluation of medical and cost effectiveness of telemedicine services; oversight and registration of participating health care providers, cost recovery, tort liability, and standards for privacy and security of health care records.

They further proposed that the body explore the feasibility of a state government-created not-for-profit organization to plan, build and maintain a network of telemedicine services throughout the state, coordinate linkages with other systems in other states as well as congruent applications (such as distance learning and community networks), promote public/private partnerships to fund telemedicine applications, and evaluate community impact of telemedical services.

The Task Force believes that telemedicine provides significant potential for lowering health care costs and improving and expanding health care services, especially in smaller communities. It agrees that the Legislature should create a commission to recommend policies aimed at promoting the appropriate cost-effective use of telemedicine in Washington, removing regulatory barriers to its deployment, and establishing compacts with other states or government entities where such compacts would result in improved health care for Washingtonians.

6. Telecommunications Infrastructure Deployment to Facilitate K-12 Education

Last year, the Superintendent of Public Instruction issued a report, *the Washington State Technology Plan for the K-12 Common School System*, calling for some $477 million in telecommunications funding for universal broadband to schools, two-to-one student/computer ratios in classrooms, and laptop computers for overnight check-out by school children, among other things. While the Task Force is convinced of the merits of a statewide network linking the state's 1,892 public school buildings, it believes that the OSPI report was deficient in many areas. In discussion with the Task Force, OSPI conceded that the figure was arbitrary and may represent only a fraction — about 10 percent — of the expected costs for school districts to fully implement technology and telecommunications objectives. The Task Force is concerned that the K-12 Technology Plan lacks the detail necessary to allow the Legislature to make intelligent funding decisions. The OSPI plan also addresses school-based technology in isolation from the larger community, an approach that the state, in the Task Force's view, cannot afford.

As discussed below, the Task Force recommends that OSPI revisit its educational technology plans with an eye toward meeting three steps which, the Task Force believes, should be preconditions for Legislative funding. First, it must present a detailed plan which clearly identifies the specific educational objectives of each proposed technological application, specifies technical standards to be used, sets forth detailed costs projections and implementation schedules, and sets forth priorities for implementation which assume that school technology will be phased in over several years.

Second, the plan must reflect a priority on educational applications developed through an integrated community-based approach. In other words, K-12 telecommunications infrastructure should be developed in response to needs identified by local school districts, and in anticipation of its shared use by local governments, businesses, non-profit organizations, and private citizens.

Third, telecommunications systems deployed within K-12 schools should be brought under the planning and review processes of the ISB to ensure compatibility with other government infrastructure, maximum benefits of volume pricing, and non-duplication of infrastructure and equipment. The Task Force further recommends that the Legislature appropriate funding for school infrastructure plans that meet these criteria.

a. Technology Benchmarks in Schools

Networked communication is imperative in a competitive information economy. An information-reliant society demands that people know how to find and use information in a timely fashion. As the federal Department of Education noted in its own long-range technology plan, "Information infrastructure supports people in their process of knowledge — building, teaching and learning."[59] OSPI is mandated to pursue technology initiatives by the state Education Reform Act, which directs it "to be accountable to the legislature for the public's investment of funds" and "to maximize the impact of local technology initiatives through leveraging others' successes."[60]

To that end, OSPI conducts statewide surveys of K-12 schools that are intended to set the benchmark for future developments and track trends in technology penetration rates. The most recent surveys, which do much to redress the data deficiencies of the earlier report, are encouraging in that they show significant progress by public K-12 schools in developing information networks. They show that in 1994, 43 percent of responding schools reported access to on-line services — 22 percent of which had full or partial access to the Internet. Additionally, 67 percent of schools reported classroom access to cable. This is particularly important because of the forthcoming roll-out of cable modems by TCI in some areas of the

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[59] Department of Education, National Long-Range Technology Plan, August 15, 1995, p. 9.

[60] OSPI, Washington State Educational Technology Needs Assessment, 1993.

state. If that plan goes forward, cable drops to schools (required under many local franchises) could substantially increase network penetration.

The survey results are also significant in that they indicate much work still to be done. The Task Force believes that the state has an outstanding obligation to facilitate the deployment of network infrastructure to the other 50 percent of the state's K-12 schools. It also recognizes that this group will include schools in areas disadvantaged by geography and economic conditions.

b. Costs and Funding

The Washington School Information Processing Cooperative (WSIPC) estimates that school districts have already invested approximately $250 million in creating local area data networks, excluding the $12 million to $20 million spent annually on telephone and data lines from telecommunications providers. In addition, more than $164 million in local technology bonds and levies have been passed by voters and used for technology in schools. Even with the considerable investment to date, OSPI reports that "technology is not an everyday learning tool for the majority of K-12 students in the state."

The recent elimination of federal funding sources such as those administered by the NTIA — money used to fund demonstration and pilot projects that showcased the potential of educational technology — further increases pressure on state governments to seed development. A 1995 study by the Milken Family Foundation estimates that it will take $31.5 billion in additional funds to wire the nation's schools, buy software, train teachers, and put four to six computers in each classroom. Washington's share, given its size and population, could exceed $1 billion.

The Task Force believes that the cost of developing and maintaining an educational network is prohibitive without other offsetting benefits to communities across the state. Scarce dollars must be stretched to address the concerns of a number of constants. The Task Force believes that part of the solution is to recognize that the common interests of education and community and rural development, and to develop a shared resource.

The Task Force also encourages the use of public-private partnerships in addressing the daunting funding challenges facing education technology and its integration into the local community. Public-private partnerships are conceived broadly here to include multiple public agencies and businesses working together to develop a shared resource. The federal Department of Education advocates an aggressive, proactive approach to such partnerships. "Education needs to SELL its beliefs . . . that technology fully integrated into the curriculum can make a difference . . . to industry (and community) and start a cooperative partnership."[61]

c. Ensuring Community Access and Involvement

While state funding should be made available for school networking infrastructure, the Task Force believes that the primary catalysts for such infrastructure should be the local

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[61] DOE National Long-Range Technology Plan, p. 13.

school districts and their communities. Thus, OSPI's role is to establish broad standards for infrastructure planning, to solicit local proposals for infrastructure use by local school districts, and recommend the most worthwhile proposals to the Legislature for funding. Because funding for state infrastructure is limited, priorities must be established on the basis of the individual districts' needs, the availability of other resources, and the non-school benefits that network infrastructure will bring to the community.

In this regard, local plans which allow for network access by local governments, businesses, non-profit organizations, and private citizens should take precedence over those that do not, especially in smaller communities or rural areas which would be unserved by any locally-accessed information network but for a school-based local point of presence.

Moreover, local school districts seeking technology funding from the state should set forth a process for determining how its network will be shared with others in the community. They should initiate a process for public meetings with interested citizens, in which they discuss the network capacity needed for school purposes and that which can be made available to citizens, the fee structure for community users which take into account both hard costs (conduit, cable, terminal devices, and software) and soft costs (supervision, security, and maintenance), and hours and rules for public access. In many communities, plans will call for establishment of local telephone numbers for dial-in access; in others, plans will call for citizen access to school computers on nights and weekends to access the network.[62]

There are several benefits of such local planning for shared use. First, as the Department of Education recently noted, "local buy-in is critical to any process of change."[63] Moreover, such hearings will focus the community on the commercial and civic potential of networked communications and attract local private partners. The Task Force anticipates that as non-educational access to the network grows, commercial network providers will step in (following business growth), demonstrate the demand for advanced services, and foster competition for information network services in smaller markets.

While such a planning process places considerable responsibility on the local school districts in areas where they traditionally have little internal expertise, the Task Force believes it is necessary to marshal local involvement and maximize benefits to the community. Moreover, the Task Force anticipates that the input from private vendors, knowledgeable citizens, and statewide organizations such as business trade groups or local government associations will provide a base of expertise to communities. OSPI itself already provides assistance to schools across the state through the Educational Technology Support Centers at the state's nine Education Service Districts, which devote annually 1000 hours to network planning, 600 hours to technology planning, and 2000 hours to other consulting functions.[64]

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[62] The Task Force is encouraged that a number of school buildings with access to information networks have expanded access for parents and other community members. The Zillah School District and Chimacum School District make computers to community members available after hours. Some schools provide e-mail accounts available to members of the community, improving communication between parents and teachers.

[63] DOE National Long-Range Technology Plan, p. 15.

[64] OSPI Educational Technology, Quarterly Report, Second Quarter 1995, p. 2.

DIS, which operates a logical network for state government entities, could provide further assistance in some cases.

d. ISB Oversight of K-12 Technology Plans

Finally, the Task Force is also concerned that K-12 schools are not currently required to adhere to state standards regarding system networking and internal and external wiring. The public benefits of state oversight described above — cost accountability, a single networking standard, non-duplication of network facilities — are as applicable to schools as to other government entities within the state, especially where the schools propose to spend almost \$500 million of state money for telecommunications infrastructure, equipment and training. For this reason, the Task Force recommends that K-12 school technology planning using state funds be subject to the same review as other state agency technology projects. At the same time, the Task Force recommends that the ISB be expanded to include the Superintendent of Public Instruction or another person knowledgeable of the particular concerns of K-12 education.

OSPI points out that many school districts have voluntarily adopted networking standards adopted by DIS, and that it will incorporate those standards in its upcoming Networking Guidelines for K-12 Schools in the State of Washington. However, the Task Force is aware that many school districts do not adhere to statewide networking standards or other requirements, including reporting requirements, imposed upon state agencies and which are designed to ensure a seamless, non-proprietary statewide networking system. This has resulted in schools building non-interoperable and proprietary systems which cannot be easily linked to other state systems, and which may duplicate existing government telecommunications systems. As with other agencies, the imposition of state standards does not significantly restrict the flexibility of schools to provide innovative technologies in the manner deemed best by administrators and educators.

D. Recommendations

The Task Force recommends that the following policies be adopted with regard to state planning and deployment of telecommunications infrastructure.

- ***Improve K-12 technology planning***

  State technology planning and implementation requirements should be applied to local K-12 school districts where district projects use state funds. In addition, the Task Force recommends that the Information Services Board be expanded to include the Superintendent of Public Instruction or a representative, so that the concerns of K-12 educators and local school districts are clearly communicated.

- ***Establish a state telemedicine advisory council***

  The Legislature should establish a state Telemedicine Advisory Council comprised of representatives of the public, the health care profession, higher education, state government, the insurance industry and telecommunications service providers, to develop