

SENATE BILL REPORT

SB 5690

AS OF MARCH 2, 1993

Brief Description: Setting a standard for classifying a telecommunications company as competitive.

SPONSORS: Senators Hochstatter and Vognild

SENATE COMMITTEE ON ENERGY & UTILITIES

Staff: Phil Moeller (786-7445)

Hearing Dates: March 2, 1993

BACKGROUND:

Markets for telecommunications products and services in the United States underwent enormous changes when the Bell System was broken apart beginning in 1984. AT&T was split away from local telephone companies; these companies were then formed into Regional Bell Operating Companies. The Upper Midwest and Northwest region became the territory serviced by what is now US West, Inc.

Prior to 1984, revenues from long distance telephone service were used to significantly subsidize local "dial tone" service. As this subsidy was removed, local rates increased dramatically for a short period; at the same time rates for long distance service declined. Competition in the long distance market began to increase and prices continued to decline.

Other segments of telecommunications markets, such as equipment, began to experience greater competition. New markets and services developed and provided additional competition. Many of these markets had traditionally been exclusive territory for local telephone companies. These companies saw their ability to compete in the new markets hindered by traditional monopoly rate-of-return regulation.

The Legislature responded to the new market conditions of telecommunications with two major pieces of legislation. The first was enacted in 1985 and allowed companies or specific services of monopoly companies to be grouped in a "competitive" classification and therefore subject to minimal regulation. The second piece of legislation was enacted in 1989. It expanded the ability of companies to offer competitive services and allowed alternate forms of regulation intended to provide a greater profit incentive for companies with captive ratepayers.

Regulatory policies developed for local telecommunications companies providing basic services (dial tone) have emphasized

the concept of "universal service." This has generally meant that citizens in all areas would receive basic services for about the same rate, with some areas contributing a subsidy to provide services in higher cost areas.

As newer, more sophisticated, high-capacity information systems (such as fiber optics) are deployed in the state, some entities are better positioned to offer lower-cost access to this "information highway" than others. Although local telecommunications companies still provide the "gateway" to most telephones because they provide dial tone service, this is changing as alternatives (such as cellular telephones or cable television) become more widespread. Local telecommunications companies remain subject to the concept of providing universal service. Competitors classified in the "competitive" category are potentially positioned to pick and choose potential customers based on profitability without the requirement of providing all services to all customers.

SUMMARY:

A telecommunications service provided by a telecommunications company shall be classified as competitive by the Washington Utilities and Transportation Commission if the service is provided by another telecommunications company and has been classified as competitive or if the service is provided or authorized to be provided by a telecommunications company that is classified as competitive.

Appropriation: none

Revenue: none

Fiscal Note: requested February 25, 1993