

# SENATE BILL REPORT

## SB 6622

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As Reported By Senate Committee On:  
Energy & Utilities, February 5, 1998

**Title:** An act relating to the implementation of the federal telecommunications act of 1996, P.L. 104-104 (110 Stat. 56).

**Brief Description:** Implementing the federal telecommunications act of 1996.

**Sponsors:** Senator Finkbeiner; by request of Utilities & Transportation Commission.

**Brief History:**

**Committee Activity:** Energy & Utilities: 1/27/98, 2/5/98 [DPS].

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### SENATE COMMITTEE ON ENERGY & UTILITIES

**Majority Report:** That Substitute Senate Bill No. 6622 be substituted therefor, and the substitute bill do pass.

Signed by Senators Finkbeiner, Chair; Hochstatter, Vice Chair; Brown, Jacobsen, Rossi, T. Sheldon and Strannigan.

**Staff:** Karen Kirkpatrick (786-7403)

**Background:** The Federal Telecommunications Act of 1996 (the Act) was passed by Congress to encourage competition in the local telephone market. The Act supports the goal of universal service, and recognizes the need for changes in the methods used to achieve it. The Act calls for states to support universal service programs in a competitively and technologically neutral manner.

The goal of universal service is to provide all citizens with access to the public telephone network at affordable prices. The Legislature enacted a policy to preserve affordable universal telecommunications service in 1985, but universal telecommunications service has been the policy of Washington State for more than 60 years.

Universal Service depends on subsidies to maintain affordability. Average pricing has been used to support service to high-cost customer locations. Monopoly providers have been permitted to charge above-cost prices in urban areas in order to provide sufficient revenue to permit charging only an average, or affordable, price to remote rural customer locations. Monopoly providers have also been permitted to charge other companies above-cost prices for routing telephone traffic over their lines. These charges, known as access charges, provide substantial revenue to small telephone companies that service many high-cost customers. This revenue makes it possible to keep the basic monthly rate at an affordable level.

It has been suggested that these methods are an impediment to new companies trying to enter the local telecommunications market and that the means to achieving fair competition is to

replace the system of hidden subsidies with one of explicit, predictable supports through the use of a universal service fund managed by the Washington Utilities and Transportation Commission (WUTC).

Under current statutory and decisional law, WUTC does not have authority to assess telephone companies for contributions to a universal service fund to subsidized companies serving high-cost customer locations. The commission is requesting this legislation to give it the necessary authority to create and administer a universal service program.

**Summary of Substitute Bill:** The commission is directed to establish a program for the advancement of universal telecommunication services that shall not take effect until the Legislature acts.

The commission is directed to establish the level of support that all participants are to provide, make assessments on carriers to provide that support, designate those eligible to receive funds for the benefit of their customers, and make all necessary rules for administration of the program.

The commission is authorized to delegate the authority to resolve disputes or make other decisions necessary to administer the program, including the authority to contract with independent administrators, establish accounts in independent financial institutions, authorize expenses of program administration, and require carriers to contribute the costs necessary to administer the fund.

The commission is directed to audit, or contract to audit carriers that receive support under the program, coordinate administration of the program with federal authorities, and report to the Legislature on the details and recommendations of the program by January 1, 1999.

The commission is authorized to take actions as permitted or contemplated under the Federal Telecommunications Act of 1996, and establish fees to offset in whole or part the commissions expenses in implementing the act. The commission's rulemaking authority with respect to the universal service program expires on December 1, 1999 unless reauthorized by the legislature.

All transfers of money necessary for the program are directed to be outside the state treasury and not subject to appropriation.

Definitions are provided and other clarifying and technical changes are made.

**Substitute Bill Compared to Original Bill:** The substitute bill does not authorize the program to take effect until the Legislature acts. The original bill authorized the commission to establish and implement the program. The substitute bill limits the size of the fund and requires reduction of intrastate rates containing implicit subsidies in order to receive support from the fund. The original bill did not address the size of the fund or reductions in implicit supports. The substitute bill limits the elements included in basic telecommunications services to those adopted in the federal model. The original bill allowed for additional elements to be included. The original bill did not have a sunset provision. The substitute bill expires the rulemaking authority of the commission with respect to universal service on December 31, 1999 unless reauthorized by the Legislature.

**Appropriation:** None.

**Fiscal Note:** Requested on January 23, 1998.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** This legislation promotes competitive and technological neutrality. It creates a competitively neutral and explicit fund. Urban and business customers have options currently but rural and residential customers do not. This legislation gives companies a chance to make a business at providing rural service. Monopolies are not favored; therefore, support mechanisms must be restructured to create a level playing field. This legislation is needed to preserve low rates, promote competition, and comply with federal requirements. The federal government has left the state with 75 percent responsibility for universal service, but without this legislation, the UTC does not have authority to act. Timing is critical.

**Testimony Against:** This legislation is too broad. The details ought to be determined before the commission is given authority to implement the program.

**Testified:** Nancy Judy, Bruce Shaull, Sprint (pro); Tom Walker, Scott McClellan, US West (pro); Terry Vann, Bob Smith, Rick Finnigan, WITA (pro); Rosemary Williamson, Richard Potter, GTE (pro); Mike Woodin, AT&T (pro); Simon Fitch, Assistant AG (pro); Tim Peters, Electric Lightwave (pro); Commissioners Levinson, Hemstad and Gillis, UTC (pro); Steve Gano, AT&T Wireless (pro); Gail Garey, MCI (pro); Mark Greenberg, Art Butler, Tracer (con); Teresa Osinski, WUTC (pro); Laura Altschul, Western Wireless (pro).