

FINAL BILL REPORT

SHB 1744

C 110 L 95

Synopsis as Enacted

Brief Description: Regulating small telecommunications companies.

Sponsors: House Committee on Energy & Utilities (originally sponsored by Representatives Huff, Kessler, Casada and Campbell).

House Committee on Energy & Utilities

Senate Committee on Energy, Telecommunications & Utilities

Background: Local exchange companies (LECs) provide local telephone service within their exchange boundaries. Washington currently has 21 LECs, which are regulated by the Washington Utilities and Transportation Commission (WUTC). The smallest 17 companies each serve less than 2 percent of the switched access (telephone) lines in the state.

Annual Reports and Budgets: All LECs, regardless of size and like other utilities whose rates and service are regulated by the WUTC, are required by statute to file detailed annual reports and budgets with the WUTC. The WUTC may require additional information and, after a notice and hearing, may reject any item of a budget. Unless an LEC is making expenditures in response to an emergency, the statutory budget provisions apply. An LEC proceeding with a rejected expenditure may not count that expenditure as an operating expense or as part of the fair value of company property that is used and useful in serving the public, except upon proof that the expenditure is used and useful.

The WUTC may adopt budget rules and may exempt companies in whole or in part from those budget rules.

Securities: As a "public service company," an LEC may issue: (1) evidence of interest or ownership such as stocks and stock certificates; and (2) evidence of indebtedness such as bonds and notes. State law specifies the purposes for which these issuances may be used.

Prior to issuing evidence of interest or ownership or evidence of indebtedness, the public service company must file with the WUTC a description of the issuance and its purposes, terms of financing, and a statement of why the issuance is in the public interest. The WUTC may require a public service company to account for the

disposition of all proceeds of the sale of all such issuances and it may adopt rules and regulations to insure the proper disposition of these proceeds.

Transfers of Property: As with other "public service companies," an LEC may sell, lease, assign, or otherwise dispose of all or any part of its franchises, properties, or facilities that are necessary in the performance of its duties to the public only with the authorization of the WUTC. No LEC may merge or consolidate any of its franchises, properties, or facilities with other public service companies without the authorization of the WUTC. Similarly, no LEC may purchase, acquire, or become the owner of franchises, properties, facilities, or capital stocks or bonds of another public service company without prior authorization of the WUTC. The WUTC may adopt rules and regulations to administer these requirements.

Affiliated Interests: As a "public service company," an LEC may enter into: (1) a contract or arrangement with an affiliated interest for providing such things as management, supervisory construction, engineering, accounting, legal, or financial services; or (2) a contract or arrangement with an affiliated interest providing for the sale, lease, or exchange of property only with approval of the WUTC. An affiliated interest essentially is a company or person holding 5 percent or more of the voting securities in the company.

Alternative Forms of Regulation: Telecommunications companies are regulated under a "rate of return" system. Under certain circumstances, telecommunications companies can be regulated in ways other than the traditional "rate of return" regulation. For example, a telecommunications company may petition the WUTC to be regulated under an "alternative form of regulation."

A telecommunications company may submit a petition to the WUTC proposing a plan for an alternative form of regulation. Prior to approving the plan, the WUTC must consider a number of factors. These factors include the extent to which the proposed form of regulation will reduce regulatory delay and costs, encourage innovation in services, promote efficiency, enhance the company's ability to respond to competition, provide fair, just, and reasonable rates for all rate payers, and prevent companies from exercising substantial market power in the absence of competition or regulation. The WUTC also can initiate consideration of an alternative form of regulation for a telecommunications company. A company has 60 days to elect not to proceed with the alternative form of regulation as authorized by the WUTC.

Summary: Annual Reports and Budgets: Any LEC that serves less than 2 percent of the access lines in the state (including access lines served by any affiliate of the LEC) is exempt from the detailed annual reporting and budgeting requirements which currently apply to all public service companies. These smaller LECs are not required to submit reports or data to the WUTC except for annual balance sheets and results of operations in Washington State that are separated by jurisdiction. Existing

information or reports that are separated by jurisdiction may be sufficient to meet these requirements. In response to customer complaints or on its own, after notice and hearing, the WUTC may establish additional reporting requirements for a specific LEC.

Securities, Transfers of Property, and Affiliated Interests: Any LEC that serves less than 2 percent of the access lines in the state (including access lines served by any affiliate of the LEC) is exempt from authorization and reporting requirements relating to issuance of securities, transfers of property and affiliated interests. In the case of securities, the state of Washington is not obligated to pay or guarantee stock, stock certificates, bonds, or other evidence of ownership or indebtedness issued by an LEC.

Alternative Form of Regulation: A group of telecommunications companies may petition the WUTC to establish an alternative form of regulation.

Votes on Final Passage:

House	98 0
Senate	39 0

Effective: July 23, 1995