

Washington Utilities and Transportation Commission

Mission Statement:

The UTC protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable, and safe.

Regulatory relief for small and competitive telecom companies

Glenn Blackmon, Ph.D.

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Relief from what? Reasons behind the requirements



- Regulators set rates based on utility's expenses and investment.
 - *Constitutional requirement to protect utility from confiscation.*
- Regulators need to know about the utility's expenses and investment.

Relief from what? Reasons behind the requirements



- Regulators need to know about plans that will affect rates or service.
- Regulators need to know about actual performance.
 - *Low prices are no bargain when service is poor.*

Traditional accounting and reporting requirements



- Accounting standards
 - RCW 80.04.090 – UTC may specify form of records.
 - WAC 480-120-302 – UTC requires federal “Uniform System of Accounts.”
- Securities
 - Chapter 80.08 RCW – Power to issue stock and bonds is a special privilege controlled by state.
 - Chapter 480-146 WAC – Utilities must notify UTC before issuing securities.

Traditional accounting and reporting requirements



- Transfer of Property
 - Chapter 80.12 RCW – UTC approval required to sell property “used and useful in the performance of the [utility’s] duties to the public.”
 - Chapter 480-143 WAC – Procedures for transfer of property.
- Affiliated Interests
 - Chapter 80.16 RCW – Utilities must file agreements and report transactions with corporate affiliates.
 - Chapter 480-146 WAC – Procedures for filing agreements and reports.

Affiliated Interest Filings



Company	1999	2000	2001	2002	2003	2004	Grand Total
Bell Atlantic Communications,						1	1
CenturyTel Long Distance, Inc				1			1
CenturyTel of Cowiche, Inc.					1		1
CenturyTel of Washington, Inc				6	1		7
GTE Northwest Incorporated	11	6					17
Qwest Corporation				15	8	17	40
Sprint Communications Company						1	1
U S WEST Communications, Inc.	1						1
Verizon Northwest Inc.		6	9	16	17	7	55
United Telephone Company						3	3
CenturyTel						6	6
CenturyTel of Inter Island, Inc.					1		1
Grand Total	12	12	9	38	28	35	134

Affiliated interests

“The widespread existence of holding companies results in two important problems in the control of expenditures.”

- Fees paid to parent company
- Purchases from affiliated companies

“All of these transactions, because of the absence of arm’s length bargaining, require careful scrutiny by the commissions...”

Charles F. Phillips, *The Regulation of Public Utilities*

Traditional accounting and reporting requirements



- Budgets
 - RCW 80.04.300 – Utilities must file budgets of expenditures, subject to UTC control.
 - Chapter 480-140 WAC – Budget filing requirements.
- Annual Reports
 - RCW 80.04.080 – Utilities must file detailed reports of investment and expenses.
 - WAC 480-120-304 – Telecom companies can file federal reports for state purposes.

RCW 80.04.080 – Annual reports



“Every public service company shall annually furnish to the commission a report in such form as the commission may require, and shall specifically answer all questions propounded to it by the commission, upon or concerning which the commission may need information.

Such annual reports shall show in detail ...”

RCW 80.04.080 – Annual reports



Every public service company shall annually furnish to the commission a report in such form as the commission may require, and shall specifically answer all questions propounded to it by the commission, upon or concerning which the commission may need information. Such annual reports shall show in detail the amount of capital stock issued, the amounts paid therefor and the manner of payment for same, the dividends paid, the surplus fund, if any, and the number of stockholders, the funded and floating debts and the interest paid thereon, the cost and value of the company's property, franchises and equipment, the number of employees and the salaries paid each class, the accidents to employees and other persons and the cost thereof, the amounts expended for improvements each year, how expended and the character of such improvements, the earnings or receipts from each franchise or business and from all sources, the proportion thereof earned from business moving wholly within the state and the proportion earned from interstate business, the operating and other expenses and the proportion of such expense incurred in transacting business wholly within the state, and proportion incurred in transacting interstate business, such division to be shown according to such rules of division as the commission may prescribe, the balances of profit and loss, and a complete exhibit of the financial operations of the company each year, including an annual balance sheet. Such report shall also contain such information in relation to rates, charges or regulations concerning charges, or agreements, arrangements or contracts affecting the same, as the commission may require; and the commission may, in its discretion, for the purpose of enabling it the better to carry out the provisions of this title, prescribe the period of time within which all public service companies subject to the provisions of this title shall have, as near as may be, a uniform system of accounts, and the manner in which such accounts shall be kept. Such detailed report shall contain all the required statistics for the period of twelve months ending on the last day of any particular month prescribed by the commission for any public service company. Such reports shall be made out under oath and filed with the commission at its office in Olympia on such date as the commission specifies by rule, unless additional time be granted in any case by the commission. The commission shall have authority to require any public service company to file monthly reports of earnings and expenses, and to file periodical or special, or both periodical and special, reports concerning any matter about which the commission is authorized or required by this or any other law, to inquire into or keep itself informed about, or which it is required to enforce, such periodical or special reports to be under oath whenever the commission so requires.

Rule review process

- UTC review prompted by financial turmoil and irregularities at Enron, elsewhere.
- Industry preferred rules to legislative changes.
- Proposal currently being considered:
 - 5-day notice of debt and equity issues.
 - 5-day notice of large cash transfers.
 - Treat subsidiaries like sister and parent companies.
 - File contracts for essential services, like fuel supply.
- Not apply to small or competitive companies.

Regulatory relief – two rationales, two methods



- Competitive companies
 - Monopoly-era requirements from statute are unnecessary if company has no market power.
 - Decision delegated to UTC to waive statutory requirements.
- Small companies
 - Burden of reporting and filing for companies with few employees.
 - Statutory exemption, with limited UTC discretion.

Regulatory relief for competitive companies



- RCW 80.36.320 – Enacted in 1985.
- UTC can waive regulatory requirements for competitive telecommunications companies “*when it determines that competition will serve the same purposes as public interest regulation.*”
- UTC can waive both rules and statutes.
- Test is competition, not compliance costs.

Regulatory relief for small companies



- RCW 80.04.530 – Enacted in 1995
- Statute exempts small local exchange companies from most regulatory requirements.
- Companies must file balance sheet and results of operations on “Washington state jurisdictional basis.”
- UTC may impose reporting requirements after a formal hearing.

Regulatory relief for small companies



- “Small” means company serves less than 2% of state’s access lines.
 - 2% is a moving number, currently about 80,000 lines.
 - Access lines of “corporate cousins” – affiliates – count in the 2% test.
- No distinction between competitive and monopoly companies.

Examples

	Large non- competitive	Large competitive	Small
Qwest, Verizon, CenturyTel	✓		
Whidbey, Ellensburg, Inland, Asotin			✓
AT&T, Comcast, XO		✓	
MCI, Time Warner, McLeodUSA			✓

So who gets relief from what?



	Large non- competitive <i>Qwest, Verizon</i>	Large Competitive <i>AT&T, Comcast</i>	Small <i>Inland, MCI</i>
Accounting standards	Applies	GAAP	Applies
Securities	Applies	Exempt by rule	Exempt by law
Property transfers	Applies	Exempt by rule	Exempt by law

So who gets relief from what?



	Large non- competitive <i>Qwest, Verizon</i>	Large Competitive <i>AT&T, Comcast</i>	Small <i>Inland, MCI</i>
Affiliated interests	Applies	Exempt by rule	Exempt by law
Budgets	Applies	Exempt by rule	Exempt by law

So who gets relief from what?



	Large non- competitive <i>Qwest, Verizon</i>	Large Competitive <i>AT&T, Comcast</i>	Small <i>Inland, MCI</i>
Annual financial reports	Detailed	Revenue and lines only	Balance sheet and operations only
Quarterly financial reports	Required	Exempt by rule	Exempt by law
Service quality reports	Required by rule	Required by rule	Exempt by law

Service quality oversight

- Purpose of service quality reports
 - Service quality is central to UTC mission – fair prices *and* reliable service.
 - Companies can increase profits by lowering service quality.
 - Consumers often cannot measure quality – at least not until it is too late.
- UTC measures service quality in every industry that it regulates.

Service quality oversight



- UTC uses multiple approaches
 - Specific performance standards
 - Monitoring reports
 - Consumer complaints

Telecom service quality reports



- Small companies
 - Exempt by statute from monitoring reports
 - Must track data, meet performance standards
 - Must respond to specific customer complaints
 - Must report major outages
- Competitive companies
 - Relaxed performance standards on some measures
 - Small companies exempt from monitoring reports
 - Must respond to specific customer complaints
 - Must report major outages

Telecom service quality reports



- Large companies - Policy call by the commissioners to require monitoring reports for large competitive companies.
 - Parity among competitors.
 - Reports substitute for substantive performance requirements.
 - More information leads to better choices. Consumers can compare price *and* quality.
 - Subject to change over time.

Tools for regulatory relief

- Existing tools are being used to reduce regulation.
 - Small companies – based on compliance costs.
 - Competitive companies – based on competitive results.
- More tools.
 - No authority to waive other statutes or for other companies.
 - FCC has forbearance authority – waive statutes for any company if unnecessary.