

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

The meeting was called to order by SENATOR ROBERT V. TALKINGTON at
Chairperson

9:00 a.m. a.m./p.m. on Wednesday, February 15, 1984 in room 254-E of the Capitol.

All members were present except:

Senators Meyers, Thiessen, Burke.

Committee staff present:

Fred Carman, Hank Avila, Rosalie Black

Conferees appearing before the committee:

SB 544 - Senator Jack Steineger; Don Low, Corporation Commission; George Dugger, Dept. of Aging; Ed Schaub, Southwestern Bell; Tom Gleason, Attorney representing independent telephone companies, Ottawa; John G. Foster, President of Twin Valley Telephone, Inc., Miltonvale; Jeff Russell, United Telephone Co.

The meeting was called to order by Senator Talkington, Chairman, to discuss Senate Bill No. 544 which, if passed, would require every telephone company in the state to provide guaranteed emergency telephone service for \$3 per month.

SENATE BILL NO. 544 - HEARING

Senator Jack Steineger introduced SB 544 sponsored by all sixteen senate democrats in preparation of future telephone rate increase requests estimated to take place next summer by the KCC. He said those eligible would be people above age 55, disabled or blind persons and household heads with a dependent under age 18. Households with incomes in excess of \$12,800 would be ineligible. He added that he would not object if the committee prefers to grant the KCC clear authority to implement guaranteed emergency telephone service rates rather than mandate the rates by statute. (See Attachment 1.)

George Dugger indicated the Department of Aging supports the intent of SB 544 since social services provided by the aging network to reduce inappropriate and costly institutionalization will not work if older persons are not accessible by phone. (See Attachment 2.)

Don Low said the KCC has no position on the bill. While the KCC appreciates the intent of the proposal, the commission has a problem with an allowance of 180

CONTINUATION SHEET

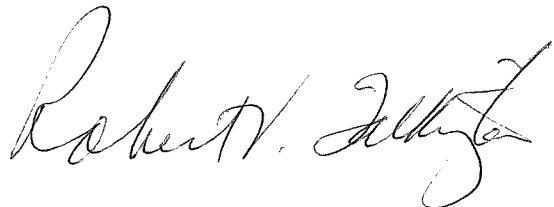
MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES,
room 254-E, Statehouse, at 9:00 a.m. a.m./p.m. on February 15, 1984

SENATE BILL 544 (con't) - HEARING

calls per month, plus, the commission does not see a need at the present time for "lifeline" service since the average residential flat rate in Kansas is less than \$11. Also, the bill would require that KCC have regular rates for local measured service for application to calls in excess of six calls a day, but many exchanges in Kansas do not have the central office equipment necessary for measuring local calls. (See Attachment 3.)

In testifying for various telephone companies, Ed Schaub, Tom Gleason, John Foster and Jeff Russell objected to SB 544 because a reduction in rates to one class of customers would normally require an increase for other ratepayers, disapproval of establishment of rates by a legislative body rather than the KCC, many of the telephone utilities in the state would not have facilities in place by December 31, 1984, in order to provide service described in the proposal or to properly monitor such service, and the additional investments in switching and service measurement facilities would be expensive to telephone rate payers. (See Attachments 4-8.) (47)

The meeting adjourned at 9:54 a.m.



Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

NAME	ADDRESS	ORGANIZATION	BILL NO.
Ed Schaub	Topeka	SWBT	SB544
BILL PERDUE	TOPEKA	KPL/GAS SERVICE	544
Harold Pitts	Topeka		
Tom Whitaker	Topeka	Ks Motor Carriers Assn.	
George A. Dugger		Ks Dept. of Agric.	544
Mike [unclear]	[unclear]	[unclear]	
KICK FNEWOLD	TOPEKA	AT&T	
JEFF RUSSELL	TOPEKA	UNITED TEL. OF KS	SB544
Tom Glass	Ottawa	Telephone Co.	SB544
John D. Foster	Miltonville	Ks	
John D. Foster	Miltonville	Ks Sunn Valley Telephone Co.	
JR ELLIS	Topeka	Southwestern Bell	
Nancy Zieher-Bigsby	Topeka	KDOT	

JACK STEINEGER
MINORITY LEADER
SENATOR, SIXTH DISTRICT
STATE CAPITOL BLDG.
TOPEKA, KANSAS 66612
(913) 296-3245



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS

WAYS AND MEANS
JUDICIARY
LEGISLATIVE AND CONGRESSIONAL
APPORTIONMENT
COORDINATING COUNCIL
INTERSTATE COOPERATION
LEGISLATIVE BUDGET
POST AUDIT

SENATE BILL 544
TRANSPORTATION & UTILITIES COMMITTEE
WEDNESDAY, FEBRUARY 15, 1984

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I'M HAPPY TO BE
HERE THIS MORNING TO PRESENT A BILL SPONSORED BY ALL SIXTEEN
DEMOCRATS IN THE KANSAS SENATE----OUR GUARANTEED EMERGENCY
TELEPHONE SERVICE PROPOSAL.

ALTHOUGH THIS PARTICULAR BILL HAS NOT GARNERED A GREAT
DEAL OF PUBLIC ATTENTION SO FAR THIS SESSION, IT VERY WELL COULD
BE ONE OF THE MOST IMPORTANT CONSUMER BILLS PASSED BY THE
KANSAS LEGISLATURE IN MANY YEARS----PARTICULARLY FROM THE POINT
OF VIEW OF THOUSANDS OF ELDERLY, WIDOWED, OR DISABLED KANSANS
WHOSE NEED FOR A TELEPHONE IS ABSOLUTELY CRITICAL.

AS ALL OF YOU KNOW, EARLY IN 1983 THE SOUTHWESTERN BELL
TELEPHONE COMPANY FILED AN APPLICATION WITH THE STATE CORPORATION
COMMISSION SEEKING A RATE INCREASE OF MORE THAN TWO-HUNDRED
MILLION DOLLARS A YEAR. THE REQUEST WAS PART OF THE BREAK-UP OF
AT&T AND THE VARIOUS BELL COMPANIES. IT ALSO WAS THE LARGEST
SINGLE RATE INCREASE EVER FILED BY ANY KANSAS UTILITY.

S.B. 544, TRANSPORTATION & UTILITIES COMMITTEE

SENATOR JACK STEINEGER

WEDNESDAY, FEBRUARY 15, 1984, PAGE TWO

UNDER THE RATE INCREASE REQUESTED BY BELL TELEPHONE, BASIC RESIDENTIAL TELEPHONE SERVICE WOULD HAVE GONE FROM NINE DOLLARS AND TEN CENTS A MONTH (\$9.10) TO EIGHTEEN DOLLARS AND SIXTY CENTS (\$18.60) A MONTH, AN INCREASE OF MORE THAN 100 PERCENT.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I THINK THIS KIND OF INCREASE WOULD BE DIFFICULT FOR MANY, MANY KANSANS TO PAY, BUT OF ALL GROUPS IN KANSAS, OUR ELDERLY, WIDOWED OR DISABLED CITIZENS---MANY ON FIXED INCOMES---WOULD BE AMONG THOSE HIT THE HARDEST.

FORTUNATELY, THOUGH, THE REQUESTED TWO-HUNDRED MILLION DOLLAR INCREASE WAS JUDICIOUSLY PARED DOWN BY THE CORPORATION COMMISSION TO NINETY-SEVEN MILLION DOLLARS. AND MORE IMPORTANTLY, THE PROPOSED DOUBLING OF BASIC SERVICE FROM NINE DOLLARS TO EIGHTEEN DOLLARS WAS HELD DOWN BY THE COMMISSION TO ONLY A DOLLAR AND THIRTY-FIVE CENTS (\$1.35) INCREASE.

YOU MAY ASK, AND RIGHTLY SO, WHY KANSANS NEED SENATE BILL 544 SINCE THE RESIDENTIAL RATE HIKE WAS ONLY A LITTLE MORE THAN A DOLLAR ---NOT THE NINE DOLLARS AND FIFTY CENTS REQUESTED BY BELL TELEPHONE.

S.B. 544, TRANSPORTATION & UTILITIES COMMITTEE
SENATOR JACK STEINEGER
WEDNESDAY, FEBRUARY 15, 1984, PAGE THREE

THE ANSWER IS VERY SIMPLE: RATE INCREASES REQUESTED BY SOUTHWESTERN BELL ARE FAR FROM OVER. IN FACT, IN THE COMMISSION'S VIEW, IT'S LIKELY THE COMPANY WILL FILE ANOTHER MASSIVE RATE INCREASE REQUEST SOMETIME THIS SUMMER.

AS THE OLD SAYING GOES, AN OUNCE OF PREVENTION IS WORTH _____ A POUND OF CURE. AND I THINK NOW---NOT SOMETIME NEXT YEAR WHEN RATEPAYERS LIKELY WILL FACE THE PROSPECT OF YET ANOTHER TELEPHONE RATE INCREASE---IS THE TIME TO APPLY THE REMEDY PROPOSED IN OUR BILL. WE CAN EITHER HANDLE THIS PROBLEM NOW, WHILE THERE'S TIME TO MAKE A THOUGHTFUL AND REASONED JUDGMENT, OR WE CAN HANDLE IT WHEN TELEPHONES ARE BEING PLACED BEYOND THE REACH OF MANY KANSANS, PARTICULARLY THOSE ON FIXED INCOMES.

AS FOR THE BILL ITSELF, IT SETS UP A SPECIAL RATE WHICH WOULD -- ALLOW ELIGIBLE KANSANS TO MAKE SIX LOCAL CALLS A DAY FOR THREE DOLLARS A MONTH.

THERE'S NOTHING MAGIC ABOUT EITHER ONE OF THESE NUMBERS. WE CHOSE SIX CALLS A DAY BECAUSE THAT WORKS OUT TO 2,190 CALLS A YEAR ---JUST FOUR MORE THAN THE 2,184 CALLS MADE EACH YEAR BY AVERAGE KANSAS FAMILIES.

S.B. 544, TRANSPORTATION & UTILITIES COMMITTEE

SENATOR JACK STEINEGER


WEDNESDAY, FEBRUARY 15, 1984, PAGE FOUR

AS FOR THE THREE DOLLARS, MAYBE THAT SHOULD BE FOUR DOLLARS OR MAYBE IT SHOULD BE TWO. WE CHOSE THE THREE-DOLLAR RATE BECAUSE IT SEEMED REASONABLE AND FAIR.

AS FOR ELIGIBILITY, THE BILL WOULD ALLOW ANYONE ELIGIBLE UNDER HOMESTEAD EXEMPTION STATUTES TO USE THE GUARANTEED EMERGENCY TELEPHONE SERVICE RATE. THOSE PEOPLE ARE 1) PEOPLE ABOVE AGE 55; 2) DISABLED OR BLIND PERSONS; AND 3) HOUSEHOLD HEADS WITH A DEPENDENT UNDER AGE 18. HOUSEHOLDS WITH INCOMES IN EXCESS OF 12,800 DOLLARS WOULD BE INELIGIBLE.

ALTHOUGH WE ARE NOT CERTAIN ABOUT THE EXACT NUMBER OF KANSANS WHO WOULD FALL INTO THESE THREE CATEGORIES, WE DO KNOW THAT APPROXIMATELY FIFTY-FOUR THOUSAND PEOPLE IN THESE CATEGORIES FILED FOR HOMESTEAD EXEMPTIONS IN 1983.

IN CONCLUSION, I WANT TO POINT OUT TWO THINGS:

FIRST, I REALIZE THAT THERE IS A POLICY QUESTION INVOLVED IN SETTING UTILITY RATES IN OUR STATUTES. IF THE COMMITTEE FEELS IT IS PREFERABLE TO GRANT THE CORPORATION COMMISSION CLEAR  AUTHORITY TO IMPLEMENT GUARANTEED EMERGENCY TELEPHONE SERVICE RATES RATHER THAN MANDATE THE RATES IN OUR STATUTE BOOKS, THE SPONSORS OF THIS BILL WOULD HAVE NO OBJECTION.

S.B. 544, TRANSPORTATION & UTILITIES COMMITTEE
SENATOR JACK STEINEGER
WEDNESDAY, FEBRUARY 15, 1984, PAGE FIVE

SECOND, I THINK WE ALL MUST KEEP IN MIND THAT GIVEN THE HISTORY OF RATE INCREASES IN THE PAST TEN YEARS, MANY PEOPLE SIMPLY HAVE LITTLE--OR NO--FLEXIBILITY LEFT IN THEIR HOUSEHOLD BUDGETS TO ABSORB FURTHER RATE INCREASES. IN 1920 OR 1930, PERHAPS A TELEPHONE COULD BE CONSIDERED A LUXURY. IN 1984, A TELEPHONE IS A NECESSITY. THIS LEGISLATURE WOULD BE TRULY REMISS IN ITS DUTIES IF IT ALLOWS THIS NECESSITY TO BE PLACED BEYOND THE REACH OF CITIZENS WHOSE VERY LIVES MAY DEPEND ON KEEPING A TELEPHONE IN THEIR HOMES.

TESTIMONY ON SB-544
BEFORE THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE
By Kansas Department on Aging
February 15, 1984

Bill Summary:

Requires telephone public utilities by December 31, 1984 to implement a "guaranteed emergency telephone service rate" to eligible rate payers.

Bill Brief:

1. Telephone public utilities must provide up to six local calls a day at a rate of \$3.00 per month to eligible rate payers.
2. An eligible rate payer is a person who qualifies as a "claimant" under the provisions of the Homestead Property Tax law. Thus a person who is aged, disabled or has a resident dependent child under age 18 and who files for a Homestead Property Tax refund would be eligible.
3. Any calls made in excess of the allowable amount will be charged at the rate applicable to all other rate payers.
4. The KCC shall adopt rules and regulations to implement this bill.

Testimony:

The Kansas Department on Aging (KDOA) supports the intent of SB 544 which is to preserve universal telephone service. Universal service is perhaps best defined as the policy and practice of making basic telephone service available and affordable to all people in all areas of the country. It has been the cornerstone of national telecommunication policy since the enactment of the Communications Act of 1934.

While important to all residential customers, telephone service is vital to the elderly, especially low-income and homebound. A national poll of age 55+ persons found that older persons used the telephone more than when they were younger, and 74% believed that the telephone was more important as a means of staying in touch with friends and relatives than when they were younger. This percentage increased with age. In addition to its role in meeting the socialization needs of the elderly, the telephone is often the only practical link to emergency services (e.g. police, fire, and medical). The social services provided by the aging network to reduce inappropriate and costly institutionalization will not work if older persons are not accessible by phone.

The potential negative impact of the AT&T divestiture and the deregulation of the telecommunication industry on universal service is devastating. The chart attached to my testimony quantifies this impact. A 100% increase in phone rates (which would have occurred if Southwestern Bell's rate request had been granted in full and if the FCC's access charges been implemented) would result in 31% of the poor having to give up their phones. A 200% increase translates into 41% of the poor losing phone service.

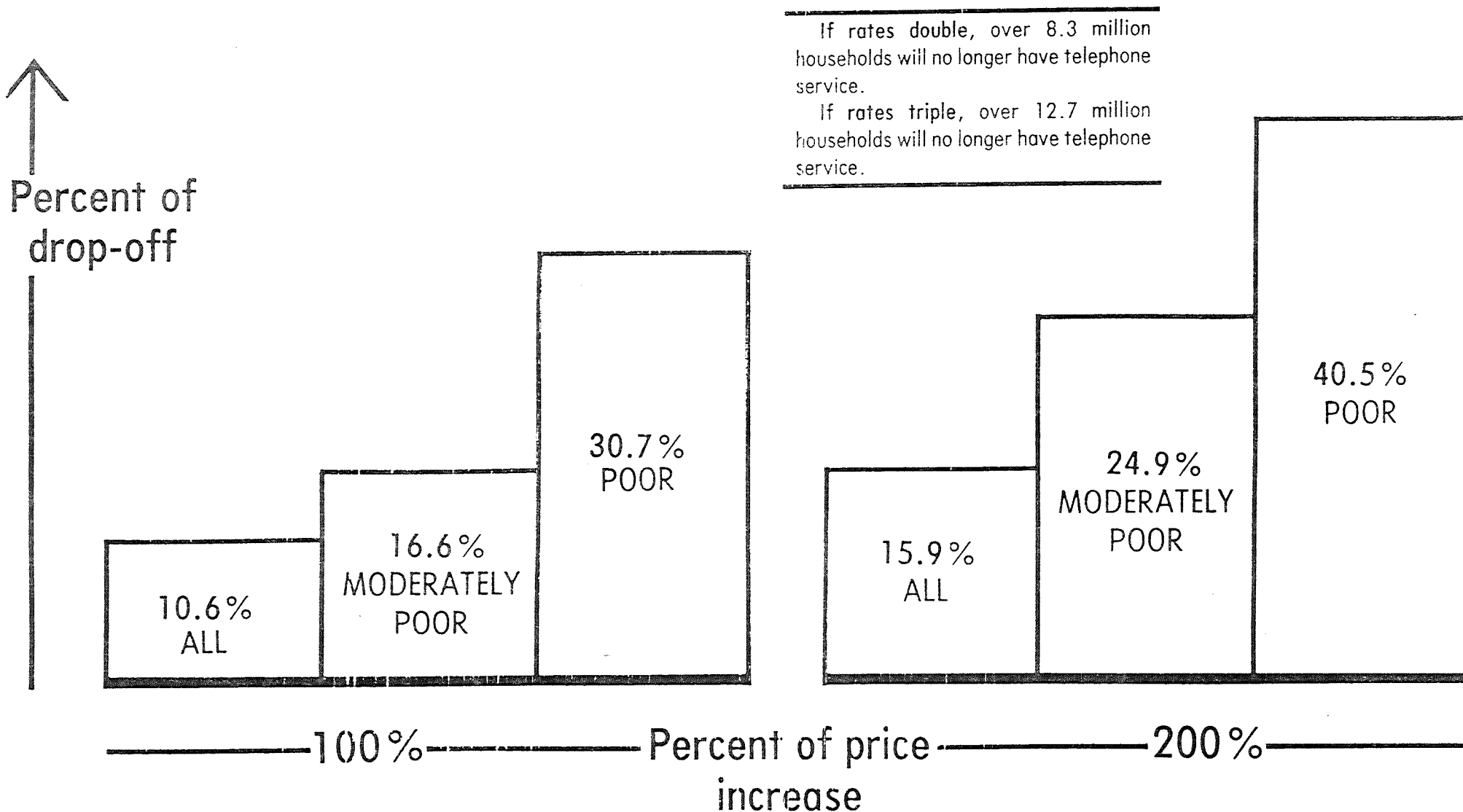
The Kansas elderly themselves recognize the importance of — universal telephone service and the potential threat to such service. Kansas' first Silver-Haired Legislature overwhelmingly approved a telephone life-line rate.

Although the phone rate increases to date have been relatively moderate, about 15% for both local service and long-distance calls within Kansas, there will likely be continuing upward pressure on phone rates. There are some who fear that future phone rate increases could rival the projected increases in electric rates.

The KCC's interim telephone rate case decisions and the FCC's temporary postponement of interstate access charges have created a window of opportunity for the legislature to deal with this program on a prospective basis.

SB 544 can be an appropriate vehicle for addressing this problem. KDOA urges you to give it serious consideration.

PROJECTED DROP-OFF BASED ON INCREASES IN TELEPHONE COSTS



Source: Study prepared by Lewis Perl of the National Economic Research Associates for the Bell Operating Companies.

STATE CORPORATION COMMISSION COMMENTS ON SENATE BILL 544

Don Law

SENATE BILL 544 WOULD REQUIRE TELEPHONE PUBLIC UTILITIES TO PROVIDE A "GUARANTEED EMERGENCY TELEPHONE SERVICE" TO PERSONS WHO QUALIFY FOR HOMESTEAD PROPERTY TAX REFUNDS. THE SERVICE WOULD PERMIT SIX LOCAL CALLS EACH DAY AT A RATE OF \$3 PER MONTH. CALLS IN EXCESS OF SIX PER DAY WOULD BE AT THE SAME RATE AS THE RATE FOR ALL OTHER RATEPAYERS.

— THE COMMISSION DOES NOT TAKE A POSITION ON THIS BILL. THE INTENT OF THE BILL APPEARS TO BE TO ENSURE A CERTAIN LEVEL OF TELEPHONE SERVICE AT AN AFFORDABLE PRICE. THE COMMISSION HAS CONSISTENTLY BELIEVED THAT THE GOAL OF UNIVERSAL TELEPHONE SERVICE SHOULD BE AND IS THE PRIMARY POLICY OBJECTIVE IN THE REGULATION OF THE COMMUNICATIONS SERVICES AND, CONSEQUENTLY APPRECIATES THE INTENT OF THIS BILL.

— HOWEVER, THERE ARE SEVERAL PRACTICAL PROBLEMS WITH THIS BILL. FIRST, 180 CALLS PER MONTH IS FAR FROM A MINIMUM LEVEL OF TELEPHONE SERVICE. THE AVERAGE RESIDENTIAL RATEPAYER MAKES LESS THAN HALF THAT NUMBER OF LOCAL CALLS. SECOND, THERE DOES NOT, AT THIS TIME, APPEAR TO BE A DRASTIC NEED FOR THE "LIFELINE" SERVICE ENVISIONED BY THIS BILL. THE AVERAGE RESIDENTIAL FLAT RATE IN KANSAS IS LESS THAN \$11 AND WE BELIEVE THAT IS REASONABLY AFFORDABLE. IF A NEED DOES DEVELOP, IT MAY BE QUESTIONED WHETHER THE NEED WILL BE RESTRICTED TO THOSE PERSONS ELIGIBLE FOR

Attch. 3

HOMESTEAD PROPERTY TAX RELIEF. FINALLY, THE BILL WOULD SEEM TO REQUIRE THAT THE COMMISSION HAVE REGULAR RATES FOR LOCAL MEASURED SERVICE FOR APPLICATION TO CALLS IN EXCESS OF SIX CALLS A DAY. THE COMMISSION RECENTLY DENIED UNITED TELEPHONE COMPANY'S REQUEST FOR MEASURED SERVICE PENDING THE CONCLUSION OF SOUTHWESTERN BELL'S TWO YEAR EXPERIMENT. THUS, ONLY BELL CURRENTLY HAS RATES FOR MEASURED SERVICE. ALSO, ^{most} MANY EXCHANGES IN KANSAS DO NOT HAVE THE CENTRAL OFFICE EQUIPMENT NECESSARY FOR MEASURING LOCAL CALLS. THIS BILL COULD CONSEQUENTLY REQUIRE EXPENSIVE INVESTMENTS IN SUCH EQUIPMENT.

IN CONCLUSION, I WOULD NOTE THAT THE COMMISSION HAS EXPRESSED RESERVATIONS ABOUT LOCAL MEASURED SERVICE, PRIMARILY BECAUSE A REDUCTION IN RATES TO ONE CLASS OF CUSTOMERS WILL NORMALLY REQUIRE AN INCREASE FOR OTHER RATEPAYERS. WHO SHOULD GET THAT REDUCTION AND HOW MUCH ARE TWO OF THE VERY DIFFICULT QUESTIONS TO BE ANSWERED.

Presented by Ed Schaub, Public Affairs Manager, representing Southwestern Bell Telephone Company

A complete hearing and inquiry into Senate Bill 544 should include consideration and investigation by this Committee of three (3) very critical matters of concern to all Kansans:

1. The role of the state legislature in trying to set utility rates and act as a regulator;
2. The establishment of a new grade of telephone service which amounts to an unnecessary "give-away" of service to some consumers wholly at the expense of other consumers; and,
3. The existence of low-cost residential options--including measured service--in Southwestern Bell's exchanges today which are now meeting the needs of the consumers which this bill seeks to address.

Please permit me to discuss these matters of concern one-by-one in the order which I just described them.

First, then, let's examine what happens when the state legislature decides to set utility rates, design service offerings, and act as a regulator. When the legislature establishes telephone service at a rate of \$3.00 per month for six local telephone calls each day it performs in a regulatory role, acting in the stead of the State Corporation Commission which has been duly constituted by the legislature to perform the regulatory function in Kansas. When the legislature acts as ratemaker, it effectively disenfranchises the Commission in this function; and, by way of an enactment setting rates, it rescinds the power it has given the Commission to regulate these rates.

But, there are major differences between legislative enactment of rates and a Commission finding of just and reasonable rate levels:

- a. The Commission is a full-time institution of state government which exists solely to carry out the corporate regulatory function in Kansas; the legislature is not.
- b. The Commission employs a full-time Public Utility Division including a specialized "telephone group" comprised of specialists in the field of telecommunication regulatory matters; the legislature does not.
- c. The Commission makes tariff structure and rate level findings only after an extensive audit procedure where the company's records and various workpapers are thoroughly scrutinized by the Commission Staff; the legislature has not done this.
- d. The Commission conducts an exhaustive hearing into the rate applications of telephone companies, listening to the testimony of both Company and Staff witnesses and experts in all matters touching upon the rate application, from the books of account to the rate of return to the rate plan itself; the legislature has not done this.
- e. The Commission designs each rate in the context of the whole, carefully balancing all rate levels for all services to meet the needs of Kansas consumers and to keep the companies financially viable; the legislature has not done this.

In short, the current tariffs and rate schedules under which Southwestern Bell operates in Kansas are a careful and considered product of extensive examination and deliberation by the State Corporation Commission. All rates for all services are an integral part of an overall framework of rate design, each unit of service and corresponding rate level relating to all of the others. If lawmakers

legislate just one change in this overall design, that change affects the entire structure. If the legislature decides to charge some customers \$3.00 per month for local exchange service, then the legislature must realize it has just pushed over the first of a string of dominoes. Southwestern Bell would need to design new rate plans for other services to compensate for the changes made by the legislature in one service.

The problems associated with preemption of the Commission in one of its most vital areas of regulation is equally as serious. The establishment of this rate would effectively remove the Commission from jurisdiction over this service and create a confusing, on-going, clumsy partnership between the legislature and the Commission in the on-going process of designing local exchange telephone rates in Kansas. For, who could change the \$3.00 rate during a period of rate adjustments on other services as the result of economic or regulatory necessity? Only the legislature would be able to change this rate, and yet the legislature meets for only the first four months of the year. Is there to be a ratemaking "season" in Kansas? It is our hope that the ladies and gentlemen of this committee will recognize the wisdom of leaving ratemaking matters to its full-time Commission which should continue to exercise complete, coordinated authority over the entire rate structure of the telephone company.

As I have indicated above, a monthly service rate of \$3.00 for six local telephone calls per day amounts to nothing less than an unnecessary give-away of telephone service. One-half of the residential telephone users in Kansas today make three or less out-going calls per day; nearly two-thirds of Kansas residents make four or less out-going calls per day. There is simply no reason, rationale, or need to guarantee anybody six out-going local calls for \$3.00. If any class of consumers are to be "guaranteed" telephone service for 30% of what most Kansans pay for local service (about \$10.00) then these consumers need to participate in the bargain and agree to conserve on local out-going calls. They certainly don't need six; consumers paying about \$10.00 only use three of four; so, any "guaranteed" customers should rightly expect to place many fewer calls. You on the committee should keep in mind that when we in the telephone business talk about restricting the number of calls, or when we talk about measured service where you "pay by the call," we are referring only to out-going local telephone calls. Measured service subscribers as well as any consumers who might fall under the "guarantee" of this bill can receive unlimited incoming calls at no charge. This, of course, allows the many social agencies which attend to the legitimate needs of less fortunate Kansans to make the usual daily calls of mercy without the incurrence of additional billing, much as they do today.

Of course, for every consumer who might qualify for the \$3.00 rate,

there are other consumers who must pay for this form of subsidy. The fact is that even today's one-party flat-rate residential subscribers who pay about \$10.00 per month for local exchange service do not cover what it costs Southwestern Bell to provide this service. It costs my Company about \$29.00 per month to provide a residential main line in Kansas; even the highest priced (\$10.00) residential service we offer requires a tremendous subsidy from the other services. This situation would become severely aggravated by the offering of an unneeded \$3.00 local service to significant numbers of Kansas residents.

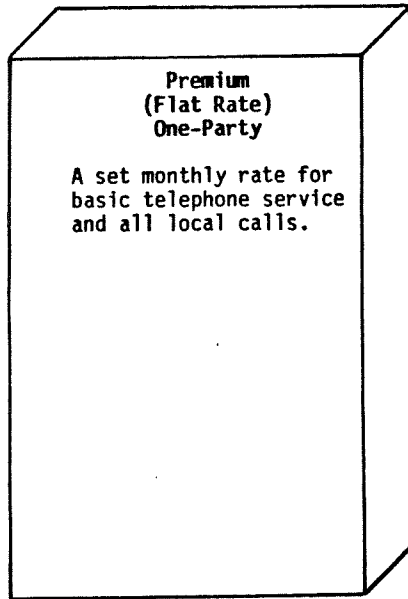
In 1983, some 43,000 Kansans in Southwestern Bell territory qualified as claimants under subsection (e) of K.S.A. 79-4502 (the qualifying statute incorporated into this Bill). Of the 43,000 claimants, about 41,000 are subscribers to residential telephone service. It is probably safe to suppose that people who avail themselves of property tax relief would likewise take advantage of \$3.00 "give-away" telephone rates. However, to provide a conservative estimate of the magnitude of dollars shifted between consumers by this Bill, I have assumed that only 35,000 customers of Southwestern Bell would request the \$3.00 per month rate saving an average of \$6.00 per month (again, a conservative saving; many customers would save more). These numbers of Kansas telephone users paying \$6.00 less per month than they now pay equates to a whopping transfer of \$2.5 million per year to the bill of the remaining consumers.

I have already mentioned several times that the \$3.00 monthly rate contemplated in this bill is "unnecessary." Such a rate is unnecessary because Southwestern Bell already offers several low-cost residential service options in Kansas. These options include two-party residential service as well as two measured service offerings which we call the "Budget Plan" and the "Thrift Plan." These alternative sources of telephone service are depicted upon the Attachment to the material I have provided to you. You will note that residential subscribers in Kansas can avail themselves today to low-cost alternatives to the \$10.00 one-party service, and many of our customers are doing so. You might be interested to know that consumer acceptance of the measured services have been phenomenal with nearly 40,000 residential customers switching to either the Budget or Thrift Plan in the first year of their existence. Because of the variety of local services now available to your constituents in Southwestern Bell exchanges, we are experiencing no demand or interest in the kind of "guaranteed" service contemplated by this bill.

OPTIONS FOR LOCAL RESIDENTIAL PHONE SERVICE
Fixed Monthly Rates

\$8.95 to \$13.00

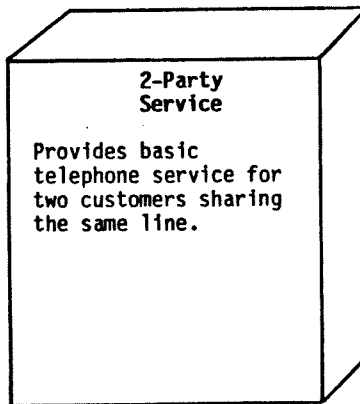
(Depending on size of city)



Unlimited local calling included in this single monthly rate.

\$6.45 to \$9.30

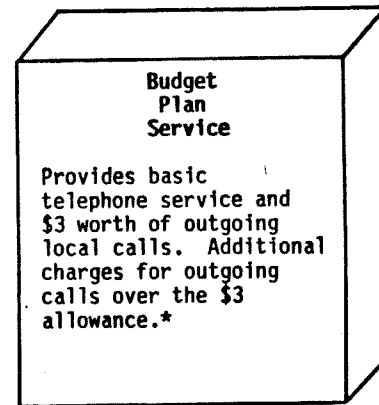
(Depending on size of city)



Unlimited local calling included in this single monthly rate.

\$5.90 to \$9.50

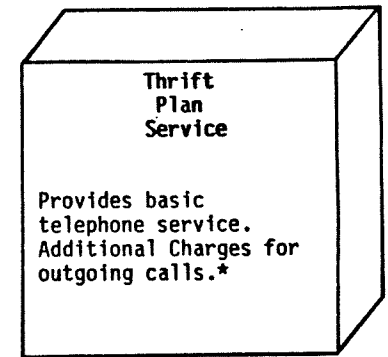
(Depending on size of city)



Place up to 130 outgoing local calls a month and save over Premium (Flat Rate) Service.**

\$4.40 to \$8.00

(Depending on size of city)



Place up to 100 outgoing local calls a month and save over Premium (Flat Rate) Service.**

*Additional charges for usage are priced at 4¢ for the first minute and 1¢ each additional minute.

**Based on average local calling habits of Southwestern Bell customers in Kansas which equates to an average rate per call of 5¢ based upon the rate schedule shown in * above.

BEFORE THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE

Statement of Thomas E. Gleason on behalf of "Independent Telephone Company Group" in opposition to Senate Bill 544

Mr. Chairman and Members of the Committee:

I appear here as registered lobbyist on behalf of "Independent Telephone Company Group," which is made up of the following 18 small independent rural oriented telephone companies:

Assaria Telephone Exchange, Inc., Assaria, Kansas 67416
Columbus Telephone Company, Inc., Columbus, Kansas 66725
Cunningham Telephone Company, Inc., Glen Elder, Kansas 67446
Elkhart Telephone Company, Inc., Elkhart, Kansas 67950
Haviland Telephone Co., Inc., Haviland, Kansas 67059
H & B Communications, Inc., Holyrood, Kansas 67450
Home Telephone Co., Inc., Galva, Kansas 67443
Jetmore Telephone Co., Inc., Dodge City, Kansas 67801
Moundridge Telephone Co., Inc., Moundridge, Kansas 67107
S & T Telephone Co-Op Assn., Inc., Brewster, Kansas 67332
Southern Kansas Telephone Co., Inc., Clearwater, Kansas 67026
Sunflower Telephone Company, Inc., Dodge City, Kansas 67801
Totah Telephone Co., Inc., Ochelata, Oklahoma 74051
Twin Valley Telephone, Inc., Miltonvale, Kansas 67466
United Telephone Association, Inc., Dodge City, Kansas 67801
Wamego Telephone Co., Inc., Wamego, Kansas 66547
Wilson Telephone Co., Inc., Wilson, Kansas 67490
Zenda Telephone Company, Inc., Zenda, Kansas 67159

Mr. John G. Foster, who is also testifying today, is president of one of the telephone companies which makes up the "Independent Telephone Company Group", and I generally support the statement which he has or will be making here today.

I want to make one additional point which I believe this committee should consider in connection with Senate Bill 544 and other bills that may come before the committee during this session.

It is my view as a close observer of public utility regulation and rate making in the State of Kansas for more than 35

Atch. 5

years, that the trend toward public utility rate making as a political issue does not serve the long-range public interest. I think there is general agreement that there has been a recent trend nationally and throughout the various states to make political issues of public utility rates and rate making. I think that this committee and the Kansas Legislature need to take a hard look at the proper legislative function in public utility regulation generally as you consider what I believe are basically political rate making issues.

I believe that there is a need to re-examine the legislative role and purpose in creating public utilities, as well as the continuing regulatory role.

I believe there will be general agreement that the original purpose of the legislature in directing the regulation of public utility services was two-fold; the avoidance of the cost burden associated with duplication of facilities needed to provide those basic public need services; and the assurance to the general public of the availability and reliability of those regulated services at reasonable rates. There has been a general recognition that in certain areas of publicly needed services, such as electric power, natural gas, some forms of public transportation and communication services, the public interest is better served through regulated monopoly enterprises rather than competitive free market enterprises.

It has been obvious over the years that such services would not be likely to be generally available to the sparsely settled

areas of Kansas under free enterprise economic conditions, and that, therefore, monopoly enterprises should be created to operate in a regulated environment to assure the general public of availability of the needed services and to further assure the public that the cost of such services would be equitably apportioned among all the users.

The legislature has for many years made provision for the creation and regulation of such monopoly enterprises and the public has been well served within the legislature's plan. In the field of telecommunications, with which we are dealing today, the legislative plan of regulated monopoly services has resulted in the availability of high quality telephone service at reasonable rates throughout the State of Kansas. We are pleased that the regulated industry has, we believe, substantially met the objective of universal telecommunications services at reasonable rates in that more than 93% of the residences of the State of Kansas now have available and utilize high grade telecommunications services at regulated and reasonable rates.

Senate Bill 544, if passed, would, we believe, be a step in the wrong direction as the telecommunications industry and the State Corporation Commission, under this legislature's direction, proceed in their efforts to continue the availability of universal telecommunications services at reasonable rates.

As has been indicated, Senate Bill 544 would require substantial additional investment in facilities in order to provide a

service to some customers at substantially less than the cost of that service. Under the system of regulated monopolies, to make such a service offering would result in the imposition of rates at above the cost of service for the balance of the utility customers. I have no statistics as to just how many might qualify for the service as set forth in Senate Bill 544 and it might be said that there would not be very many of those customers. It is my concern, however, that if we take this first step of requiring the offering of a service at substantially below cost of the service, then the legislature is likely to be deluged with requests for the inclusion of additional customers or additional services in a similar plan. It is obvious that the end result would be to ultimately destroy the present concept of availability of universal service at reasonable rates.

In summary, we would suggest to this committee that the Corporation Commission, under the direction and guidance of the legislature, very adequately protects the public's interest in public utility rate making. We would suggest that the legislature should not now take action in the form of Senate Bill 544 or otherwise which would significantly disrupt the Corporation Commission and the regulated public utilities as they work together under present legislative mandates to assure the availability of needed services at reasonable and regulated rates.

We hope that the committee will vote to oppose Senate Bill 544.

Respectfully submitted,



Thomas E. Gleason on behalf of
Independent Telephone Company
Group.

BEFORE THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE

Statement of John G. Foster, Miltonvale, Kansas,
President of Twin Valley Telephone, Inc.
in opposition to Senate Bill 544

Mr. Chairman and Members of the Committee:

We thank you for the opportunity to appear here and submit our statement in opposition to Senate Bill 544. My name is John G. Foster, and I reside at Miltonvale, Kansas, and I am president of Twin Valley Telephone, Inc.

Twin Valley Telephone, Inc. is a family owned private corporation which holds certificates issued by the Kansas Corporation Commission under which we provide telephone public utility services in six exchanges in north central Kansas. The exchanges are Miltonvale, Barnard, Beverly, Tescott, Bennington and Greenleaf. We are currently serving approximately 2100 customers in these small communities and surrounding rural areas. Most of our customers reside in the rural areas.

Twin Valley Telephone, Inc. provides, we believe, a high grade of rural telecommunications services in our areas. Our modern dial telephone facilities are financed primarily by REA loans from the United States Government on very favorable terms which has permitted us to extend service into these rural areas of Kansas and provide high grade services at what we believe are very reasonable rates. Our rates, of course, are regulated by the Kansas Corporation Commission which is charged with the

Atch. 6

responsibilities of seeing to it that we meet our obligations to serve all the general public in our areas at reasonable rates, while at the same time assuring the investors in the facilities of an opportunity of meeting the cost of operations and a reasonable rate of return on our investments.

As president of a telephone public utility serving portions of rural Kansas, we oppose the passage of Senate Bill 544 for several reasons. Our chief opposition to the bill is that Sec. 1 (b) would require telephone public utilities of the State of Kansas to provide service to some customers at substantially less than the cost of that service. In effect, the bill as written would put the telephone public utilities in the welfare business in the State of Kansas. The State Corporation Commission has been heavily involved in studying the cost of telephone service throughout the State of Kansas and the effects on the costs of telephone service that have been imposed by the court-order divestiture of AT&T. The telephone utilities are operating in a changed and changing environment which, we believe, will tend to apply upward pressure on local telephone service rates generally throughout the State of Kansas.

I am satisfied from my life-long experience in the telephone business, and from my involvement in the various studies of telephone service costs that have been conducted by our Commission, that the \$3.00 per month local service rate which

would be mandated by Sec. 1 (b) of Senate Bill 544 will not meet the cost of modern local telephone service anywhere in the State of Kansas. Our total costs of operation would not change if Senate Bill 544 would become law and since utilities are entitled to schedules of rates which would meet our total costs of operation, including a reasonable rate of return on investment, the imposition of the \$3.00 guaranteed emergency service rate provided in subsection (b) would result in increased costs of service to be borne by all of the rate payers who would fail to qualify for the guaranteed emergency telephone service rate.

We recognize that public utility rates generally would become political issues but we would suggest to this committee that from the political point of view, there would be more voters whose rates would be increased by the mandated guaranteed emergency telephone service rate than there would be voters who would benefit by being able to take advantage of the \$3.00 rate and thus receive their telephone service at less than the cost of that service.

An additional objection we have that we wish to comment on in behalf of the telephone public utility industry in the state is that proposed Section 1 (b) stems from our awareness that many of the telephone utilities of the State of Kansas would not have facilities in place by December 31, 1984 in order to provide such service and to properly monitor and account for the service

offering. The bill would propose to require every telephone public utility to offer what is known as a measured local service. The Kansas Corporation Commission has been studying measured local service on an experimental basis on a limited offering by Southwestern Bell Telephone Company for more than a year and we would suggest at some time in the future, Kansas telephone utilities might very well be generally capable of providing measured local service. We should also note that our Commission has shown a reluctance to extend the experimental measured service offering it has authorized; specifically, both Southwestern Bell and United Telephone Company of Kansas have been denied the authority to make additional measured service offerings.

The committee should also be aware that if Senate Bill 544 in its present form should be passed, you would be mandating many telephone utilities to accelerate substantial additional investments in switching and service measurement facilities. The cost of such additional investments would have to be borne by the telephone rate payers generally.

For the above reasons, we oppose the passage of Senate Bill 544 in its present form and would oppose in principle any legislative mandate that telephone public services be rendered and provided at less than the full cost of such services. Such a mandate would, we believe, be inconsistent with the objectives of public utility regulation generally and would not serve the interests of the general body of telephone rate payers.

We urge that this committee oppose the passage of Senate Bill 544.

SENATE COMMITTEE ON
TRANSPORTATION AND UTILITIES

SB 544

FEBRUARY 15, 1984

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE TRANSPORTATION COMMITTEE. I AM JEFF RUSSELL, GOVERNMENTAL AFFAIRS DIRECTOR FOR UNITED TELEPHONE COMPANY OF KANSAS. WE SERVE APPROXIMATELY 66,000 CUSTOMERS IN 109 COMMUNITIES AS THE SECOND LARGEST TELEPHONE COMPANY IN THE STATE. I APPRECIATE THE OPPORTUNITY TO SPEAK IN OPPOSITION TO SB 544.

WHILE UNITED IS IN ACCORD WITH AND SUPPORTS THE CONCEPT OF "LIFELINE" OR "EMERGENCY TELEPHONE SERVICE," WE FEEL THAT A PROPERLY STRUCTURED LOCAL MEASURED SERVICE (LMS) PROGRAM IS A MORE APPROPRIATE FORM OF SUCH LIFELINE RATES. LMS PROVIDES FOR A REDUCED ACCESS LINE MONTHLY RATE, AND GIVES THE ULTIMATE CONTROL OVER THE RESULTANT TELEPHONE BILL TO THE CUSTOMER. OUR PROPOSED LMS IS DESIGNED TO CHARGE THE CUSTOMER 50 PERCENT OF THE CURRENT MONTHLY RATE, AND A FEE FOR EACH OUTGOING CALL PLACED. THE RATE FOR EACH CALL VARIES, BASED ON DURATION, DISTANCE, AND TIME OF DAY.

REGARDLESS OF THE TYPE OF PLAN OR MECHANISM OFFERED, ANY LIFELINE TYPE OF RATE SHOULD BE DETERMINED BY THE STATE CORPORATION COMMISSION AND THE COMPANIES AND CUSTOMERS INVOLVED - RATHER THAN LEGISLATING AN ACROSS-THE-BOARD MANDATE WHICH MAY BE UNREALISTIC IN SOME OR ALL INSTANCES.

Atch. 7

THIS AND SIMILAR SUBJECTS ARE BETTER DEALT WITH THROUGH
REGULATION THAN LEGISLATION.

RATE DESIGN AND RATEMAKING ARE PROPERLY A MATTER TO BE
DEALT WITH BY THE COMMISSION, SINCE EACH TELEPHONE COMPANY
IN THE STATE INCURS DIFFERENT COSTS TO PROVIDE DIFFERENT
CLASSES OF SERVICE.

FOR THESE REASONS, I RESPECTFULLY REQUEST THAT THE
COMMITTEE NOT PASS SB 544.

THANK YOU AGAIN FOR THE CHANCE TO ADDRESS THE COMMITTEE
TODAY. I'LL BE HAPPY TO TRY TO ANSWER ANY QUESTIONS YOU MAY
HAVE.

RESPECTFULLY SUBMITTED,

JEFFREY M. RUSSELL
DIRECTOR OF GOVERNMENTAL AFFAIRS
UNITED TELEPHONE COMPANY OF KANSAS