Approved March 28, 1988
Date

MINUTES OF THE Senate COMMITTEE ON Governmental Organization.

The meeting was called to order by Senator Vidricksen at
Chairperson

1:38 ~~a.m.~~/p.m. on March 22, 1988 in room 531N of the Capitol.

All members were present except:
Senator Bogina
Senator Winter

Committee staff present:
Julian Efird - Research
Jill Wolters - Revisor

Conferees appearing before the committee:
Harland Priddle - Secretary of Commerce
Ed Schaub - Southwestern Bell Mobile Systems
Larry Southern - Southwestern Bell Mobile Systems
Gary Reser - Kansas Telecomm Association
Jo Jenkins - Kansas Corporation Commission
Phil Woodbury - Mobile Phone of Kansas

The Chairman called the meeting to order and attention was turned to HB 2661 concerning the Department of Commerce. He introduced Harland Priddle who distributed a chart showing the divisions within the Department (Exhibit A) and presented copies of his testimony. (Exhibit B). Mr. Priddle briefed the committee on the functions of the Department and urged favorable consideration of this bill with one exception. That being the thought that the Minority Business Function should remain within the Existing Industry Division and not be separated into a division of its own. (This amendment was attached to the bill from the House.) After a brief question and answer session a motion was made by Senator Francisco to strike the amendment to HB 2661. This was seconded by Senator Hoferer and the motion carried.

A motion was then made by Senator Francisco to recommend HB 2661 as amended, favorable for passage. Senator Gaines seconded this. Motion carried.

The committee turned its attention to HB 2958 concerning the regulation, supervision and control of radio common carriers and radio communications by the State Corporation Commission. Ed Schaub was introduced and he briefed the committee on the bill, asking for removal of the sunset and explaining the technical amendments on page 3. He in turn, introduced Larry Southern who distributed copies of his testimony (Exhibit C) and spoke in support of this bill. He urged the committee's favorable consideration of HB 2958 as he stated it would continue to facilitate competition in the radio services industry which will benefit the consumer. He explained that they had not witnessed any of the problems that had been projected by those who opposed the deregulation in 1985. Gary Reser also addressed this bill stating that the Kansas Telecommunications Association supports it and urged it passing. (Exhibit D) Jo Jenkins addressed the committee briefly in support of HB 2958 stating that she had reviewed the bill before it was introduced and had not received any major complaints on it.

Phil Woodbury addressed the committee in opposition to HB 2958 stating that good utility regulation of both the old and new services by a dedicated regulatory authority is mandatory if rates for basic telephone services are to be kept at an acceptable level. He pointed out that if this bill was defeated and regulation is retained a portion of the millions of dollars of profit will be used to lower the cost of all telephone service in the state. (Exhibit E and F)

The sub-committee reported back to the committee and distributed copies of

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Governmental Organization,

room 531 N, Statehouse, at 1:38 ~~a.m.~~/p.m. on March 22, 1988

the proposed amendments for SB 663, SB 704, and SB 705. (See Exhibits G, H and I) After a question and answer session Senator Gaines made a motion to adopt the amendments for these three bills. Senator Francisco seconded this and the motion carried.

A motion was then made by Senator Strick to recommend SB 663, SB 704, and SB 705 as favorable for passage. Senator Francisco seconded this and the motion carried.

Senator Strick again made a motion to approve the minutes of the March 21st meeting. It was seconded by Senator Francisco and carried.

The meeting was adjourned at 2:32 by the Chairman.

GUEST LIST

COMMITTEE: Senate Governmental Organization DATE: March 22, 1988

NAME	ADDRESS	COMPANY/ORGANIZATION
Betty J Coltrell	Haysville Ks	Eco. Deve (Petroleum)
Terry Denker	Topeka	KDOC
Ann Patterson	Topeka	KDOC
D. WAYNE ZIMMERMAN	TOPEKA	KDOC
JACK MONTGOMERY	TOPEKA	KDOC
Jim Gaertner	Topeka	SWBT
ED SCHAUB	TOPEKA	SOUTHWESTERN BELL MOBILE SYSTEMS
LARRY SOUTHERN	DALLAS	SOUTHWESTERN BELL MOBILE SYSTEMS INC
Jacque Oakes	Topeka	Ks NECA. K Pl. Heating & Cooling Cont.
Jerry Wittmer	Topeka	TOPEKA HOME BUILDERS ASSN & HOME BUILDERS ASSN OF KANSAS
Kathy J. Marney	Topeka	MCAK
PHIL WOODBURY	EMPORIA	MOBILFONE of KS.
Garry Reser	Topeka, Ks	Kan. Telecomm. Assn.
Gary Campbell	Manhattan	Contel
David Rosenthal	Topeka	KCDHi
Deana Weddle	Topeka	KCDHi
Jo Jenkins	Topeka	KCC
DENNY S KOCH	TOPEKA	SW BELL TEL CO.
Tom Slattery	Topeka	AGC of Ks

EXHIBIT A - 3/22/88

DEPARTMENT OF COMMERCE -- OFFICE OF THE SECRETARY
Harland E. Priddle / 296-3480

Mission: The Department of Commerce shall act as lead agency of the State for Economic Development for the promotion of business, industry, trade and tourism.

DEPUTY SECRETARY
Wayne Zimmerman / 296-3481
GENERAL ADMINISTRATION
Policy Analysis & Research Unit
Fiscal Accounting & Personnel

EXISTING INDUSTRY DEVELOPMENT DIVISION

Jack Montgomery / 296-5298
Director

Mission: To promote and encourage the growth, diversification, and retention of business and industry in Kansas.

Major Activities:

* Small Business
* Minority Business Devel.
* One Stop Permitting
* Field Offices
* Local Community Technical Assistance
* Liaison with Small Business Development Centers, Certified Development Companies, Venture Capital Companies

INDUSTRIAL DEVELOPMENT DIVISION

Lou Atherton / 296-2652
Director

Mission: To attract new business and industry from outside the state, thereby creating jobs, attracting new capital investment, and expanding and diversifying the state's economic tax base.

Major Activities:

* Domestic Business Recruitment
* International Business Recruitment
* Targeted Marketing Program
* National Promotion Campaign

TRADE DEVELOPMENT DIVISION

Harry Salisbury / 296-4027
Director

Mission: To increase sales of Kansas agricultural and manufactured products worldwide, thereby creating jobs, bringing new dollars into the state, and enhancing the growth and expansion of the state's economic base.

Major Activities:

* Trade Promotion
* International Trade Development
* Trade Services

TRAVEL & TOURISM DEVELOPMENT DIVISION

LewJene Schneider / 296-7091
Director

Mission: To increase the number of visitors to Kansas by promoting the state as a travel opportunity to both Kansans and non-Kansans alike.

Major Activities:

* Promotion
* Tourist Information Centers
* Kansas Magazine
* Film Services

COMMUNITY DEVELOPMENT DIVISION

Don Gragg / 296-3485
Director

Mission: To provide grants, loans and technical assistance to Kansas communities to stimulate and support economic development activity.

Major Activities:

* Community Assistance
* Mainstreet Program
* PRIDE Program
* Community Development Block Grants--Small Cities
* Enterprise Zones
* Certified Cities Program

TESTIMONY

on

HOUSE BILL 2661

Before the

SENATE GOVERNMENTAL ORGANIZATION COMMITTEE

by

HARLAND E. PRIDDLE

SECRETARY OF COMMERCE

March 22, 1988

EXHIBIT B - 3/22/88

Mr. Chairman and Members of the Committee, in response to a review of our agency's activities in connection with House Bill 2661, I will briefly review the functions of the agency with specific accomplishments and responsibilities within each of the operational areas.

The Department of Commerce was established on January 12, 1987. Many of the functions previously administered by the Kansas Department of Economic Development were transferred to the new Department of Commerce. In addition, there were new programs established and expanded activity in many areas. The Trade Development Division was officially established with the beginning of the Department of Commerce on January 12, 1987. The Existing Industry Division realized major changes with the addition of 6 regional office locations and staffing to support this concept. The Kansas Advanced Technology Commission, formerly under the Kansas Department of Economic Development, was removed, and its functions were contained in the new Kansas Technology Enterprise Corporation.

The Department is organized with 5 operational divisions. A sixth division, General Administration, provides support in the areas of personnel, policy analysis and research, automation, public information, and budgeting.

The Existing Industry Division is designed to assist the existing businesses throughout the state of Kansas with emphasis on small and medium sized businesses. In order to establish an effective organizational structure to accomplish this support, we have designed and implemented an outreach program with 6 regional offices throughout Kansas. The Existing Industry Division has also established a venture capital staff support program and is currently developing sources of venture capital for businesses throughout Kansas. Business retention has been high on our list, and we recently completed a business retention survey of 10 mid-size communities involving personal interviews and in depth discussions with 858 companies. This retention survey will give us a guideline for the future in identifying weaknesses and support problems of Kansas small businesses. Within the Existing Industry Division, we also perform liaison with Small Business Development Centers, Certified Development Companies, Venture Capital Companies, and offer a One Stop Permitting service. A Minority Business Development function is located within the Existing Industry Division.

The Industrial Development Division is designed to attract new business and industry from outside the state. During this past year, an extensive program was established and implemented in promoting Kansas outside of our state. Advertising was placed in national magazines promoting Kansas as a good place to do business. As of December 31, 1987, we had identified over 1500 possible prospects for relocating their business to Kansas. We also stepped up our recruiting efforts in overseas areas in both Europe and Japan with the establishment of a European reverse investment function in July of 1987. At the end of the year, we had 153 active files on companies desiring to locate into Kansas.

The Trade Development Division, a new function within the Department of Commerce, was organized and staffed during the year of 1987. This Division also completed its first foreign trade mission visiting 5 different countries. The Division also established 4 Kansas service offices in foreign countries to assist in promoting Kansas products in overseas areas. With regards to selling Kansas products within our own country, a Bloomingdale's promotion program was negotiated and completed in October of 1987. This promotion program will actually take place in May of 1988 and will feature approximately 50 Kansas food companies and 30 other arts and crafts and commercial products for a 6-week period in New York and 15 other locations throughout the country.

The Travel and Tourism Division had an eventful year with a national award winning campaign, Linger Longer. Through this joint cooperative effort with Coleman Company, 5,350 jugs were given to out-of-state travelers who lingered longer in our state. Film activities were also extremely active this past year, resulting in over $6 million spent in Kansas in producing films, documentaries, and commercials. Over 600 requests for film location sites were received during 1987. Tourists Information Centers achieved record results with over 400,000 visitors to the 4 state-operated Visitor Information Center sites. Kansas Magazine continued to be successful with 42,000 subscribers. An aggressive promotional campaign of the Kansas Magazine is being conducted in 1988.

In the Community Development Division, approximately $15 million was processed and distributed to 71 different communities and counties throughout the state of Kansas. Only one-third of the total requests in the Small Cities Development Grant program were satisfied. Fourteen different communities received technical assistance from the Community Development Division. The Main Street Program was extremely active with 7 communities participating and plans to expand to 12 in 1988. The Pride Program had 82 cities enrolled at the end of the year. Hopefully, with an aggressive recruitment program underway, enrollment will reach 100 during 1988.

As it relates specifically to House Bill 2661, the Department of Commerce urges you to favorably consider this bill and continue the operation of the Department of Commerce as it currently exists with one exception. We believe the Minority Business Function should remain within the Existing Industry Division and not be separated into a division of its own. At the present time, this function is served by two staff persons and a secretary. It receives substantial administrative support in other areas from the Existing Industry Division and is closely related to functions within the Division under which it is assigned. Putting this function into a separate division, would not be administratively efficient and would result in higher costs. We believe it is providing proper support in its present arrangement and suggest it remain as a function and a section within the Existing Industry Division. With that exception, we urge that you favorably consider House Bill 2661.

TESTIMONY TO SENATE
GOVERNMENTAL ORGANIZATION COMMITTEE
House Bill 2958
March 22, 1988

Mister Chairman and Members of the Committee:

I am Larry Southern and I represent Southwestern Bell Mobile Systems. Our business is cellular mobile telephone service and I appear here today in support of House Bill, 2958.

We are a wholly owned subsidiary of SOUTHWESTERN BELL CORPORATION, a holding company. SOUTHWESTERN BELL TELEPHONE COMPANY also is a wholly owned subsidiary of SOUTHWESTERN BELL CORPORATION.

- SOUTHWESTERN BELL MOBILE SYSTEMS is fully separated from SOUTHWESTERN BELL TELEPHONE COMPANY by FCC order.
- Our business relationship with SOUTHWESTERN BELL TELEPHONE COMPANY is such that we interconnect to phone company facilities just like any other radio common carrier (RCC's). We obtain these services under the same arrangements as any other customer.

Cellular mobile telephone service is a merger of two technologies, two-way mobile radio and the computer. Attached to copies of my testimony is an example of how cellular service works.

The market area to be served is divided into a grid of

EXHIBIT C - 3/22/88

cells, each with its own low power transmitter. Each cell serves only customers located within its coverage area. When a customer moves from one cell to another within the grid of cells, a central computer "hands off" the call to an adjacent cell without the customer even knowing it.

Two characteristics set cellular apart from other mobile technologies. One, it uses low power transmitters, making it possible to reuse the same frequencies in the coverage area. And two, as demand for the service grows, the cells can be divided into smaller cells. This technique, known as cell splitting, allows the system to grow along with customer needs. New cells can also be added to allow the system to cover larger areas.

Today, I would like to discuss the need for deregulation of cellular and other radio services.

First, competition does and will exist in the cellular industry. The FCC goal is to foster competition in cellular markets and to get cellular service to the marketplace as fast as possible. In FCC decisions regarding cellular, one half of the radio spectrum was allocated to wireline carriers (telephone companies or their affiliates) and one half is allocated to non-wirelines (traditional RCC's). In other words, the FCC will license two carriers in each market, thus ensuring competition. The non-wireline carriers are typically major companies such as CyberTel-Cox, Metro Mobile or McCaw Communications. They are formidable, well financed competitors. Often, the local RCC's with an established radio service presence will have an interest in the non-wireline partnership.

Today there are approximately 44 carriers operating 294 systems in the nation. Roughly 70 percent of the population has access to cellular systems and the FCC is almost ready to begin licensing the Rural Service Areas (RSAs) of the nation. In Kansas, Southwestern Bell Mobile Systems has the wireline license to provide service in the Kansas City, Lawrence, Topeka and Wichita Metropolitan Statistical Areas. The FCC has also licensed a competing cellular carrier in each of these markets. Competition is increasing in all types of radio service and will ultimately benefit the customer through better services and lower prices.

House Bill 2958 will allow free market entry and negate the need for rate regulation.

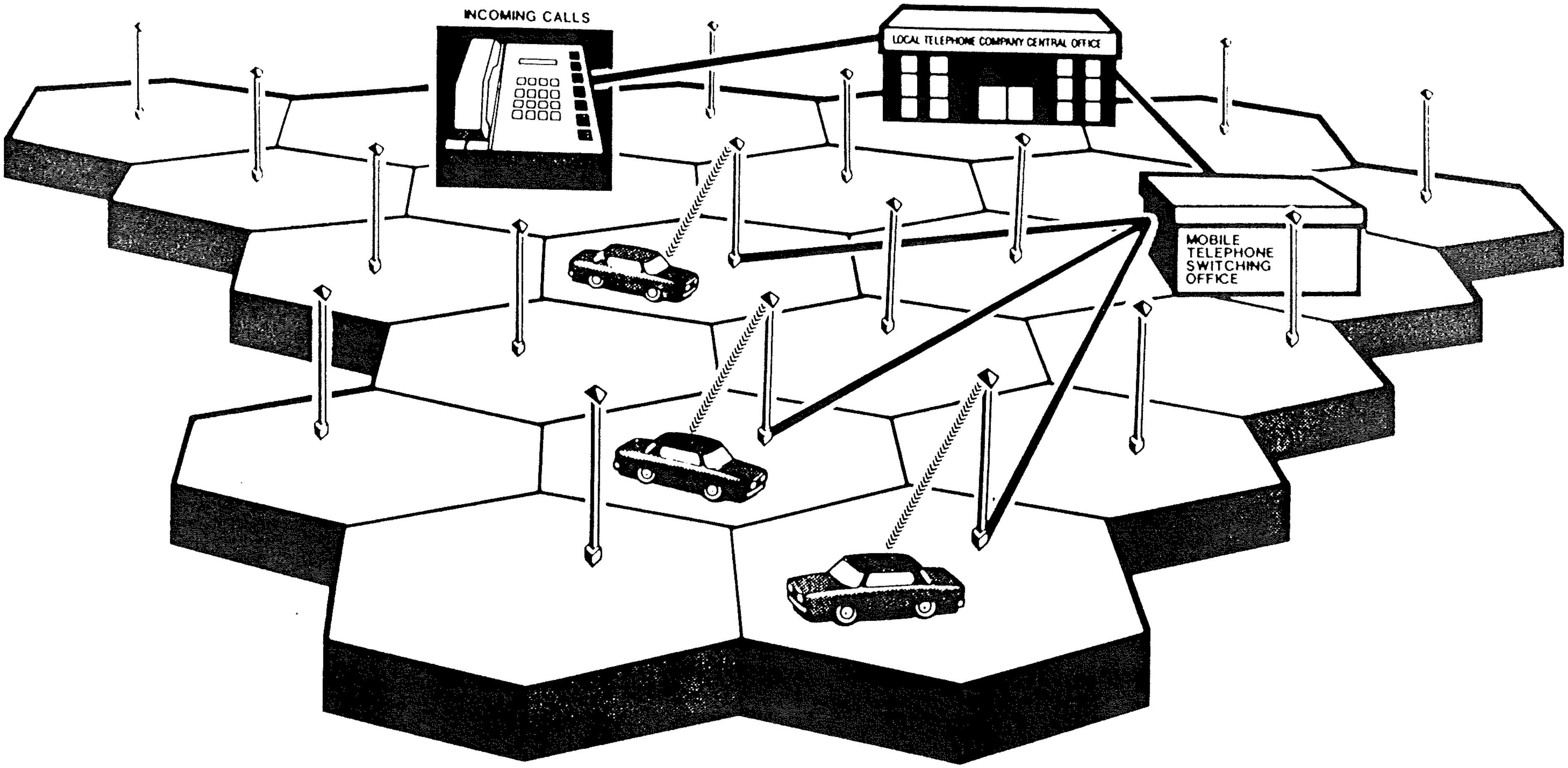
The FCC still regulates market entry and has the authority to grant or deny a radio license, eliminating the need for the states to also regulate market entry. Also, in a competitive business like cellular and other radio services, rate regulation is not needed. In fact, the absence of rate regulation allows the industry to package and price its service in response to the consumer. During the absence of rate regulation in 1986 and 1987, consumers in Kansas benefited from numerous promotions (see example attached) by the carriers which discounted services.

Deregulation of radio services is a growing trend across the country. Twenty-one states plus Washington, D.C. will not regulate cellular, and several others are considering it. The Texas, Oklahoma and Missouri legislatures have already passed legislation to deregulate radio services. Missouri is particularly significant to my company since we operate the wireline Kansas City Cellular System which covers both sides of the Kansas/Missouri state line. Consistent views on deregulation between Kansas and Missouri would eliminate recurring regulatory difficulties.

Interconnection problems and bypass were two issues talked about by the opponents to deregulation in 1985. Interconnection facilities are still not affected by this bill. They will continue to be regulated by the KCC. Regarding bypass, it is unlikely that cellular service <u>will ever</u> replace local telephone service. Cellular airtime for the typical subscriber (doesn't include the mobile phone, which is already unregulated), runs approximately $100 to $150 per month compared to about $10/month for local telephone service. Prices for mobile phones have been coming down rapidly because that part of our industry is intensely competitive (and not regulated). I don't see cellular as an economic alternative to landline telephone service in any of our lifetimes. In fact, an article in the January 1988 issue of Cellular Business projected a cellular penetration rate of only 3.35% by year 2000.

In summary, HB 2958 will continue to facilitate competition in the radio services industry which will benefit the consumer. During the two years of the sunset, we have witnessed none of the problems projected by those who opposed deregulation in 1985. I sincerely hope that you can support these views and will give us your prompt consideration on HB 2958.

Thank you very much.



HOW THE CELLULAR SYSTEM WORKS

Cellular represents a revolutionary advancement in communications technology that provides mobile telephone service of far greater capacity and better transmission quality than conventional mobile phone service.

Cellular technology operates by dividing a city into smaller geographic areas called cells, each served by its own low-power radio transmitter. Cell sites are connected by wireline facilities to the Mobile Telephone Switching Office (MTSO), which is linked to the regular landline network through the local telephone company central office.

As the caller drives across the service area, the call is automatically passed from one transmitter to another, without noticeable interruption. Every cellular customer is assigned a unique seven-digit telephone number and may place as well as receive calls directly without operator assistance.

JUST A DARN MINUTE.

Buy a minute from us and get a lot more than just a free minute of calling time.

Right now, when you sign up with Southwestern Bell Mobile Systems, you're going to get a lot more for your money than just a free minute. Besides being a part of the best mobile phone system in Wichita, you also receive all of these services from the moment you sign up until the end of the year.

So sign up now. Because the sooner you sign up for new service, the more you save. For more information, just pick up your nonmobile phone and call.

- Buy one minute of peak calling time, get one minute of peak calling time *free*
- *Free* off-peak calling time (evenings, weekends and holidays)
- *Free* Custom Calling (Call Forwarding, Call Waiting, Three-way Calling) for 60 days
- No need to purchase a phone — our rental plans start at just $19.95 per month
- *Free* phone activation

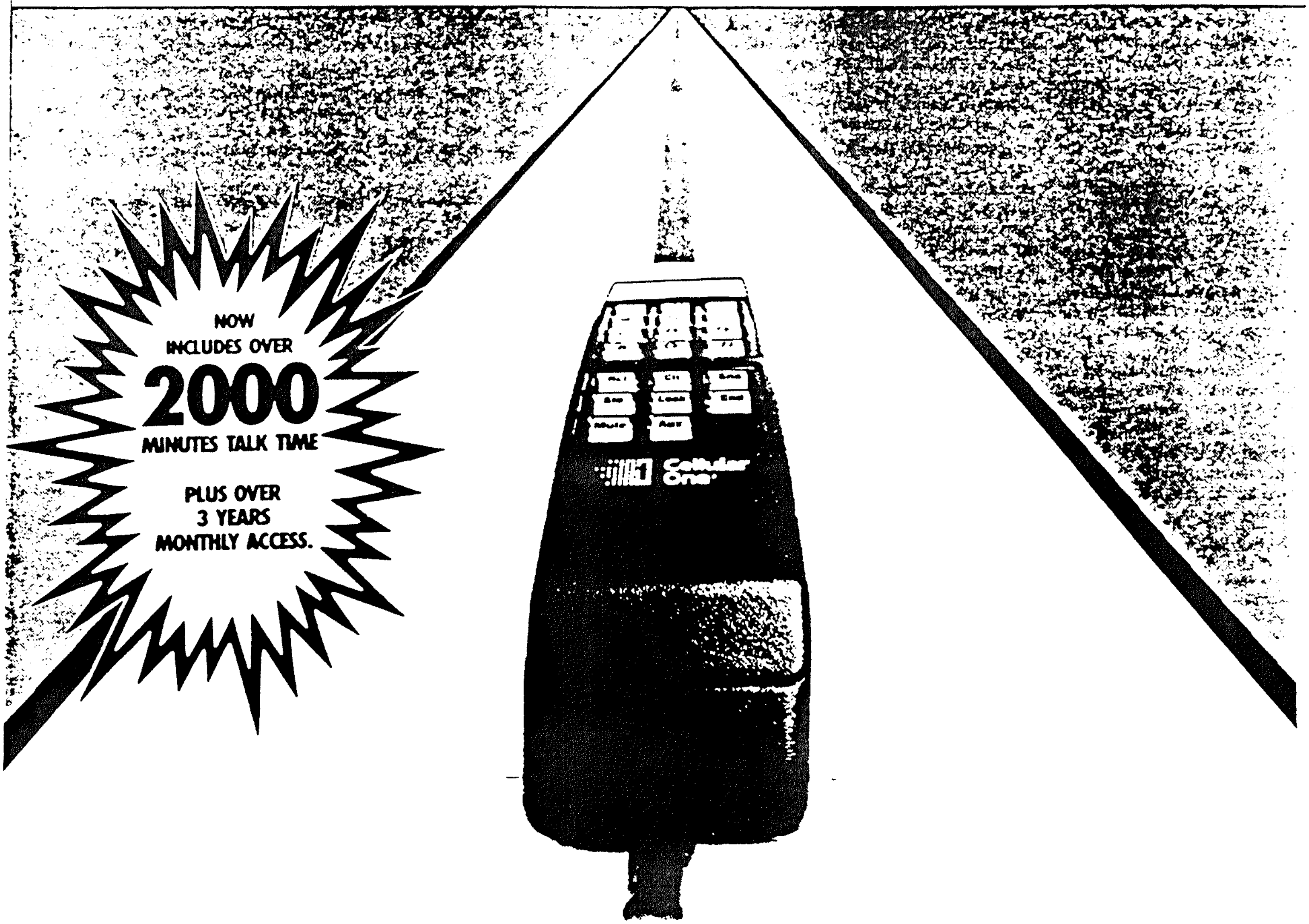
Southwestern Bell Mobile Systems

The name to call on. 265-3900

*Kathy Communications 684-4300

*Certified installation available at this facility.

ON THE ROAD TO SUCCESS



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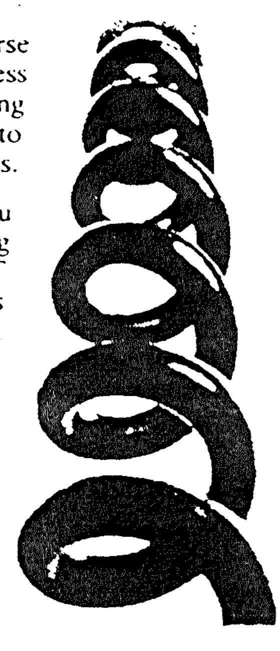
Get a Car Phone, Talk Time, Antenna, Installation and More.

In today's business rat race, the course is jammed with start-and-stop business problems, rising costs and declining sales curves. But now there's a way to steer clear of the hazards.

A Cellular One car phone lets you STOP wasting time and money searching for pay phones, so you can START spending more time with your business – calling clients, closing sales, scheduling appointments and making decisions – ideas which can keep your business on-track.

Call 642-5759 Today!



For only $2.67 a day, you get:

- a new, Motorola 5000 Cellular Phone
- Car Antenna • Installation and Activation.
- Monthly Access Fees ($780 Value)
- 60 Minutes of Monthly Peak Talk Time*.

And this low price includes:

- Call Forwarding • Call Waiting

Shift your business into high gear. Cellular One's $2.67-per-day car phone offer will not only put you in the fast lane on the Road to Success... but let you kick a little asphalt while you're there!

Cellular One®

The Mobile Telephone Company

"Everyone thinks I've been spending a fortune calling them

from my car. I didn't want to tell them it was free."

Southwestern Bell Mobile Systems has just given you the best reason yet for getting a cellular mobile phone. Free off-peak calling time.

By signing up between now and September 4, you'll receive free service during the off-peak hours. That's from 8 p.m. to 7 a.m. on weekdays. And anytime, day or night, on weekends and holidays. This free calling time is good from the time you sign up through the end of the year. So the sooner you sign up, the more free time you'll receive.

We'll also provide you with our exclusive Cellular Passport Service℠, free. This lets you use your phone in more than 100 cities without any hassle.

So when it comes to signing up for a mobile phone, remember, sooner is definitely better. And when it comes to the best combination of service, coverage, range and connections, there's only one name to call on: Southwestern Bell Mobile Systems.

To order your phone, or for more information, just call 888-1700.

Southwestern Bell Mobile Systems

The name to call on.

*Central Service Company [illegible] | *Kansas City Mobile Systems, Ltd. [illegible] | [illegible], Inc. [illegible] | American Communications Corporation, Inc. 451-0227 | Comtronics 842-3754 | Frank Rohrbach Motors, Inc. 727-2277 | Kansas City Cellular & Service [illegible] | The Software Store 541-[illegible]

*Certified installation available at these facilities.

"Jan called in sick. Larry was on vacation. Robert was confused. I was in traffic. That's why I have a car phone."

Free installation and more.

When you own a small company, unfortunately there's usually only one person who can take care of the major decisions. You. So when problems come up, you don't want to be out-of-pocket.

That's why a cellular phone from Southwestern Bell Mobile Systems is such an important business tool. Not only does it let you stay in touch with your office, but more important, you know they can reach *you*, anytime.

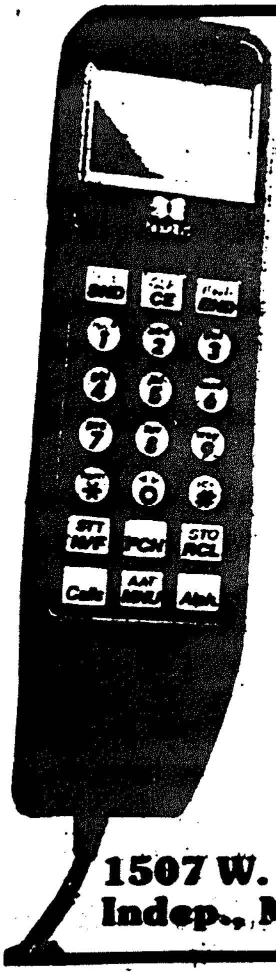
Free installation. Buy or lease before March 15, and you'll receive free standard installation* in your car or truck — a $100 value — plus your first $30 of calling time, plus activation of your cellular phone and two months of Custom Calling features, all free. To get all the details at no obligation, just call 888-1700.

Southwestern Bell Mobile Systems

The name to call on.

*Does not apply to rental plan. Antenna is extra. Deposit may be required.

Certified installation available at these facilities:
Central Service Company 587-6730
Kansas City Mobile Systems, Ltd. 888-4476
Americell Corp. 541-9000
United Telespectrum 221-0600
Auto Sound Plus 384-6100
Frank Rohrbach Motors, Inc. 422-7900



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Your Choice Of Financing:

- **$595 Cash**
- **90 Days same as cash**
- **$30/Month-24 Months**

INCLUDES:

- **500 Free minutes**
- **Professional Installation**
- **Choice of Antenna**
- **36-Month full warranty**

"Serving the Mobile Communications Needs of Independence for Over 13 Years.

INDEPENDENCE COMMUNICATIONS INCORPORATED

Financing requires approved credit, taxes not included.

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Indep., Mo.

836-5700

Cellular One

TESTIMONY
BEFORE THE SENATE GOVERNMENTAL ORGANIZATION COMMITTEE
BY THE KANSAS TELECOMMUNICATIONS ASSOCIATION
IN SUPPORT OF HOUSE BILL 2958
1:30 P.M. TUESDAY, MARCH 22, 1988

Senator Vidricksen and members of the committee. My name is Gary Reser. I am executive vice president of the Kansas Telecommunications Assn. (KTA), the trade association for the Kansas telephone industry. Three telephone holding companies, 28 independent telephone companies, and three long distance carriers are members of the association. The 31 member companies have approximately 1,200,000 telephone access lines in the state.

The KTA heartily supports H.B. 2958, providing for the permanent deregulation of radio common carriers and radio communications.

Approximately forty-five percent of KTA member companies responded to a recent questionnaire on H.B. 2958 and were unanimous in support of radio common carrier and radio communications deregulation. Some KTA member companies provide radio communications through a subsidiary, as partners with other radio common carriers, or through the telephone company itself. None of the companies has encountered any customer complaints or problems in terms of radio communications products or services.

One company operates mobile telephone base stations at three locations in western Kansas and has radio paging service through an affiliate company in Dodge City and Garden City. During the two years of deregulation of this aspect of the telecommunications industry, the prices the company charged for its radio communications products and services either remained the

EXHIBIT D - 3/22/88

same or decreased.

Competition exists in both of the company's paging locations and in two of its mobile telephone locations. These competitors entered the market during the deregulation era.

Sen. Vidricksen and members of the committee, the KTA supports the deregulation of radio common carriers and radio communications and respectfully requests the committee to recommend H. B. 2958 favorably for passage.

Thank you very much for allowing me the opportunity to be here today.

Respectfully submitted,

Gary Reser, CAE

Executive Vice President

Kansas Telecommunications Association

Topeka, Kansas

DATE: March 22, 1988

SUBJECT: Deregulation of Telephone Service: HB 2958

TO: Senate Governmental Organization Committee
Sen. Ben Vidricksen, Chairman
Sen. Wint Winter Jr., Vice-Chairman

FROM: Phil Woodbury

I represent a small group of Kansans' that have been fighting for the right for our State to continue to control the telephone service provided by Southwestern Bell and others. HB 2257/2515, a bill written and sponsored by the telephone company in the 1985 session removed control and regulation by our State Corporation Commission from a new and emerging telephone service. This new service is called by the descriptive names 'CELLULAR' telephone service and 'ULTRAPHONE' telephone service.

The telephone company, with research paid for by its subscribers, has developed a new way to make the telephone work. The bill before you will remove from Kansas regulatory scrutiny this new telephone service.

Instead of using the old 'pole and wire' system, the new system uses radio. Four years ago an executive of the telephone company told me that the new wireless telephone system will replace the old and that we will "put the copper wire boys out of business". I now know that not only is this possible; in the foreseeable future it is probable.

EXHIBIT E - 3/22/88

The Bell people have formed a wholly owned subsidiary corporation to provide this service in Kansas. They have installed the plant and are new operating this new telephone service in Kansas City and Wichita -- and now in Topeka and Lawrence.

In another part of the state, in a rural area, specifically in Lyon and Osage Counties, another telephone company is currently field testing the new service called ULTRAPHONE. If the tests prove successful, this new telephone service will gradually replace the old.

The State of Kansas, through our State Corporation Commission has regulated the telephone company's business within the State of Kansas for over 70 years. The regulation, however, of the <u>new</u> telephone technology ceased on January 1, 1986. This was because H 2257, as ammended in to H 2215, was passed by the legislature in 1985. As you know, a 'sunset' was placed on this deregulation bill and without further legislation it will 'DIE' on July 1, 1988.

Simply put, this telephone company bill as passed by the 1985 legislature removed the telephone company subsidiary organized to provide this new telephone service from the scrutiny and regulation of our State Corporation Commission.

In 1984, and again in 1985, the telephone company lobbyers said that this new wireless telephone service was really inconsequential since it was only to be used from moving locations (cars or people) and that as a 'benefit to the people' this new service should be removed from state regulation. They said the cost of service would be lower to the public if the cost of regulation was saved.

During the 1985 session, I stated many times to several committees and many legislators that this new telephone technology would - in time - replace the old. Obviously, without expensive wires and poles to install and maintain, the maintenance and repair costs of the new wireless system will be greatly reduced (no poles means no pole trucks or drivers or climbing repairment: maintenance can be done from the central office).

And the cost to connect a rural telephone customer drops to around $3,000.00 per subscriber, as opposed to the $8,500.00 cost for the old wire and pole technology.

You will note that attached INSIDE BUSINESS article from the Kansas City Times of January 9, 1987, describes this new telephone system that is being tested down in Lyon County - about 30 miles south of Topeka. This ULTRAPHONE service uses technology ever 'newer' than cellular service and it has come to Kansas since the 1985 session. Both of these new telephone services are currently deregulated and will remain so until July 1, 1988.

My intent is to provide the committee a little background on this legislation. This is a bill that when enacted in 1985 removed from our Kansas regulatory scrutiny the new radio (or sometimes called 'wireless') telephone technology.

As you may know: The State of Kansas, through and by our State Corporation has regulated telephone service for over 70 years. Back in the early days the Kansas Statute used as a definition for transmission of telephone messages the following, at 66-104:

> As used herein, the term "transmission of telephone messages" shall include the transmission by wire or other means of any voice, data, signals, or facsimile communications, including all such communications new in existence or as may be developed in the future.

Well, the future came along. Technology was developed that provided a new means by which telephone service could be delivered. The new technology works (just as our predecessors anticipated) in both the city and in rural areas.

COMMENT: Technology incidentally that telephone users of this country paid for. The wireless technology for cellular telephone service was not developed or paid for by private industry as one state representative testified two years ago in support of this bill. The monopoly telephone users of this country were charged and they paid the hundreds of millions of dollars of cost that went to develop this new telephone system.

I testified in 1984 and in 1985 that this new technology would replace the old. It is doing just that right now. The problem, as I see it, is that if you allow the new telephone service to continue to be excluded from regulatory control, you will drive up the cost of basic telephone service in Kansas and when you increase the cost of basic telephone service, in a state, you do not enhance economic development in that state: you hinder it. Where one company, provides both the old and new service and you allow the new to become unregulated, the immense profits generated by the new will be used to improve the profits of the unregulated telephone subsidiary company instead of helping to maintain an affordable basic monopoly telephone rate.

It is obvious that as subscribers switch to the new and use less of or even abandon the old, fewer will be left to pay for the old. When this occurs the cost of basic telephone service for the remaining user will, of course, go up.

As the new technology becomes commonplace and demand for the 'latest' increases, there will be a natural migration from the old to the new. "Bypass" ~~is~~ COULD BE a great threat to maintaining low cost basic telephone service in Kansas and the greatest bypass threat of all will come from the new wireless telephone service. It is ironic to find one subsidiary of the telephone company offering the old regulated service and another sister subsidiary of the same company offering the new unregulated service. The immense and continuing profits of the new unregulated sister can flow - without regulatory scrutiny - directly to the telephone company stockholder. The decreasing profits from the smaller and smaller monopoly (regulated) subscriber base will have to be bolstered from time to time by regulatory authority granting allowable rate of return increases.

It's simple:

> Since there aren't as many players as
> there was -- those left will have to
> pay more --

And one other simple observation; visualize, if you will, how easy cross-subsidation can occur. Both facilities are telephone 'offices': one uses copper wire, the other radio. Both are owned by the same "MOTHER". One plant, the monopoly has its rate of return guaranteed. The other plant sends its return (PROFIT) out in the form of dividends to its stockholders. And since both plants operate very close and are much intertwined (one could say they "co-mingle") the possibility to shift expenses from one pocket to the other or to adjust "intercompany" charges are immense.

In a recent (March 1987) telephone company study requested by the staff (the Subcommittee on Accounts) of the National Association of Regulation Utility Commissioner -- NARUC -- it is stated --

> The overwhelming dominance of the regulated telephone companies compared to other subsidiaries produces a cost assignment that is weighted heavily toward the regulated segment. In the last NYT (New York Telephone) rate case NYNEX Corporate allocated 93.5% of its costs to its regulated telephone companies and only 6.5% to its remaining subsidiaries. 1/

The Auditors continued:

> --that NYNEX (the 'Mother' holding company) "dictates policies that may not be in the best interests of NYT (New York Telephone)/ NET (New England Telephone) and their ratepayers" and diverts telephone company resources to enhance corporate profits.

1/ NYNEX is one of the newly created seven (Bell) Regional Holding Companies (RHO's). Southwestern Bell Corporation is one of these seven RHO's. The others are: Ameritech, Bell Atlantic, Bell South, Pacific Telesis, and U S West.

Good utility regulation of both the old and new services by a dedicated regulatory authority is, in my view, mandatory, if rates for basic telephone service is to be kept at an acceptable level in Kansas.

If this bill is defeated and regulation is retained in the State of Kansas, a portion of the millions of dollars fo profit that will be generated by the new emerging telephone service will be used to lower the cost of ALL telephone service in the state.

One certain way we can enhance the opportunity - or should I say chance - for good solid economic development in this state is, among other things, to keep the cost of telephone service at an affordable rate for business. This bill, if defeated, will help that cause.

PHIL WOODBURY

MARCH 22, 1988

New telephone technology may undo party lines

By Martin Rosenberg
Of the Business Staff

Kansan Ed McKernan at times spends 45 minutes or more on the phone discussing his investments.

Because he lives in a rural area 15 miles northeast of Emporia, where telephone lines are as sparse as the population, three other parties share his phone line and could listen to his conversation.

Sometimes he worries about the lack of privacy. And he feels guilty

Technology

that his heavy use the phone might create problems for the other people sharing the line.

McKernan is one of 5 million telephone customers in the United States and Canada who must share phone lines because the cost of installing private lines for them is prohibitive.

But new radio telecommunications technology may mean that those 5 million, plus 500,000 Americans unable to get any phone service, may soon have private lines.

For three months McKernan has been using new wireless telephone equipment, called Ultraphone, that is being field-tested by the International Mobile Machines Corp. of Philadelphia.

Equipment about the size of a microwave oven was placed in his basement, and a small antenna was mounted on the back of his house.

When he places a call, digital phone signals are transmitted from the antenna to the S&A Telephone Co., which provides him with his basic phone service, and then into the telephone network.

TheTimes/Kerry Meyer

In a second field test International Mobile Machines is providing service to eight Wyoming ranches that previously were unable to get any phone service, said Thomas Plummer, the company's executive vice president.

This year his company will try to set up additional tests with phone companies across the country to demonstrate the technology, he said.

Ultimately his company may develop a portable phone small enough to fit in a shirt pocket that could revolutionize the way Americans stay in touch.

Because Ultraphone uses digital signals, it could soon compete with cellular radio systems in metropolitan areas that must rely on conventional analog signals.

Analog phone conversations are transmitted as sound waves, subject to interference and interception. Digital messages are transmitted in ones and zeros, the language that computers understand.

Ultraphone offers several features that would make it superior to cellular communications, Plummer said.

In cellular communications, computerized switching allows calls to be handed off from one "cell" to another as a vehicle moves through a city.

Ultraphone, with different technology, uses radio signals that travel up to 38 miles, much farther than cellular signals travel, Plummer said.

In addition, because Ultraphone is digital, messages transmitted by the system are more secure against eavesdropping than those relayed along a cellular system, he said.

Four phone conversations can be carried simultaneously over an ultrahigh-frequency channel, and the number may soon be increased to 16 per channel, Plummer said. A cellular system can carry one call per channel, he said.

Ultraphone also offers advantages to phone companies that must install miles of lines above or below ground. Now, the cost of the Ultraphone system makes it attractive only to rural phone companies that face high costs to install lines for relatively few customers, Plummer said.

But as the technology improves, he said, Ultraphone will become increasingly competitive with conventional wire networks even in more densely populated areas.

S&A Telephone, which serves 770 customers in a 175-square-mile area 100 miles west of Kansas City, learned of Ultraphone when it was planning to install additional telephone cable, said Arthur Biggs, president of the family-owned company.

The cost of bringing private lines to the company's 140 party-line customers would be $8,500 a house, he said.

Ultraphone, on the other hand, would cost $3,000 a customer, Biggs said.

Later this month International Mobile Machines will install new equipment at the McKernan residence and expand the Kansas test of the technology to 20 subscribers, Biggs said.

In addition to stepping up its tests, the company this year will begin marketing Ultraphone, Plummer said.

It has already aroused the interest of the Department of Defense, which will begin testing the equipment in April in Washington, he said. The military is interested in coding Ultraphone's digital signals to make it more difficult for agents of foreign governments to listen to sensitive conversations, he said.

The government is also interested in how quickly and easily an Ultraphone system can be installed, he said.

International Mobile Machines has few competitors, but Plummer said that could change after Ultraphone begins generating revenue.

For now, 35 employees in Pennsylvania are working to find a niche for the Ultraphone technology, he said. Ultimately it could hasten the day when telephone service is totally wireless, he said, adding: "Maybe in the year 2000 they will stop putting up telephone poles. Who knows?"

RCR
newspaper for the mobile communications industry
RADIO COMMUNICATIONS REPORT
NOV 15, 1986

Southwestern Bell reports increase in 3rd quarter earnings

ST. LOUIS—Third-quarter 1986 revenues for Southwestern Bell Corp. showed an 8.4 percent increase over adjusted 1985 figures. Total revenues were $1.96 billion with a net income of $257.5 million, or $2.58 per common share. Return on shareholders' equity was 13.4 percent.

Comparable third-quarter revenues were $1.97 billion with a net income of $237.3 million, or $2.38 per share. return on equity was 13.1 percent. These figures are adjusted to exclude a 1985 non-recurring net income of $7 million from Yellow Pages directories.

"The corporation performed very well this quarter considering the weak economy that exists in many parts of the Southwest region, where the majority of our subsidiaries' revenue opportunities exist," said Zane Barnes, chairman and chief executive officer of Southwestern Bell Corp. "Looking ahead," he continued, "we are anticipating an overall strong year considering the challenges facing the corporation."

Figures for the first three quarters of 1986 reflected a 4.5 percent growth per share when compared to 1985 figures. Revenues for 1986 are $5.89 billion with a net income of $741.5 million, or $7.44 per share. Return on equity was 13.4 percent.

257.5 MILLION X 4
= 1.03 BILLION
(NET)

EXHIBIT 1

THE TOP TELECOMMUNICATIONS FIRMS

RANKED BY MARKET VALUE

Ranking		
March 1987	March 1986	Entity
1	1	AT&T
2	2	BellSouth
3	3	Bell Atlantic
4	4	NYNEX
5	6	GTE
6	5	Ameritech
7	9	Southwestern Bell
8	7	Pacific Telesis Group
9	8	U S West
10	11	United Telecom
11	12	Contel
12	10	MCI
13	13	Centel
14	14	Southern New England
15	15	Alltel
16	17	Cincinnati Bell
17	18	Pacific Telecom
18	16	Communications Satellite
19	NR 1/	Mobile Communications
20	NR 1/	M/A-Com
21	NR 1/	Metro Mobile CTS
22	19	Rochester Telephone
23	NR 1/	Scientific Atlanta

Source: "The Top 1000 Companies Ranked by Industry," Business Week, April 17, 1987, pp. 156-57; April 20, 1986, p. 80.

1/ Not ranked.

H 2958

- Executive Director; Arizona Corporation Commission - Executive Secretary; California Trucking Association - Special Assistant to Executive Vice President; and Citizens Utilities Company of California - Manager of Government and Community Relations.

FEDERAL COURT OVERTURNS FCC ORDER TO PREEMPT STATE REGULATION OF RADIO COMMON CARRIERS

The United States Court of Appeals for the District of Columbia Circuit on March 30, 1987, released the following per curiam order by Chief Judge Wald and Circuit Judges Bork and D.H. Ginsburg, in NARUC v. Federal Communications, No. 86-1205, September Term, 1986, vacating the FCC Report and Order, CC Docket No. 85-89, FCC 86-112 (released March 31, 1986):

"In these cases petitioners have challenged an order of the Federal Communications Commission in which the Commission preempts state regulation that has the effect of prohibiting or impeding the entry of common carriers providing conventional paging services or two-way mobile services in the Public Land Mobile Service.

"As authority for preemption, the Commission asserts that it may preempt state regulations that directly impede interstate communications, see Report and Order at Sections 17, 19, 23, and also that it may 'preempt state entry regulation, even over intrastate common carrier mobile services, that conflicts with [its] Title III licensing powers.' Id. at Sec. 19. This court has recently held, however, that regulation of the common carrier aspects of intrastate radio transmission is committed to the states. California v. FCC, 798 F.2d 1515, 1518 (D.C. Cir. 1986). 'That such regulation impedes entry may well be an unfortunate consequence of Congress' division of regulatory jurisdiction between federal and state authorities, but only Congress may change that division of authority.' Id. at 1518.

"In preempting state regulation of intrastate common carrier mobile services the Commission has exceeded its statutory authority. Accordingly, the order here is vacated and the cases are remanded to the Commission for further proceedings consistent with its statutory mandate."

MCLOGAN REPORTS ON MICHIGAN'S LOW-INCOME ENERGY PROGRAM

The State of Michigan's new low-income energy program is protecting nearly a million households from winter shutoff while saving energy and reducing the burden on utility customers and taxpayers. Those are the conclusions of Michigan Public Service Commissioner Matthew McLogan, who spoke on April 6, 1987, at a Washington meeting designed to explore, among other issues, the problems of providing energy payment assistance to low-income utility customers.

"Michigan's program differs from those in most other states because while it provides needed assistance, it requires participants to make regular payments and to reduce their energy usage. It is a fact of life that low-income households use more energy per capita than other types of residential customers, so unless the assistance program helps the recipient use less energy, the burden on future taxpayers could become staggering. We think we've prevented that from happening in Michigan," McLogan said.

Michigan's Energy Assurance Program EAP) -- a joint undertaking of the Public Service Commission, the Michigan Department of Social Services and the state's regulated utilities -- became law in 1984; various components of the program have been phased in since then, with the entire EAP becoming effective during the 1986-87 heating season.

Commissioner McLogan's remarks came at a forum sponsored by the Consumer Federation of America,

EXHIBIT F - 3/22/88

National Association of
Regulatory Utility Commissioners
1102 Interstate Commerce Commission Building
P.O. Box 684, Washington, D.C. 20044
Telephone 202-898-2200

BULLETIN

NARUC No. 13-1987 **ARTICLES IN THIS BULLETIN** March 30, 1987

Page

COMMUNICATIONS

NARUC RELEASES AUDIT OF NYNEX

The NARUC has released its Audit Report on NYNEX Corporation and Affiliates. Prepared by the Office of Accounting and Finance at the New York Public Service Commission at the request of the NARUC Staff Subcommittee on Accounts, the audit focuses on the corporate structure, accounting methods, and subsidiary relations within NYNEX.

Findings of concern to regulators include diversions of economies of scale, NYNEX control over the policies of their Bell Operating Companies (BOCs), compensation for such services as directory advertising to non-regulated affiliates, access to financial records, and allocations of costs between regulated and unregulated subsidiaries. Each NYNEX company was analyzed separately in categories such as evolution, expansion, regulatory concerns, access to records, and procurement practices.

Among their general conclusions, auditors found "the integration of monopoly and competitive services within NYNEX is disturbing." The report condemns the practice of allocating costs among affiliates on the basis of relative size claiming that it "assigns approximately 85% of corporate costs to the regulated affiliate, and it is doubtful this broad formula accurately assigns costs in relation to benefits." In addition the report states, "Compensation to the telcos for personnel or services provided to affiliates are generally inadequate."

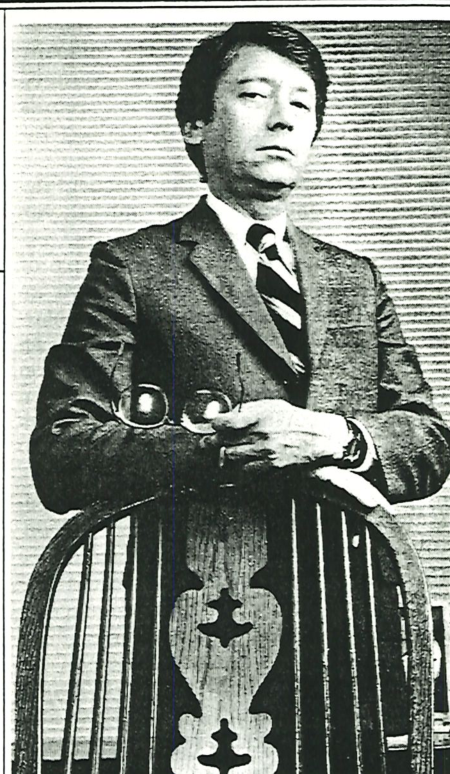
Auditors also found evidence that NYNEX "dictates policies that may not be in the best interests of NYT (New York Telephone)/NET (New England Telephone and Telegraph) and their ratepayers" and diverts telephone company resources to enhance corporate profits.

Finally, the report concluded that adequate regulatory oversight is impossible without full access to affiliated records. "Unless some accomodation can be reached on this matter," auditors said, "monopoly and competitive services should be segregated."

This 130-page publication can be obtained for $17.00 from the NARUC, P. O. Box 684, Washington, D.C. 20044. If payment accompanies order, no postage will be charged. District of Columbia purchasers must include six percent sales tax.

BUSINESS WEEK/JUNE 2, 1986

THE FCC IS HEARING STATIC OVER ITS NEW PHONE RULES



KATHERINE LAMBERT

TRADE-GROUP HEAD SPIEVACK: THE FCC'S PROPOSAL "WILL INVITE RATEPAYER RIP-OFF"

In the dozen years since it began intensive efforts to deregulate the telephone industry, the Federal Communications Commission has been dogged by a major dilemma: how to prevent a monopoly company from using its regulated revenues to compete unfairly in areas of the industry being opened to competition. In 1980 the FCC decided that the best method was to require American Telephone & Telegraph Co. and its local Bell units to set up separate, arm's-length subsidiaries, so costs and losses sustained in unregulated ventures wouldn't be borne by ratepayers.

But the Bell breakup and growing competition have convinced the FCC that those regulations have outlived their usefulness. On May 15, in a major policy change, the agency revised its rules to allow AT&T and its spinoffs to provide advanced information services, such as computer communications networks, without setting up an arm's-length company. In a more controversial move, the agency also is likely to eliminate by yearend the rules requiring separate subsidiaries to sell phone and computer equipment. Instead, the FCC wants to rely on accounting safeguards to make sure no subsidies flow from regulated businesses to the competitive arms.

TOUGH ENOUGH? The FCC's actions could more quickly bring advanced services into the nation's phone network—and help bring one-stop shopping back to the fragmented industry. But the new rules also will make it tougher for rivals to take on AT&T and the Bell regionals. Not surprisingly, the competition is crying foul. The commission could also be heading for a showdown with U. S. District Court Judge Harold H. Greene, who presided over the breakup and who may not go along with all of the FCC's changes.

The biggest danger, critics say, is that the FCC's accounting safeguards won't be tough enough to prevent abuses. Many customers fear that combining now-separated operations will make it easier for phone companies to shift costs among divisions. That could force ratepayers to foot the bill for the losses of competitive ventures. "Unless the FCC can keep track of costs—an open question—there is a real danger," says Richard A. Fazzone, communications-policy specialist for General Electric Co.

AT RISK. Competitors that will face the newly freed phone companies are even more alarmed. "The Bell companies want to rewrite the rules of free enterprise, using monopoly money to drive small entrepreneurs out of business," says Bernard F. Whalen, executive vice-president of the 500-member Association of Better Computer Dealers. Whalen charges that computer stores operated by Bell companies now are selling computers below cost to buy market share—and that easing the rules requiring separate computer operations will make it even simpler for the Bell companies to bury their losses. Some states are moving on their own. A California Senate bill would force phone companies to disclose finances to prevent cross-subsidies.

Independent telephone-equipment dealers may be the most vulnerable, and they are fighting the changes. The North American Telecommunications Assn., representing 650 dealers and manufacturers, estimates that the Bell companies lost $939 million on unregulated ventures in 1985, while posting overall profits in excess of $7 billion.

> If Washington has its way, AT&T and its spinoffs won't need separate units to sell phone and computer gear

"Eliminating the separate-subsidiary rules will choke competition and invite ratepayer rip-off," charges Edwin B. Spievack, NATA's president.

FCC officials believe the safeguards will work. "Once AT&T and the Bell companies have complied with our rules, what they do with shareholders' money is their business," says Bert C. Halprin, chief of the FCC's Common Carrier Bureau. In fact, FCC Chairman Mark S. Fowler believes that the changes will make new services more accessible to residential customers. "Burglar and fire alarm services, data channels from students' homes to libraries, home health monitoring . . . all [could be] available for pennies a day," says Fowler. Phone companies also want to compete with home answering machines by providing a computerized "voice mailbox."

THINNING RANKS. Still, Judge Greene could derail these plans. The divestiture accord prohibited AT&T and the regionals from offering most information services, which means the accord would have to be revised before many of the FCC's recent changes could take effect. Greene may ease some rules after he reviews the accord next January but only if he is sure that the FCC can protect customers and foster competition.

Judge Greene isn't talking, but observers believe competition hasn't taken hold enough to remove the shackles on the broken-up Bell monopoly. In a recent address to companies competing with AT&T and the Baby Bells, former FCC Chairman Richard E. Wiley observed that their ranks were thinning. "By next year, we may be able to hold this meeting in a phone booth," he said. "And we all know whose phone booth it will be."

By John Wilke in Washington

EXHIBIT 1

THE TOP TELECOMMUNICATIONS FIRMS

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16	17	Cincinnati Bell
17	18	Pacific Telecom
18	16	Communications Satellite
19	NR 1/	Mobile Communications
20	NR 1/	M/A-Com
21	NR 1/	Metro Mobile CTS
22	19	Rochester Telephone
23	NR 1/	Scientific Atlanta

Source: "The Top 1000 Companies Ranked by Industry," Business Week, April 17, 1987, pp. 156-57; April 20, 1986, p. 80.

1/ Not ranked.

EXHIBIT 2

SOURCES OF INCOME

REGIONAL BELL COMPANIES

ENTITY	Income from Telephone Operations	Income from Competitive Subsidiaries
Ameritech	$1,820,000,000	($65,000,000)
Bell Atlantic	$1,828,000,000	($59,000,000)
BellSouth	$2,435,000,000	($4,000,000)
NYNEX	$1,776,000,000	($79,000,000)
Southwestern Bell	$1,630,000,000	($36,000,000)
Pacific Telesis	$1,799,000,000	($47,000,000)
U S West	$1,684,000,000	($180,000,000)
	$12,972,000,000	($470,000,000)

Source: Judge Harold Greene, September 10, 1987 Order, Civil Action No. 82-0192, p. 159.

NARUC

During 1986 and 1987, the National Association of Regulation Utility Commissioners (NARUC) undertook audits of the seven Bell regional companies. These audits were primarily rooted in the major regulatory concern that the Bell operating companies might be cross subsidizing the unregulated affiliates of their respective parents. In each case, task force auditors were denied access to materials pertinent to their examination by the holding companies. Other findings included the poor quality of accounting records, duplication of services, diversion of future revenues, deficient transaction standards, and the passing on of lobbying costs to subsidiary operating companies. As asseverated by the NARUC Staff Subcommittee on Accounts:

> It should be apparent that the reorganization of the telephone system has created a number of problems and concerns. Questions remain as to the accounting separation of regulated and unregulated companies; RHC diversification and its effect on basic telephone service; and the commitment of the RHCs to maintaining basic service and abiding by the stipulations of the MFJ. Under these circumstances, it would be a major failure of public policy to abandon the telecommunications industry to "competition" since there is no guarantee that the integrity of the system will be maintained. . . . The RHCs must continue to be monitored by both state and federal agencies. 16/

Clearly, tangible evidence exists which demonstrates that LECs (in these instances, Bell entities) can potentially and actually have engaged in dubious cost and revenue shifting.

16/ NARUC, Summary Report on the Regional Holding Company Investigations, September 18, 1986, pp. 21, 22.

BYPASS

Judge Harold Greene, whose court oversees the Modification of Final Judgment (MFJ) that set forth the terms of the AT&T - Justice Department settlement dismantling the Bell System, has held to a similar view for several years. For example, in a July 1984 Opinion, the Judge observed that:

> As for bypass, whatever its future, it is certainly not a broad threat to the viability of the local companies at the present times. 4/

More than three years later, he reached a similar conclusion:

> The complete lack of merit of arguments that economic, technological, or legal changes have substantially eroded or impaired the Regional Company bottleneck monopoly power is demonstrated by the fact that only one-tenth of one percent of interLATA traffic volume, generated by one customer out of one million, is carried through nonRegional Company facilities to reach an interexchange carrier. Huber Report at 3.9, Table IX.5. To put it another way, 99.9 percent of all interexchange traffic, generated by 99.9999 percent of the nation's telephone customers, is today carried entirely or in some part by the Regional Companies (or their equivalents in the territories served by the independents). The Department of Justice found only twenty-four customers in the entire United States who managed to deliver their interexchange traffic directly to their interexchange carriers, bypassing the Regional Companies. Department of Justice Report at 80-81. It is clear, therefore, and the Court finds, that no substantial competition exists at the present time in the local exchange service, and that the Regional Companies have retained control of the local bottlenecks. 5/

(footnote omitted; underscoring in original text)

4/ Slip Opinion, filed July 26, 1984, U.S. v. WECo and AT&T, and U.S. v. AT&T et al., Civil Action No. 82-0192, Misc. No. 82-0025, p. 69.

5/ Order, filed September 10, 1987, pp. 34-36.

CROSS SUBSIDIZATION

Q. HAVE ANY STUDIES BEEN PERFORMED SINCE THE BELL SYSTEM BREAK UP WHICH INDICATE THAT CROSS SUBSIDIZATION BETWEEN CARRIER MONOPOLY AND COMPETITIVE OPERATIONS HAS TAKEN PLACE?

A. Yes, evidence apparently exists that cross subsidization has been occurring during the post divestiture period for at least the Bell regional companies. For example, in his September 1987 Order, Judge Greene opined:

> . . . what is wrong from an antitrust point of view with the combination of (1) telephone rate increases and (2) Regional Company outside ventures is that these ventures appear to have been funded from and are being supported, at least in part, by the local phone rates.
>
> Thus, during the period in question, the Regional Companies had a total operating income from their telephone operations, paid for by the ratepayers, of almost $13 billion, and a loss from their competitive enterprises amounting to close to one-half billion dollars [see Exhibit 2]. These figures suggest that the rise in local telephone rates during the past several years may be due in some significant part to cross subsidization, that is, the diversion of ratepayers' monies to finance the Regional Companies' ambitions to become full-fledged players in conglomerate America.
>
> . . .
>
> One likely consequence, then, of Regional Company entry into the interexchange, manufacturing, and information services markets would be to give these companies the ability to undersell their rivals in these markets because they would have at their disposal an ever-replenishing fund with which to subsidize their competitive operations--the monies contributed pursuant to regulation compulsion by the nation's local ratepayers. The decree was, of course, aimed in significant part at the avoidance in the future of such practices. 15/

15/ Judge Harold Greene, op. cit., pp. 158-161.

REPORTS OF STANDING COMMITTEES

MR. PRESIDENT:

Your Committee on Governmental Organization

Recommends that Senate Bill No. 663

"AN ACT relating to plumbing; concerning the examination and certification of plumbers and plumbing contractors; amending K.S.A. 1987 Supp. 12-1510 and repealing the existing section, and also repealing K.S.A. 1987 Supp. 12-1508 and 12-1509."

Be amended:

On page 2, in line 80, by striking the word "three" and inserting "two"; also in line 80, by striking "1991" and inserting "1990"; in line 81, by striking "five" and inserting "four"; also in line 81, by striking "1993" and inserting "1992";

On page 3, in line 84, by striking the word "five" and inserting "four"; in line 86, by striking the word "less" and inserting "more"; in line 87, preceding "purpose" by inserting "sole"; in line 92, by striking "$10" and inserting "$20"; following line 110, by inserting:

"(c) The provisions of this section shall expire on July 1, 1991.";

On page 5, following line 168, by inserting the following:

"(g) Nothing in this act shall require any county or city to grant a license or certificate to any person whose license or certificate has been revoked or suspended by any other county or city.

(h) The director of architectural services shall establish and maintain a register of the names of all persons currently holding a certificate of competency issued in accordance with this act.";

And the bill be passed as amended.

_______________________ Chairperson

REPORTS OF STANDING COMMITTEES

MR. PRESIDENT:

Your Committee on Governmental Organization

Recommends that Senate Bill No. 704

"AN ACT relating to electrical wiring; concerning the examination and certification of electricians and electrical contractors; amending K.S.A. 1987 Supp. 12-1527 and repealing the existing section, and also repealing K.S.A. 1987 Supp. 12-1525 and 12-1526."

Be amended:

On page 2, in line 58, by striking the word "less" and inserting "more"; in line 59, preceding "purpose" by inserting "sole"; in line 64, by striking "$10" and inserting "$20";

On page 4, following line 133, by inserting the following:

"(g) Nothing in this act shall require any county or city to grant a license or certificate to any person whose license or certificate has been revoked or suspended by any other county or city.

(h) The director of architectural services shall establish and maintain a register of the names of all persons currently holding a certificate of competency issued in accordance with this act.";

And the bill be passed as amended.

______________________________Chairperson

REPORTS OF STANDING COMMITTEES

MR. PRESIDENT:

Your Committee on Governmental Organization

Recommends that Senate Bill No. 705

"AN ACT relating to heating, ventilation and air conditioning; concerning the examination and certification of heating, ventilation and air conditioning mechanics and contractors."

Be amended:

On page 2, in line 61, by striking the word "less" and inserting "more"; in line 62, preceding the word "purpose" by inserting "sole"; in line 67, by striking "$10" and inserting "$20";

On page 4, following line 134, by inserting the following:

"(f) Nothing in this act shall require any county or city to grant a license or certificate to any person whose license or certificate has been revoked or suspended by any other county or city.

(g) The director of architectural services shall establish and maintain a register of the names of all persons currently holding a certificate of competency issued in accordance with this act.";

Also on page 4, following line 154, by inserting the following:

"Sec. 6. Nothing in this act shall be construed to allow any person, firm, corporation, partnership, association or combination thereof to engage in the practice of engineering as defined by K.S.A. 74-7003 and amendments thereto without having first received a license or authorization to practice engineering by the Kansas state board of technical professions.";

Also on page 4, in line 155, by renumbering section 6 as section 7;

And the bill be passed as amended.

________________________Chairperson