Approved: April 5, 1996
date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on March 27, 1996 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Burke, Downey, Feleciano, Gooch, Harris, Hensley, Jordan, Petty, Ranson, Reynolds, Steffes and Vidricksen.

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Betty Bomar, Committee Secretary

Conferees appearing before the committee:
David Heineman, General Counsel, Kansas Corporation Commission
Glenda Cafer, Director, Utilities Division, Kansas Corporation Commission
Michael R. Meacham, Legislative Counsel, Kansas Cable Telecommunications Association
Mike Reecht, Kansas Director, AT&T
Eva Powers, MCI Telecommunications Corporation
David Hollingsworth, Director of Finance and Administration, Kansas City FiberNet
Stephan L. Sauder, President & CEO, The Valu-Line Companies, Emporia

Others attending: See attached list

SubHB 2728: Concerning telecommunications services

David Heineman, General Counsel, Kansas Corporation Commission (KCC), appeared before the Committee and stated the KCC does not have any vested interest in SubHB 2728. The KCC role is to carry out those responsibilities given it by the Legislature. Mr. Heineman introduced the KCC Commissioners: Susan Seltsam, Time McKee and John Wine.

Glenda Cafer, Director, Utilities Division, Kansas Corporation Commission, appeared before the Committee on SubHB 2728. Ms. Cafer stated the KCC is implementing procedures to promote competition, pursuant to federal legislation. Ms. Cafer told the Committee that the statement by Southwestern Bell Telephone as to a possible return to rate of return regulation of the company is not true. In response to a question posed by Senator Downey, Ms. Cafer stated that universal service is the most important of the three components -- universal service, infrastructure, and competition -- relating to telecommunication service. Competition is ranked second as it would spur the building of infrastructure throughout the state. If infrastructure, the third component is not provided, the KCC does have a procedure to address such an eventuality.

Ms. Cafer stated the KCC concerns regarding SubHB 2728 relating Consumer concerns and a list of conflicts with the Federal Act. (Attachment 1)

In response to a question from Senator Feleciano as to ensuring that the Legislature set broad policy and the KCC implement such policy through rules and regulations, Ms. Cafer submitted a proposed amendment. Ms. Cafer stated the proposed amendment deletes the majority of the regulatory framework and leaves it to the KCC to establish a regulatory framework after hearings this summer. The proposed amendment permits the KCC to use the Telecommunications Strategic Planning Committee Report as a guideline. It prevents the state from doing something that might conflict with the Federal Act which is not yet settled or fully understood. (Attachment 2)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m. on March 27, 1996.

Mike Meacham, Legislative Counsel, Kansas Cable Telecommunications Association (KCTA) testified in opposition to SubHB 2728. Mr. Meacham stated there may be a need for the Kansas Legislature to consider issues such as Internet access, slamming, and the KANS-A-N extension related to DISC. However, with respect to the regulatory framework, the legislation proposed in SubHB 2728 is too radical and far-reaching and there is no need for legislation this year. Mr. Meacham stated KCTA question the redefinition of cable TV industry as a telecommunications public utility thereby raising the possibility that the Department of Revenue may interpret legislative intent to assess cable TV property at 33 1/3% of valuation whether or not the cable TV company was actually in the telephone business. Mr. Meacham stated KCTA has serious questions relating to access to the Kansas Universal Services Fund, (Section 5, paragraph (e); and price deregulation of miscellaneous services (Section 6, paragraph (4)). Mr. Meacham stated the definition of enhanced universal service should not include reference to ISDN as such a reference locks in a potentially obsolete technology. SubHB 2728 requires commitment from LECS to provide ISDN for basic rates. KCTA supports performance standards be adopted rather than requiring specific technology held exclusively by phone companies (Section 6, paragraph (b)(2)). Mr. Meacham stated SubHB 2728 will prevent competition in the rural areas (Section 5, paragraphs (b)(1) and (b)(2)), and the KCC should have greater flexibility. Mr. Meacham stated SubHB 2728 alters the regulatory process as it casts the Kansas Legislature in that position. Mr. Meacham stated SubHB 2728 does nothing to promote competition. The KCC should be allowed to complete its rulemaking proceedings and submit recommendations in 1997. (Attachment 3)

Mike Reecht, Kansas Director, State Government Affairs, AT&T, testified in opposition to SubHB 2728. Mr. Reecht stated it is not necessary to enact SubHB 2728 inasmuch as competition will proceed in accordance with the guidelines included in the federal legislation signed into law February 8, 1996. Mr. Reecht stated SubHB 2728 is anti-competitive as it imposes significant barriers on entry into the local exchange market; it restricts entry into the rural areas, allowed incumbent LECs to target customers for specific discounts and then makes up the lost revenue by increasing prices to other customers; and deregulates miscellaneous services once Bell offers intraLATA 1+ dialing parity. SubHB 2728 is in conflict with the Federal Act as follows: a) definition of a telephone company; b) Sections 9, 10 and 11 of SubHB 2728 restricts the KCC's ability to comply with the universal service standards in the Federal Act; and c) conflict in proposed funding. Mr. Reecht stated there are many timing and definition problems with SubHB 2728 that should be resolved prior to enacting this legislation. (Attachment 4)

Eva Powers, MCI Telecommunications Corporation, appeared in opposition to SubHB 2728. Ms. Powers stated the Federal Act delegates to the Federal Communications Commission (FCC) rule making authority which will not be completed for six months and with respect to universal service, not for 15 months, or early May of 1997. MCI is opposed to enacting legislation this year. Ms. Powers stated SubHB 2728 prohibits methods for verifying a change request by a customer which are allowed by the FCC. She explained that the provisions of SubHB 2728 could be in conflict with the Federal Act when the FCC promulgates rules pursuant to the Federal Act for local and long distance carrier selections. Ms. Powers advised the Committee that KCC, pursuant to SCR 1627, is in the process of executing its competition docket The KCC plans to schedule hearings for this summer to determine issues which must be resolved for competition to develop. Ms. Powers urged the Committee to delay action this year and await the KCC actions pursuant to SCR 1627. (Attachment 5)

David Hollingsworth, Director of Finance and Administration, Kansas City FiberNet, appeared in opposition to SubHB 2728. Mr. Hollingsworth stated SubHB 2728 is anti-consumer, anti-rural, anti-urban, anti-competitive, and will create a legal quagmire due to its many conflicts with federal legislation. Mr. Hollingsworth stated local telephone companies will be given unlimited pricing flexibility before there is any evidence of effective competition. Mr. Hollingsworth stated the bill lacks consumer and competitive safeguards in a market dominated by companies with monopoly power. SubHB 2728 will only serve to cloud and slow down the competitive posture advanced in telecommunications within the state. (Attachment 6)

Stephen L. Sauder, President & CEO, The Valu-Line Companies, Emporia, appeared in opposition to SubHB 2728. Mr. Sauder stated Valu-Line has grown from a reseller of WATS to become an interexchange carrier and switch. Mr. Sauder stated the KCC is more than capable of regulating the telecommunications industry until the issues become more clearly defined. (Attachment 7).

The Committee adjourned at 10:00 a.m.

The next meeting is scheduled for March 28, 1996.

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: 3/21/96

NAME	REPRESENTING
Mike Meacham	KCTA
Mike Lima	AT&T
Virginia Starr	AT&T
Rick Christy	TCI
M. Carrissimo-Kelly	Classic Communications
CARL KRENBIEL	MOUNDRIDGE TELEPHONE CO.
Neva Powers	MCI
John Pinegar	SITA
Jay Scott Emler	KINI L.C.
Steve Kearney	KINI L.C.
Debra Schmidt	KINI L.C.
CRAIG MOCK	UNITED TELEPHONE ASSOC. INC.
RICHARD VEACH	PIONEER TELEPHONE
Scott Richardson	SWBT
Barbara Reed	LPA
Carroll O'Neal	AT+T
Nelson Krueger	Kansas City FiberNet
David Hollingsworth	Kansas City FiberNet
Greg Hansen	TCI

Ben Scivtino   Multimedia Cablevision

Glenda Cafer
Director, Utilities Division
Kansas Corporation Commission
(913)271-3199

(Revised 3/25/96)

Concerns of the Kansas Corporation Commission regarding HB 2728:

I. CONSUMER CONCERNS

A. Pricing Inequities/Cross Subsidization:

Rural local rates can increase to make up for reductions in urban local rates, and residential local rates can increase to make up for reductions in single-line business rates. **There is no limit to these individual customer increases except for the total price cap for the basket.**

In the "Miscellaneous" basket, monopoly services prices can be raised to make up for reductions in competitive services, beginning immediately. The KCC can deny such a filing only if the price cap **for the entire basket** has been exceeded.

B. Premature Deregulation:

The Miscellaneous basket includes monopoly services which would be deregulated prior to the time that customers have a comparable alternative for the service. The language in Section 6(g) states that the services in this basket are only regulated as to price until they become deregulated. Therefore, any non-price related problems a consumer is having regarding a service can not be addressed by the KCC from the day this bill becomes law.

The burden shifts to the consumer, competitor or Commission to prove that a service is essential, there is no alternative source for the service, and the price has risen excessively. Only after proving these three elements does the service become price regulated again. The burden should be on the company to make a showing that a service should be deregulated, not upon other parties to show it should be regulated.

Furthermore, it is questionable whether a service could ever be brought back under price regulation once it's deregulated, since there will almost always be "an alternative source" for any particular service. Even basic local has the "alternative source" of cellular service available. The "alternative source" may not be a **comparable** service when considering price, convenience, or quality, but it is still an alternative and that is all this law requires to defeat an attempt to bring a service back under price regulation.

Finally, if a new service is introduced it automatically goes into the miscellaneous basket, even though it may be a new local service or a new access service which

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Attachment 1 thru 14

should go into the other baskets.

C. Rural Certification:

Barriers to authorizing competitive certificates are extreme, very likely resulting in monopoly protectionism, denying rural areas even the possibility of benefitting from competition in their areas.

D. Initial Prices:

There is no evidence upon which it can be determined that existing rates are fair to the consumer.

E. Consumer Price Index and Productivity Factor:

This index is not reflective of the cost of providing telecommunication services. It's use may allow for price increases to the consumer when in fact actual costs to the provider have not increased. The productivity factor is set at 1.5% with no evidence upon which to determine if that is reasonably accurate. It may likely be higher, cheating consumers out of receiving the full benefits under this provision.

F. Local Rate Increases:

Allows $1.50 per month local rate increases every year for rural companies without the requirement that the company show a cost justification for the increase. This is not "traditional rate of return regulation," as it is referenced in the bill. Section 8(d) gives the KCC only 60 days to investigate a rate increase before it goes into effect if 15% or more of the company's customers complain. This is not a reasonable amount of time to do an adequate investigation on behalf of consumers. It also shifts the burden to customers to object to a rate increase, rather than leaving the burden with the company.

G. KUSF Payments:

Rural incumbent LEC's recover from the fund 100% of their subsidies lost in access reductions (until a competitor is providing service in their area) and get $1.50 a month local rate increases each year. This appears to be double recovery at the expense of the ratepayers. Rural companies can get or increase their receipt of USF for a myriad of different reasons without showing equitable or cost justification for such payments. For example, the companies get universal service funds to recover losses due to natural disasters, when a business should be purchasing insurance for such losses, not relying on a universal service fund for loss recovery. The KUSF is funded, ultimately, by consumers, and should not turn into an "open ended account" for rural telephone companies.

H. Universal Service Threat:

Under Section 10(b), Universal Service support for an area ends should the KCC ever grant a competitor a certificate to serve in that area and impose symmetrical regulation. Why should these customers lose their universal service supports under these circumstances? Clearly, the impact of this provision is to stop the KCC from opening the territory to competition, as customers in the area will not want to lose their support. This "poison pill" provision in the bill is an unfair manipulation of these consumers.

J. Overall Rate Impact:

Local rates will increase under this legislation. Because of the KUSF and KLSF Funding requirements, total service rates will increase more than the access reduction will cause them to decrease. Thus, there will be an overall increase to most customers for local and toll service, providing little or no benefit in rates to the majority of consumers as was the initial intent of this rebalancing. The rebalancing plan being done at the Commission does result in a greater number of consumers receiving total service rate decreases.

K. Infrastructure Commitment:

The infrastructure commitment by the LEC's contained in the bill is for capabilities which are already available in nearly every part of the state (not available in the Cunningham Telephone Company's territory; and is scheduled to be available in the United Telephone Company's territory within the next two years under Commission Order). Thus, consumers are getting no real value from this commitment, even though the companies are getting the regulatory flexibility they desire in exchange for this commitment.

Furthermore, even if some investment by the companies was required to meet the infrastructure commitment in the bill, the Universal Service provisions of the bill would allow the companies to recover this investment out of the KUSF, thus making the consumers pay for the investment, not the company.

L. Quality of Service:

If a company violates the quality of service standards established by the KCC, the bill requires the KCC find the company's non-compliance was "willful" before a penalty can be imposed. It is extremely difficult to prove an entity's intent behind its actions, thus making penalties for poor quality of service unlikely.

M. KLSF:

This bill states that the Lifeline service fund should offset any increases in basic rates for low income customers. The Commission staff proposal being considered by the Commission uses federal funds available to provide for an even larger reduction for low income customers. Some customers local rates will even be lower than they are now in the hopes of getting more low income people back on the network.

N. Rate Setting in Statute:

The bill sets rates in statute, with no flexibility in most instances to amend such rates if circumstances change or a problem in the present rate structure emerges.

II. FEDERAL ACT CONFLICTS

A. Section 4(b):

Only requires "reasonable resale," while Act requires resale but allows reasonable restrictions. Why reword this aspect of the Act, as it opens the door to potential litigation.

B. Section 5(b):

Prohibits rural certification for a period of time while the Act forbids any outright prohibition of competition, even if the prohibition is limited in time.

C. Section 5:

Overall, the extensive restrictions on rural certification result in a barrier to authorizing competition in these areas in direct conflict with the Act which specifically disallows the state from making laws which have the effect of prohibiting any entity from providing service in the state. The underlying intent of the Federal Act is to open markets up to competitors, whereas this bill essentially forecloses most of the rural areas from ever having a competitor certified to provide service in their area.

Under Section 5(d)(2) and (3), the bill imposes the Federal Act's requirements for receiving USF on a carrier in order for the carrier to be certified. This added barrier conflicts with the Act's prohibition on barriers to certification.

D. Section 9:

The FCC Joint Board will be determining funding for basic telephone service on a federal level. This section may conflict with whatever the FCC does, and since it is in legislation, it will not be easy to correct immediately.

E. Section 6:

The potential for cross subsidization from a monopoly service supported by Universal Service to a competitive service violates the Federal Act.

F. Section 4(f):

Requires the KCC intervene in negotiations between parties if no agreement reached in 135 days. The Act allows the parties to continue negotiating, if they choose to, up to 160 days before the matter is brought to the KCC. This is a conflict and it shifts the burden from the parties to the KCC to intervene, contrary to the Act.

G. KUSF Eligibility:

The Federal Act requires that **all** carriers contribute to the Fund, but this bill only requires long distance carriers to contribute. This is a clear conflict with the Act.

Kansas Corporation Commission

David Heinemann
General Counsel

Chief Legal Advisor to the Commission. David was the youngest elected member to the House of Representatives where he served the longest consecutive public service in that body. David has practiced law in Garden City since 1973. David joined the Commission in September, 1995.

Glenda Cafer
Director of the Utilities Division

Responsible for oversight and direction of all utility matters. Glenda was an attorney for the KCC from 1987 to 1990 and then went into private law practice from 1990 to 1995. Glenda was re-appointed to the Commission to head the Utilities Division in September, 1995.

Telecommunications Staff

Jerry Lammers
Managing Telecommunications Auditor

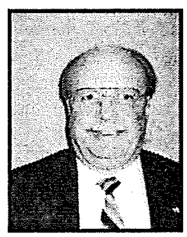
Primary responsibilities: Audits filings for telecommunications rate changes, oversees access charges, and works on Universal Service and Cost Study issues in connection with the Competition Docket. He joined the KCC in 1994, and previously worked for twenty four years in accounting for Southwestern Bell. Reponsibilities included billing for access service, long distance, local, and new service offerings. Provided staff support for property and cost operations.

Guy McDonald
Telecommunications Analyst

Primary responsibilities: Review, research and recommendation development for applications. Staff person on General Investigation dockets for Quality of Service and Local Competition. Guy has more than 30 years of industry experience in Network Engineering, Design, and Operations. He also has recent experience in the marketing and sales of Cellular and dedicated telecommunications services.

Karen Matson-Flaming
Chief of Telecommunications

Primary responsibilities: Oversight of all telecommunications matters that come before the Commission. Karen has experience in radio and TV broadcasting and TV production in addition to her telephony background. She was hired by the Commission from the telecommunications private sector and has twelve years of telephone experience including her ten years at the Commission.



Ross I. Miller
Telecommunications Analyst

Primary responsibilities: Responds to application inquiries; conducts annual toll survey and compiles results; handles requests for certification; processes tariff filings; investigates and resolves complaints; and coordinates various other assigned tasks. Hired by the Commission in 1994, his experience includes twenty three years with Southwestern Bell in operator services and personnel.

Randy Debenham
Senior Telecommunications Analyst

Primary responsibilities: Review and analysis of interexchange carrier issues, complaints regarding long distance companies, and competitive applications. Randy has been with the Commission for over eight years, most of which have been in the telecommunications section. Randy received his undergraduate from K.S.U. and graduate degree from the University of Texas. Randy has an electrical background, has taught at the college level, and was a Legislative Assistant for Congressman Pat Roberts before coming to the Commission.

Panchali Das
Telecommunications Engineer/Depreciation Analyst

Primary responsibilities: Conducts depreciation studies, assists on technical issues such as service quality and service complaints, and reviews tariff and Interexchange Carrier filings. She has worked five years in the telecommunications industry, including three years at the KCC. In addition, she has one year experience in Investments. She has a background in Finance and Electrical Engineering.

Tom Behner
Senior Telecommunications Analyst

Primary responsibilities: Reviews, analyzes and makes recommendations regarding general investigation issues, applications submitted by local exchange and interexchange carriers and complaints registered by their customers. Maintains tariffs, boundary certificates and provides research and assistance to the Commission and other staff. Tom has over thirty one years experience with a major telecommunications corporation in the areas of Network, Marketing, and Customer Services. He has been with the Commission staff for two years.

Kansas Corporation Commission

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TENTATIVE SCHEDULE PHASE II

Assessment of Congressional Legislation and Adjustment (if necessary) of KCC Phase II objectives - Review of Task Force Reports	Nov. '95 - Mar. '96
Access Hearing/Interim Plan	November, 1995
Commission Decision to finalize Cost Study methodology	January, 1996
Commission Decision to establish Universal Service parameters · Establish KBSF · Definition of "Basic" Service · Establish Charter - Issue RFP	March, 1996
Commission Decision on Interim Access Plan	January, 1996
Cost Studies filed by Industry	April 15, 1996
Prefiled Direct Testimony/Phase II Competition	May 31, 1996
Rebuttal Testimony/Phase II Competition	July 3, 1996
Prehearing Conference/Deadline for Discovery/Motions	July 18, 1996
Hearing · Establish Price Cap Components · Rate rebalancing · Access Charges · Finalization of Kansas Basic Service Fund · Additional Regulatory Changes	August 12 - 15, 1996
Briefs filed	September 20, 1996
Decision	October 10, 1996
Close dockets Universal Service, Competitive Access Providers & Access Charges	Sept. - Oct. 1996
Results of September 13th Decision:	
• **Framework to Promote Competition in place**	March 1, 1997
• **Alternative Regulatory Framework for SWBT in place** · Universal Service Fund · Rate Rebalancing · Resale · Unbundling · Number Portability · Quality of Service Measures as function of Rate Caps · Interconnection (if requested by parties, after negotiations) · Access Charges	March 1, 1997
• **Regulatory Framework for other Local Exchange Companies** · "Traditional" regulation option · "Competitive" option - similar to SWBT above	March 1, 1997
• **KBSF Functional for all providers regardless of Competitive Status**	March 1, 1997

DEREGULATED SERVICES
REVISED 11-29-95
LOCAL EXCHANGE TARIFF
LOCAL EXCHANGE ACCESS LINES
MESSAGE
TRUNK
SERVICE CONNECTION CHARGES
EXTENDED AREA SERVICE
NON- OPTIONAL
OPTIONAL
OPTIONAL LOCAL CALLING
LOCAL OPERATOR ASSISTANCE SERVICE
STATION TO STATION
PERSON TO PERSON
COLLECT
CREDIT CARD
MOBILE
MARINE
THIRD NUMBER
LINE STATUS VERIFICATION
BUSY LINE INTERRUPT
LINE HUNTING
ROTARY
CIRCLE
PREFERENTIAL
TELECOMMUNICATIONS PRIORITY SYS.
METROPLUS
GENERAL EXCHANGE TARIFF
ANNOUNCEMENT DISTRIBUTION SERV.
CENTREX
CONFERENCE SERVICE - LOCAL
CONNECTIONS OF TERMINAL EQUIP.
AND COMMUNICATIONS SYSTEMS
CONSTRUCTION CHARGES

DEREGULATED SERVICES
REVISED 11-29-95
CALL MANAGEMENT SERVICES
AUTO REDIAL
CALL BLOCKER
CALL FORWARDING
CALL FORWARDING-BUSY LINE
CALL FORWARDING-DON'T ANSWER
REMOTE ACCESS TO CALL FORWARDING
SELECTIVE CALL FORWARDING
SIMULTANEOUS CALL FORWARDING
CALL RETURN
CALL TRACE
CALL WAITING
PRIORITY CALL
SPEED CALLING
THREE-WAY CALLING
PERSONALIZED RING
CUSTOMER ALERTING ENABLEMENT
CALLER ID
PREFERRED NUMBER SERVICE
CALLER ID VALUE PKG.
CALLER ID VALUE PACKAGE PLUS
THE WORKS
BIZSAVER
DIRECTORY SERVICES
PRIMARY LISTINGS
ACCESS SERVICE LISTINGS
EXTRA LISTINGS
ALTERNATE LISTINGS
NIGHT NUMBER LISTINGS
EXTRA LINES
SECRETARIAL LISTINGS
FOREIGN LISTINGS
ADDITIONAL LISTINGS
SPECIAL REVERSE CHARGE L D LISTINGS
SPECIAL SCHOOL LISTING GUIDE
NON-PUBLISHED SERVICE
NON LISTED SERVICE
SIGNITURE LISTING
BOLD
SCRIPT
FAMILY SPACE LISTING
RESIDENCE PERSONALITY LOGO
RESIDENCE LINE OF DISTINCTION
DIRECTORY ASSISTANCE SERVICE
LIST SERVICE

1-8

DEREGULATED SERVICES
REVISED 11-29-95
DIRECTORY SERVICES (CONT.)
DIRECTORY ASSISTANCE CALL COMPLETION
FULLY AUTOMATED
SENT PAID PUBLIC OR SEMI PUBLIC
SENT PAID NON-COIN
SENT PAID HOTEL/MOTEL
CALLING CARD
COLLECT OR THIRD NUMBER
SEMI-AUTOMATED
SENT PAID
CALLING CARD
COLLECT OR THIRD NUMBER
PERSON-TO-PERSON
OPTIONAL MONTHLY RATE PLAN
INTRAEXCHANGE CHANNEL SERVICE
SPECIAL SIGNALING SERVICE
SUB VOICE GRADE SERVICE
VOICE GRADE SERVICE
LOCAL AREA DATA SERVICE
SERVED DIRECT SERVICE
SIGNALING
FOREIGN SERVING OFFICE & EXT. SERV.
GROUP ALERTING & DISPATCHING SYS
MICROLINK I-PUB. SWITCHED DIGITAL
MESSAGE RATE SERVICE
URBAN MILEAGE
MISCELLANEOUS SERVICE OFFERINGS
BUSY-OUT ARRANGEMENT
DID/AIOD SERVICE
GOVERNMENT SYSTEMS
NETWORK INTERFACE/DEMARCATION PT.
LINE AMPLIFIER
NIGHT NUMBER TERMINAL ARRANGEMENT
SPECIAL BILLING SERVICE NUMBERS
DORMITORY SERVICE
TELEBRANCH
TOLL DIVERSION- BATTERY REVERSAL
8A KEY TELEPHONE SYSTEM
911 MISC. FEATURES
HOTEL-MOTEL TOLL TERMINAL TRUNKS

DEREGULATED SERVICES
REVISED 11-29-95
MISCELLANEOUS SERVICE OFFERINGS (CON'T)
SPECIAL HIGH VOLTAGE PROTECTION
TOLL RESTRICTION
CUSTOMBER BILLING REPORTS
CONSOLIDATED BILLING
900 CALL RESTRICTION
DEPARTMENTALIZED BILLING REPORTS
HOT LINE-WARM LINE
BILL PLUS
SERVICE LOOP FACILITY MODIFICATION
ELECTRONIC DATA INTERCHANGE BILLING
IMPROVED DATA TRANSMISSION SERVICE
INTERCEPT REFERRAL SERVICES
SECOND LINE CONTROL
PUBLIC TELEPHONES
PUBLIC RESPONSE CALLING SERVICE
UNIVERSAL EMERGENCY SERVICE-911
RULES AND REGULATIONS
TALK
SERVICE GUARANTEE
RURAL LINE SERVICE
SEMI-PUBLIC TELEPHONE SERVICE
SERVICE CONNECTION
EXPEDITED SERVICE
LINK-UP
NURSING/HOSPITAL CARE DISCOUNT
SPECIAL ASSEMBLIES OF EQUIPMENT
SERVICE SUSPENSION/RESTORAL
TELE. ANSWERING & SECRETARIAL
PAYMENT PLANS
ESS-AUTO. CALL DISTRIBUTORS
PLEXAR-I
FOREIGN EXCHANGE SERVICE

DEREGULATED SERVICES
REVISED 11-29-95
EMBEDDED COMPLEX INSIDE WIRE
PLEXAR-II(OBSOLETE)
PLEXAR-CUSTOM
MAINTENANCE & PROVISIONING OF
INTRABUILDING CABLE
CUSTOMER-OWNED PAY TELE. SERV.
SHARED USE SERVICE
MICROLINK II
SHARED TENANT SERVICE
EXCHANGE INTERCONNECTION SERVICE
FRAME RELAY DIGITAL SERVICE
PLEXAR-II SERVICE
ADVANCE INTELLIGENT NETWORK SERV
INTELLIGENT CALL FORWARDING
CALLER INTELLIDATA
SELECTIVE CALL ACCEPTANCE
INTELLINUMBER
TELEKANSAS EDUCATION SERVICE
SELECTVIDEO PLUS
VOICE DIAL
555-INFORMATION DELIVERY SERVICE
AREAWIDE NETWORKING
PREPAID CALLING CARD SERVICE
LONG DISTANCE MESSAGE TARIFF
GENERAL REGULATIONS
CONNECTIONS OF CUST. PREM. EQUIP.

1-11

DEREGULATED SERVICES
REVISED 11-29-95
METHOD OF APPLYING RATES
TWO-POINT SERVICE
OPERATOR ASSISTANCE SERVICE
CHARGES PAID IN COIN TELEPHONES
HEARING/SPEECH IMPAIRED DISC. RATES
DUAL PARTY RELAY SERVICE
CONFERENCE SERVICE
SPECIAL REVERSED CHARGE
HOLIDAY RATES
MOBILE LONG DISTANCE
SELECTIVE CLASS OF CALL SCREENING
OPTIONAL LONG DISTANCE PLANS
1+SAVER
KANSAS CONNECTION
OPTIONAL COMMUNITY CALLING SERV.
INTEGRATED SERVICES TARIFF
DIGITAL SWITCHED VOICE & DATA
DIGITAL LOOP SERVICE
DIGITAL PBX SERVICE
SmartTrunk
DIGILINE SERVICE
WIRELESS CARRIER INTERCONNECTION TARIFF
RADIO COMMON CARRIER TARIFF
TYPE 1 AND TYPE 2A INTERCONNECTION
TYPE 2B INTERCONNECTION
TELEPHONE NUMBER GROUPS

DEREGULATED SERVICES
REVISED 11-29-95
WATS TARIFF
OUTWARD WATS
ACCESS LINE EXTENSION
DIRECTORY LISTINGS
COMMON LINE 800(MaxiMizer 800)
COUNTY SEAT CALLING PLAN
ACCESS TARIFF
CARRIER COMMON LINE
ORDERING OPTIONS
SPECIAL ACCESS
METALLIC
TELEGRAPH GRADE
VOICE GRADE
PROGRAM AUDIO
WIDEBAND ANALOG
WIDEBAND DATA
MegaLink DATA
HIGH CAPACITY
BUSINESS VIDEO
DovLink
BILLING AND COLLECTIONS
DIRECTORY ASSISTANCE
FEDERAL GOVT. SPECIALIZED SERVICES
SPECIALIZED SERV. OR ARRANGEMENTS
ADDL. ENGINEERING, LABOR & MISC.
PACKET SERVICE
MICROLINK II
FRAME RELAY
SERVICES FOR STATE GOVERNMENT
OPERATOR CALL PROCESSING
NETWORK MANAGEMENT SERVICES
RECONFIGURATION SERVICE
TRANSPORT RESOURCE MANAGEMENT

DEREGULATED SERVICES
REVISED 11-29-95
COMMON CHAN. SIGNALING INTERCONNECT
LINE INFO. DATA BASE VALIDATION
DIVERSITY
CONTRACTS
BILLING AND COLLECTIONS
PLEXAR CUSTOM
MISCELLANEOUS

1-14

KCC RECOMMENDED AMENDMENT TO HB 2728

<u>Proposed Amendment to HB 2728:</u>

Leave in Sections 1, 2, 3 (removing any references to other sections deleted under this amendment; changing "KSA 66-177" to "KSA 66-138" on line 26 of page 4), 7, 12 (deleting the words "on long distance retail billed minutes of use" on line 5 of page 17, "all long distance" on line 7 of page 17, and "local exchange" on line 9 of page 17), 13, 14, 15, 16 and 18. Delete Sections 4, 5, 6, 8, 9, 10, 11, and 17. This deletes the majority of the regulatory framework and leaves it to the Commission to establish in hearings this summer. It respects the TSPC's decision not to propose their report as legislation, letting the Commission use the report as a guideline. It prevents the State from doing something that might conflict with the Federal Act which is not yet settled or fully understood.

If there are some elements of the regulatory framework established by the Commission this summer that are not acceptable to the legislature, the legislature can take these specific elements up next session.

Senate Commerce
March 27, 1996
Attachment 2

Kansas Cable Telecommunications Association
Rebecca Rice, Executive Director
Michael R. Meacham, Legislative Counsel

Testimony re: House Substitute for HB 2728

Kansas State Senate
Commerce Committee
March 26, 1996

Madam Chairperson, members of the Committee. I am Mike Meacham and I am privileged to appear today on behalf of the Kansas Cable Telecommunications Association. As a parenthetical note, I would point out the relatively new name of this association --- "telecommunications," replaces "television" --- symbolic, really, of this rapidly changing industry.

At the outset I would say to you as we have before the House Select Committee on Telecommunications that, in the words of Abraham Lincoln, "There is no right way to do a wrong thing." We believe this kind of broad, sweeping legislation --- in this year --- is the wrong thing. While there may be a need for the Kansas Legislature to address several issues such as Internet Access, Slamming, and the KANS–A–N extension related to DISC, it is radical and far-reaching to propose this kind of sweeping legislation. I would hasten to remind this committee, as we all seemed to have lost sight of it in the House --- the TSPC recommended **NO** legislation. From our vantage point, in the name of competition, the House has crafted little more than "The Local Phone Company Protection Act of 1996." Our fundamental position is now, as it has been throughout this process ... there is no need for legislation this year. As a result, we stand before you opposed to this measure and any other measure that reaches beyond the need to address fundamental issues to include the radical changes contemplated in the House bill.

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All that said, however, it is important for us to set forth some immediate concerns specifically about this legislation. We frankly did not do this before the House Committee, preferring instead to stand our ground on the principle that no legislation is needed this year. That ground, however, proved to be readily assailable by the proponents of this Local Phone Company Protection measure. Thus, we offer some specific concerns we hope and trust this committee will address.

Assessed Valuation Increase

Late in the House deliberations, after the bill left committee, we became concerned about certain definitions contained in HB 2728 and their potential ramifications on the assessed valuation of the cable telecommunications industry. Section 2, paragraph (o) at line 7 on page 3 defines "Telecommunications service" in a way which we believe includes the cable TV industry. Furthermore, the bill redefines "Telecommunications public utility" as one which provides "telecommunications services." Our concern is that cable companies are currently assessed at 25% of valuation by local units of government. In the event the Department of Revenue were to read these definitions with a belief that the legislature intended to include cable TV companies as "telecommunications public utilities" then it may well conclude cable TV property should be state assessed at 33 and 1/3% of valuation *whether or not the cable TV company was actually in the telephone business.* This would result in a 32% increase in property taxes in the cable industry. While legal counsel are of conflicting opinions on this issue, our concern is the potential impact on our industry. This would result in an enormous *tax increase* for the cable industry. To avoid producing this kind of dramatic and harmful impact on the cable telecommunications industry we would respectfully request adoption of the amendment proposed by Representative Lawrence in his "Balloon # 6."

Access to Universal Service Fund

The House Committee version of the bill made it clear that only existing LECs were privy to access the so–called "Kansas Universal Service Fund." On the floor of the House, new language was adopted which appears to permit others in addition to the existing LECs access to these funds. The language limits new entrants' access, however, by: (a) limiting the aggregate amount of funds to those actually paid to the incumbent LEC in the year prior to the beginning of competition; (b) tying the amount of KUSF funds to the investment in infrastructure *in the exchange* regardless of the number of customers served, and; (c) requiring new entrants in urban areas to subsidize lower access charges of rural telephone companies with whom they cannot compete. For us, this is problematic in that various exchanges have already received a substantial investment in infrastructure by our industry in the laying of fiber optic cable, hence the access to the KUSF is illusory. It is attractive language on the surface, but really without much substance. (Section 5, paragraph (e), at page 7, lines 28 through 43.)

Price Deregulation of Miscellaneous Services

This bill provides for the deregulation of miscellaneous services. On its face, this is a valuable and meritorious concept. This price deregulation, however, is tied to a point in time when the Local Exchange Carrier begins to offer 1+ intraLATA dialing parity. (Section 6, paragraph (g) at page 10, lines 26 through 40.) What makes this provision problematic is that the entire basket of "miscellaneous services" is not related in any way to the 1+ intraLATA dialing function. I understand the Chairperson of the House Committee to have said there are some 176 services in the basket of "miscellaneous services." Absent competition in the category of the miscellaneous services basket, price deregulation is nothing more than a state–authorized monopoly with unfettered authority to charge whatever it sees fit in defiance of the new Federal Telecommunications Act of 1996. Customer specific pricing is still in HB 2728, thus allowing the incumbent protected local phone company to offer downward rates on an Individual Cost Based (ICB) method, thereby undercutting the true market and eliminating competition. Our belief is that competition for these services should be present prior to the deregulation of the prices for these services.

Promotes Potentially Obsolete Technology

The definition of enhanced universal service should not include reference to ISDN. Why lock in a potentially obsolete technology, especially when cable modems, a superior technology, with over 100 times the speed of ISDN, will be rolled out through 1996 and 1997? The bill requires commitment from local protected phone companies (LECs) to provide ISDN for basic rates. We believe the legislation should properly adopt performance standards rather than requiring a specific technology held exclusively by phone companies. (Section 6, paragraph (b)(2) at page 8, lines 39 through 43.)

Performance standards

HB 2728 Will Prevent Competition in Rural Areas

The extremely specific list of issues the KCC must consider before determining whether to allow competition in rural areas virtually guarantees that such competition cannot occur. (Section 5, paragraphs (b)(1) and (b)(2).) The KCC should have greater flexibility, just as in the Federal Act (Section 251(f)(2)). We regard this very specific litmus test as a barrier to local competition which could be preempted by the FCC. In further protection of the local phone companies, HB 2728 allows rural telephone companies to offer video services without facing local exchange competition. (Same as above. HB 2728 began to use Federal Act language, but failed to include an exception to the rural exemption with regard to this issue.) We believe this is in conflict with the Federal Act (Section 251 (f)(1)(B).)

Procedural Concerns

The founding fathers gave us a bicameral legislative process for a number of reasons, not the least of which was the opportunity to induce reason and patience into a process which, at times, can be given to emotion and impulse. We would be remiss if we did not take the opportunity in this, the second house for this legislation, to express some grave reservations about the process employed in the first house in the crafting of this bill. We would call to your attention that the first time a printed bill was available to members of the legislature, to us, to members of the public, to anyone at all was *one week ago yesterday*. We would also call to your attention that on the Monday before that, a draft first became available to interested parties who were permitted, in total, one day (Tuesday) to comment to the House Select Committee on Telecommunications. What mystifies us is that the House devoted literally 10 weeks to "studying" this issue and afforded interested parties merely one day for comment on a draft --- without even the benefit of a printed piece of legislation. To us this seems an abuse of process --- particularly on an issue of such magnitude involving such sweeping and radical legislation. This bill was printed on Monday, March 18, debated on Wednesday, March 20, passed on Final Action on Thursday, March 21 and now appears before you beginning March 21. This is a remarkable pace. The Senate is now asked to do in 7 days what took the House 10 weeks. I understand Senators are asked to do the work of 3 House members, but in this case the House has put the Senate in a very unenviable position. You are asked to make major, sweeping, radical changes in state policy over telecommunications on literally a moment's notice. From where we sit, the

House has played with a "hidden ball" for 10 weeks, giving birth in the eleventh legislative hour to a massive, complex piece of legislation which produces ramifications to numerous and complex to begin to comprehend. We would ask, for that reason alone, that the Senate be more deliberative in consideration of *this specific legislation* than your counter–parts in the House.

Shifts Significant Regulatory Authority from the KCC to the Legislature

We believe HB 2728 alters the regulatory process dramatically. Instead of the KCC, the Kansas Legislature becomes the regulatory agency. We would respectfully refer you to the memo of March 18, 1996 written by the Legislative Research Department to the House Select Committee on Telecommunications at pages 2 and 3 wherein your own staff indicates that the Legislature will become embroiled in no fewer than 16 different regulatory issues affecting this industry with the passage of this bill.

Conclusion

There has been no *compelling* case made for the need for this kind of radical, far–reaching legislation this year. It has been said that enactment of this legislation is necessary to take advantage of a "public policy opportunity." The "opportunity" appears to be nothing more than a last ditch effort to protect local phone monopolies in the face of federal legislation which would unshackle competition. It has also been said that we "need to be careful the next 6, 7, or 8 years." We could not agree more. Rushing into the numerous and complex policy decisions laced throughout this sweeping legislation is an invitation to federal litigation and delay in the introduction of competition. On this point, it has been suggested that "certainty of circumstances" is a valued element in making this policy decision. The only certainty there can ever be is "change." The "certainty of circumstance" created by this legislation does much more harm than good. Indeed, there are a number of reasons to wait and consider the impact of the federal legislation as well as these proposals over a longer period of time. Others will speak to the issues in this bill which are in apparent conflict with the federal legislation. Still others will speak to issues affecting their specific industries.

The 1996 Federal Telecommunications Act provides a procompetitive, national policy framework designed to rapidly accelerate private sector deployment of advanced telecommunications and information technologies and services to Americans *by opening all telecommunications markets to competition.* One additional point needs to be made about the Federal Act --- ***it was agreed to by all parties.*** The RBOCs, the LECs, the CAPs, the CATVs, the IXCs, virtually all the parties affected by the legislation agreed to it. If this bill is so balanced, which has been repeated time and again, why are the only proponents existing incumbent protected local phone companies? Why are *all* the incipient competitors opposed? Surely if this bill were as "balanced" as the proponents suggest, there would be at least one erstwhile competitor which would support it. There are none.

HB 2728 is flawed in its conception --- it does nothing to promote competition --- it only prevents it by protecting local phone companies, thus the moniker, "The Local Phone Company Protection Act of 1996." We urge you to allow the KCC time to complete their rulemaking proceedings and have the KCC submit their recommendations to you for you consideration in 1997. This will allow Kansans to reap the benefits of true competition fairly and equitably with the rest of America.

AT&T

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TESTIMONY ON BEHALF OF AT&T
BEFORE THE SENATE COMMERCE COMMITTEE
MARCH 27, 1996
SUB. HB2728

MADAM CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS MIKE REECHT. I AM THE STATE MANAGER FOR AT&T IN KANSAS. I WELCOME THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE TO DISCUSS SUB. HB 2728

WHEN THIS BILL WAS FIRST INTRODUCED AT&T HAD NUMEROUS CONCERNS WITH THE BILL SOME OF WHICH WERE APPROPRIATELY AMENDED LAST WEDNESDAY IN THE HOUSE OF REPRESENTATIVES. HOWEVER, THERE STILL REMAIN MANY ISSUES WHICH NEED TO BE CORRECTED IN THE SENATE.

THE 1994 LEGISLATURE RECOGNIZED THAT COMPETITION FOR ALL TELECOMMUNICATIONS SERVICES WAS AN IMPORTANT PRINCIPLE WHEN IT PASSED SCR 1627 THAT REQUIRED THE KCC TO INITIATE DOCKETS TO ULTIMATELY OPEN ALL MARKETS TO COMPETITION. SCR 1627 ALSO ESTABLISHED THE TELECOMMUNICATIONS STRATEGIC PLANNING COMMITTEE (TSPC) TO ESTABLISH A VISION OF TELECOMMUNICATIONS TO CARRY KANSAS INTO THE 21ST CENTURY.

"THE TELECOMMUNICATIONS ACT OF 1996" WAS SIGNED INTO LAW ON FEBRUARY 8. THE FEDERAL BILL TURNED OUT TO BE A VERY BALANCED BILL THAT REMOVES BARRIERS TO EFFECTIVE COMPETITION WHILE MAINTAINING THE PROTECTION OF UNIVERSAL SERVICE. THE FEDERAL BILL RECEIVED SUPPORT FROM LONG DISTANCE COMPANIES, RURAL TELEPHONE COMPANIES AND REGIONAL BELL OPERATING COMPANIES, ALIKE. IF THIS LEGISLATURE DOES NOT ENACT SUB. HB 2728, COMPETITION WILL PROCEED IN ACCORDANCE WITH THE GUIDELINES INCLUDED IN THE FEDERAL LAW. IT IS APPARENT COMPANIES THAT AGREED TO THE FEDERAL LAW ARE NOW WANTING TO GET ADDITIONAL PROTECTION FROM STATE LAW EVEN TO THE EXTENT THAT THEY MAY BE IN CONFLICT.

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THE TELECOMMUNICATIONS INDUSTRY IS GOING THROUGH A PERIOD OF RAPID CHANGE. CERTAIN AREAS IN TELECOMMUNICATIONS LIKE LONG DISTANCE AND CUSTOMER PREMISES EQUIPMENT HAVE BECOME FULLY COMPETITIVE OVER THE LAST DECADE. TODAY IN KANSAS THERE ARE OVER 150 LONG DISTANCE COMPANIES CERTIFICATED TO DO BUSINESS. VIRTUALLY EVERY CUSTOMER IN KANSAS HAS THE ABILITY TO ACCESS NUMEROUS LONG DISTANCE PROVIDERS OF THEIR CHOICE. ADDITIONALLY, CONSUMERS CAN GO TO MANY RETAIL STORES AND PURCHASE TELEPHONE SETS AND ACCESSORIES OF NUMEROUS KINDS AND VALUE. THESE CHOICES ARE MADE FOR A VARIETY OF REASONS; PRICE, LOYALTY, SERVICE OPTIONS, AND QUALITY OF SERVICE.

THE ONE MAJOR AREA OF TELECOMMUNICATIONS SERVICE WHICH HAS WITNESSED VIRTUALLY NO COMPETITION IS LOCAL EXCHANGE SERVICE. KANSAS CONSUMERS ARE STILL FORCED TO OBTAIN THEIR LOCAL SERVICE, THEIR DIAL TONE, FROM A SINGLE MONOPOLY PROVIDER. 100% OF BASIC LOCAL SERVICE, IN KANSAS, IS SUPPLIED BY SOUTHWESTERN BELL, UNITED OR ANOTHER INDEPENDENT TELEPHONE COMPANY. THEY STILL HOLD A MONOPOLY POSITION IN THE LOCAL EXCHANGE MARKET. THEY WILL CONTINUE TO BE MONOPOLY PROVIDERS UNTIL SUCH TIME AS THERE IS CLEAR AND DEMONSTRABLE COMPETITION IN THE LOCAL EXCHANGE. UNTIL YOUR CONSTITUENTS HAVE A CHOICE OF LOCAL TELEPHONE COMPANIES THAT PROVIDE BASIC TELEPHONE SERVICE THERE IS NO COMPETITION.

AS A RESULT OF THIS MONOPOLY POSITION, LOCAL EXCHANGE TELEPHONE COMPANIES (LECS) ARE REGULATED BY THE KANSAS CORPORATION COMMISSION (KCC). THE PURPOSE OF REGULATION IS TO INSURE THAT WHILE THE LEC <u>RETAINS ITS MONOPOLY POSITION</u>, THE PRICES OF ITS SERVICES, THE QUALITY OF SERVICE IT PROVIDES AND THE ARRAY OF SERVICES IT MAKES AVAILABLE SIMULATE WHAT WOULD OCCUR IF THERE WERE COMPETITIVE FORCES AT PLAY. IN A COMPETITIVE MARKETPLACE IF COSTS DECREASE, SUPPLIERS ARE FORCED TO DECREASE THEIR PRICES OR RISK LOSING MARKET SHARE. HOWEVER, DURING THE PAST SEVEN YEARS, SOUTHWESTERN BELL HAS MAINTAINED THEIR CURRENT RATES EVEN THOUGH TELECOMMUNICATIONS COSTS HAVE BEEN DECLINING DURING THIS SAME PERIOD. THIS IS WHY AT&T SUGGESTS THAT INITIAL PRICES FOR THE PRICE CAPS SHOULD REFLECT COSTS AND BE APPROVED BY THE COMMISSION.

THE ROLE OF REGULATION HAS SERVED THE CAPTIVE RATEPAYER WELL THROUGH THE YEARS WHETHER WE ARE TALKING ABOUT

ELECTRIC SERVICE, NATURAL GAS, OR TELECOMMUNICATIONS. IT IS ESSENTIAL THAT REGULATION PLAY A KEY ROLE IN TELECOMMUNICATIONS DURING THE TRANSITION FROM A MONOPOLY LOCAL EXCHANGE ENVIRONMENT TO A COMPETITIVE ENVIRONMENT. UNTIL SUCH TIME AS COMPETITION OFFERS CUSTOMERS MEANINGFUL CHOICES, THE KCC MUST BE PERMITTED TO PLAY A MAJOR ROLE IN THIS TRANSITION.

MUCH OF THE REGULATORY POLICY CONTAINED IN THIS BILL WAS DEVELOPED IN THE TELECOMMUNICATIONS STRATEGIC PLANNING COMMITTEE BUT WAS <u>NOT RECOMMENDED</u> BY THAT COMMITTEE TO BECOME LAW. IN ADDITION, TWO VERY MAJOR CHANGES WERE MADE TO THE TSPC POLICY IN THIS BILL INVOLVING UNIVERSAL SERVICE PROVISIONS AND ENTRY RESTRICTIONS FOR COMPETITORS SEEKING TO PROVIDE SERVICE IN SMALL LOCAL EXCHANGE COMPANY TERRITORIES.

I SPEAK IN OPPOSITION TO SUB. HB 2728 FOR VARIOUS REASONS. THE BILL IS ANTI-COMPETITIVE SINCE IT IMPOSES SIGNIFICANT LOCAL EXCHANGE MARKET ENTRY BARRIERS. AMONG THESE ARE THE RESTRICTIONS ON RURAL ENTRY SET FORTH IN SEC. 5 OF SUB. HB 2728. THESE RESTRICTIONS ARE NOT NECESSARY BECAUSE THEY ARE ADEQUATELY ADDRESSED IN THE FEDERAL BILL. ALSO INCUMBENT LECS ARE GIVEN THE RIGHT IN SEC. 6 (d) TO RESTRICT COMPETITION BY ALLOWING THEM TO TARGET CUSTOMERS FOR SPECIFIC DISCOUNTS AND THEN MAKING UP THAT LOST REVENUE BY INCREASING PRICES TO OTHER CUSTOMERS. FINALLY, THE BILL FURTHER DEREGULATES MISCELLANEOUS SERVICES ONCE BELL OFFERS INTRALATA 1+ DIALING PARITY. THIS PROVISION WOULD BE PROPER IF IT ONLY APPLIED TO THE DEREGULATION OF LONG DISTANCE, HOWEVER, IT APPLIES TO ALL SERVICES EXCEPT SWITCHED ACCESS AND SINGLE LINE BUSINESS AND RESIDENCE SERVICE. ALL OF THESE BARRIERS ARE AT THE EXPENSE OF A COMPETITIVE MARKET.

AS I MENTIONED, THE "TELECOMMUNICATIONS ACT OF 1996" IS LAW, AND IT WILL TAKE SEVERAL MONTHS TO FULLY ANALYZE THE EFFECTS OF THE BILL AND CARRY OUT THE REQUIRED ACTIONS BY THE FCC AND THE STATE REGULATORY COMMISSIONS. "THE TELECOMMUNICATIONS ACT OF 1996" CONTAINS CONFLICTS WITH THE BILL BEING DISCUSSED TODAY.

SUB. HB 2728 HAS SEVERAL SECTIONS RELATING TO UNIVERSAL SERVICE WHICH ARE EITHER IN DIRECT CONFLICT WITH FEDERAL LAW OR, AT THE VERY LEAST, ARE VERY SUSPECT AS CONFLICTING WITH FEDERAL LAW. FOR EXAMPLE, UNDER THE DEFINITION OF A RURAL

LOCAL EXCHANGE COMPANY IN FEDERAL LAW, SPRINT IS INCLUDED. HOWEVER, SEC. 2 (I) OF THE BILL BEFORE THIS COMMITTEE EXCLUDES SPRINT AS A RURAL COMPANY.

IN ADDITION, SUB. HB 2728'S FAILURE TO ALLOW THE KCC TO TAKE AN ACTIVE ROLE IN THE DEVELOPMENT OF UNIVERSAL SERVICE WILL DEFAULT THESE DECISIONS TO THE FCC. "THE TELECOMMUNICATIONS ACT OF 1996" INCLUDES SECTION 254 WHICH IS DEVOTED TO UNIVERSAL SERVICE. A FEDERAL STATE JOINT BOARD WAS ESTABLISHED IN MARCH TO BEGIN WORKING ON A UNIVERSAL SERVICE PLAN. ANY STATE PLAN IS <u>REQUIRED TO BE CONSISTENT</u> WITH THE FEDERAL PLAN. HOWEVER, SEC. 9,10 AND 11 OF SUB. HB 2728 SEVERELY RESTRICTS THE COMMISSION'S ABILITY TO COMPLY WITH THE UNIVERSAL SERVICE STANDARDS IN THE FEDERAL LAW.

"THE TELECOMMUNICATIONS ACT OF 1996" ALLOWS STATE COMMISSIONS TO EXEMPT SMALL TELEPHONE COMPANIES FROM SOME PROVISIONS OR SET ADDITIONAL REQUIREMENTS BEFORE ALLOWING COMPETITION IN A RURAL MARKET. THE KCC ALREADY HAS THE AUTHORITY TO EXEMPT SMALL COMPANIES IN KANSAS. JUST RECENTLY, THE KCC CLARIFIED ITS MAY 5, 1995, COMPETITION ORDER EXEMPTING THE SMALL LECS FROM THE REQUIREMENTS OF IMPLEMENTING LOCAL COMPETITION.

SECTIONS 9, 10 AND 11 of SUB. HB 2728 CONTAIN VERY SPECIFIC GUIDELINES THAT, IN ADDITION TO THE LIKELIHOOD OF FEDERAL PREEMPTION, ARE VERY ANTI-CONSUMER AND ANTI-COMPETITIVE.

MANY OF THE PROVISIONS AMOUNT TO NOTHING MORE THAN A WELFARE PROGRAM FOR INCUMBENT LOCAL EXCHANGE COMPANIES. THE TSPC HAD IT RIGHT WHEN IT LEFT THE IMPLEMENTATION OF UNIVERSAL SERVICE IN THE HANDS OF THE KCC. THE CURRENT BILL BEFORE YOU WILL MANDATE TECHNOLOGY WHICH IS EVER CHANGING, REQUIRE URBAN CUSTOMERS TO SUBSIDIZE RURAL CUSTOMERS, REGARDLESS OF NEEDS, AND REQUIRE LONG DISTANCE RATEPAYERS TO FUND SUCH ITEMS AS CUSTOM CALLING FEATURES AND NATURAL DISASTERS. THE FEDERAL LAW <u>DIRECTLY CONFLICTS</u> WITH THE PROPOSED FUNDING INCLUDED IN SUB. HB 2728.

Section 254(b)(4) states:

> **"EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS - All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service."**

Section 254(f) states:

> **"State Authority. - A State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service. Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State."**

THE FEDERAL LAW WILL REQUIRE MUCH INVESTIGATION. THERE ARE MANY TIMING AND DEFINITION PROBLEMS THAT MUST BE RESOLVED IN THE NEXT SEVERAL MONTHS. THAT IS WHY IT IS SO IMPORTANT TO NOT RUSH TO LEGISLATION THAT COULD DENY KANSANS THE BENEFITS OF A COMPETITIVE MARKET WHILE NEIGHBORING STATES ARE IMPLEMENTING A COMPETITIVE MARKET STRUCTURE. I URGE YOU TO LEAVE THE UNIVERSAL SERVICE PROVISIONS WITH THE KCC SO THAT THEY HAVE THE FLEXIBILITY TO PROTECT THE NEEDS OF BOTH KANSAS RURAL AND URBAN CONSUMERS.

FINALLY, WHAT IS LEFT IN SUB. HB 2728, AFTER THE COMPETITIVE AND UNIVERSAL SERVICE ISSUES, APPEARS TO BE THE QUESTION OF HOW TO REGULATE LOCAL EXCHANGE COMPANIES. AS I PREVIOUSLY MENTIONED, THE BILL BEFORE THE COMMITTEE WOULD DEREGULATE MONOPOLY SERVICES PRIOR TO EFFECTIVE COMPETITION. CONSUMERS WILL BE AT THE MERCY OF THE INCUMBENT LOCAL EXCHANGE COMPANIES UNTIL COMPETITION IS FULLY DEVELOPED WHICH MAY TAKE SEVERAL YEARS. IN FACT, THE VERY DEVELOPMENT OF THAT COMPETITION WILL BE IMPEDED AND MAY BE FORESTALLED BY THE PREMATURE DEREGULATION OF MONOPOLY SERVICES.

IT IS IRONIC THAT THE FCC LAST WEEK DETERMINED THAT THE LONG DISTANCE MARKET SHOULD NOW RECEIVE COMPLETE PRICING FLEXIBILITY. THIS OCCURRED 12 YEARS AFTER COMPETITION BEGAN IN THAT MARKET, AFTER HUNDREDS OF COMPETITORS ENTERED THE MARKET, AND AFTER AT&T LOST OVER 40% OF ITS MARKET SHARE. THIS MEASURED APPROACH ALLOWED COMPETITORS TO GAIN A FOOTHOLD IN THE MARKET PRIOR TO ALLOWING AT&T TO HAVE PRICING FREEDOM. THERE IS NOT ONE COMPETITOR CURRENTLY PROVIDING LOCAL EXCHANGE SERVICE, YET, THIS BILL WILL REMOVE THE PROTECTION THAT THE CONSUMERS IN THIS STATE ARE ENTITLED TO RECEIVE. THE BILL REMOVES THE KCC FROM CONSIDERABLE DECISION MAKING ABILITY RELATING TO THE PRICES THAT WILL BE CHARGED TO CONSUMERS. IN FACT, THE BILL WILL ALLOW LECS TO PRICE THE SAME SERVICE TO ONE CUSTOMER AT A LOWER RATE THAN

TO ANOTHER SIMILARLY SITUATED CUSTOMER. DEREGULATION OF PRICES PRIOR TO EFFECTIVE COMPETITION WILL THWART COMPETITIVE ENTRY IN KANSAS.

TELEKANSAS II (HB 3039) PROTECTS SOUTHWESTERN BELL FROM PRICE REDUCTIONS RESULTING FROM EARNINGS REVIEWS UNTIL MARCH, 1997. THERE IS ABSOLUTELY NO NEED TO PASS THIS BILL. NOTHING SHOULD BE DONE WHICH WOULD LIMIT THE KCC'S CURRENT ABILITY TO DEAL WITH REDUCED REGULATION, COMPETITIVE MARKETS AND UNIVERSAL SERVICE.

THE KANSAS CORPORATION COMMISSION HAS RECEIVED CONSIDERABLE CRITICISM DURING THIS LEGISLATIVE PROCESS. THE KCC DID NOTHING MORE THAN IMPLEMENT THE DIRECTIVES WHICH IT RECEIVED FROM THE 1994 LEGISLATURE. KANSAS HAS AN EXCELLENT OPPORTUNITY TO ENTER THE 21ST CENTURY WITH A HIGH TECHNOLOGY AND COMPETITIVE MARKET. CONSUMERS HAVE THE RIGHT TO PROTECTION FROM MONOPOLY ABUSES. NOTHING HAS CHANGED DURING THE LAST TWO YEARS THAT WOULD REQUIRE THIS BILL. IN FACT, THE FEDERAL LAW, EMBRACED BY THE INDUSTRY, TOTALLY ELIMINATES ANY NEED FOR LEGISLATION.

IN SUMMARY;

- KANSANS WILL BENEFIT FROM ALL TELECOMMUNICATIONS MARKETS BEING OPENED TO COMPETITION.
- THE 1994 LEGISLATURE DIRECTED THE KCC TO MAKE PREPARATIONS TO OPEN ALL MARKETS TO COMPETITION AND THEY ARE IN THE PROCESS OF DOING THAT.
- "THE TELECOMMUNICATIONS ACT OF 1996 " CONFLICTS WITH NUMEROUS PROVISIONS IN THIS BILL.
- THE TSPC WAS CORRECT IN LEAVING UNIVERSAL SERVICE ISSUES TO THE KCC.
- THE UNIVERSAL SERVICE PROVISIONS ARE AN EXPANSION OF THE SCOPE OF UNIVERSAL SERVICE AND ARE IN CONFLICT WITH FEDERAL LAW REGARDING WHO CAN DRAW FROM THE FUND AND WHO CONTRIBUTES TO THE FUND.
- THE KCC SHOULD CONTINUE TO REGULATE INCUMBENT LOCAL EXCHANGE COMPANY PRICES UNTIL SUCH TIME THAT THERE IS EFFECTIVE COMPETITION IN THE LOCAL EXCHANGE MARKET.
- SOUTHWESTERN BELL IS PROTECTED FROM COMMISSION ACTION RESULTING FROM AN EARNINGS REVIEW UNTIL MARCH, 1997.
- THERE IS NO NEED FOR LEGISLATION IN 1996.

THIS CONCLUDES MY TESTIMONY.

MCI Telecommunications
Corporation

MCI

TESTIMONY BEFORE SENATE COMMERCE COMMITTEE

SUBSTITUTE FOR HOUSE BILL NO. 2728

EVA POWERS
March 26, 1996

I am Eva Powers appearing on behalf of MCI Telecommunications Corporation. You have before you a long, complex bill spelling out the future of telecommunications in Kansas. You are aware that the U. S. Congress has enacted the Telecommunications Act of 1996 addressing telecommunications issues on a national scope while leaving much to the states to decide but requiring that issues at the state level, to the extent addressed by the federal law, are decided in conformity with federal law. The Act delegates to the Federal Communications Commission (FCC) much rule making authority most of which will not be completed for six months and with respect to universal service, not for 15 months, by early May of 1997.

MCI believes that it is neither necessary nor desirable to enact state legislation this year. The FCC, the KCC and service providers will be fully occupied interpreting the federal Act and taking the necessary steps to comply with its provisions for implementation of local exchange competition. Enacting state legislation which imposes different requirements makes competitive entry more difficult because potential competitors must not only understand and comply with the federal Act but also the state law and to the extent they conflict determine what must be done to resolve those conflicts.

I would like to turn your attention to Section 14 of Substitute for House Bill 2728 which addresses the issue of changing carriers. This is an issue of great

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concern to customers and to MCI. All customers have a right to their carrier of choice and to change carriers with ease. The federal Act at Section 258 addresses this issue. It states:

> No telecommunications carrier shall submit or execute a change in a subscriber's selection of a provider of telephone exchange service or telephone toll service except in accordance with such verification procedures as the Commission shall prescribe. Nothing in this section shall preclude any state commission from enforcing such procedures with respect to intrastate services.

The federal Act requires the states to enforce only those procedures prescribed by the FCC. The FCC held lengthy proceedings before it promulgated current rules (attached). Section 258 requires the FCC to now prescribe rules for both local and long distance carrier selection. The KCC has authority to address the issue pursuant to existing rules and may impose sanctions. It will retain that authority under the rules to be developed.

MCI, like all interexchange carriers, markets its services on a nationwide basis and serves on a nationwide basis. It is critical to MCI that an issue such as carrier change is governed by uniform rules. MCI has a large telemarketing center in Wichita with 650 employees which markets its services in many states. Implementation of different verification requirements for different states increases cost and ultimately makes telephone service more expensive for customers.

The four methods currently allowed by the FCC for verifying a change request by a customer are: (1) obtain the customer's written authorization by a letter of agency (LOA), (2) obtain the customer's electronic authorization by use of a toll free number, (3) have the customer's oral authorization verified by an independent third party, or (4) send the customer an information package with a mandatory 14 day waiting period before issuance of the change order. MCI uses the third alternative set out above. After marketing a service to a customer the customer's number is given to an independent party to verify that the customer, in fact, has requested MCI's service. This particular alternative is not authorized by the Kansas bill despite the fact that the FCC authorized it more than three years ago.

Today, when customers contract for interexchange service they choose a carrier to provide both their interstate service and their intrastate interLATA service. Because an interstate provider is chosen the federal rules would prevail and as local exchange service becomes competitive the new FCC rules will also apply in accordance with Section 258 of the federal Act. MCI is, however, concerned that some local exchange carriers could insist that the Kansas Act be complied with. This would delay competition in that market since it might require litigation. It would also inconvenience the customer. Enacting requirements in Kansas different from preemptive requirements in the federal Act, will make the state provisions void and useless but might also result in unnecessary and costly litigation.

The State Corporation Commission pursuant to the policy directives of SCR 1627 has under way a docket in which it plans to schedule hearings for this summer to determine the issues which must be resolved for competition to develop. MCI believes that this ongoing KCC proceeding coupled with the federal Act will best provide for fair, rapid implementation of competition.

Many witnesses have testified regarding the problems with this bill. It will not ensure customers the benefits of competition because it raises some entry barriers and fails to eliminate others, it conflicts with federal law which is likely to result in litigation increasing costs to provide service and delaying competition.

Since Congress has acted, MCI submits that layering additional legislation, and in fact, creating legislation which conflicts with the clear language of the federal legislation is counterproductive to bringing the full benefits of competition to Kansas. Competition will be delayed as potential competitors seek preemption of the conflicting Kansas provisions at the FCC and in federal court. All this does is to delay the inevitable which benefits only the local exchange companies, NOT Kansas telephone customers.

If, in another year, you determine that some targeted legislation to supplement the Commission's actions pursuant to prior mandates of the Legislature and those of the federal Act are not sufficient, you can then take action to address a specific issue.

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Subpart K—Changing Long Distance Service

§64.1100 Verification of orders for long distance service generated by telemarketing.

No IXC shall submit to a LEC a primary interexchange carrier (PIC) change order generated by telemarketing unless and until the order has first been confirmed in accordance with the following procedures:

(a) The IXC has obtained the customer's written authorization to submit the order that explains what occurs when a PIC is changed and confirms:

(1) The customer's billing name and address and each telephone number to be covered by the PIC change order;

(2) The decision to change the PIC to the IXC; and

(3) The customer's understanding of the PIC change fee; or

(b) The IXC has obtained the customer's electronic authorization, placed from the telephone number(s) on which the PIC is to be changed, to submit the order that confirms the information described in paragraph (a) of this section to confirm the authorization. IXCs electing to confirm sales electronically shall establish one or

more toll-free telephone numbers exclusively for that purpose. Calls to the number(s) will connect a customer to a voice response unit, or similar mechanism, that records the required information regarding the PIC change, including automatically recording the originating ANI; or

(c) An appropriately qualified and independent third party operating in a location physically separate from the telemarketing representative has obtained the customer's oral authorization to submit the PIC change order that confirms and includes appropriate verification data (e.g., the customer's date of birth or social security number); or

(d) Within three business days of the customer's request for a PIC change, the IXC must send each new customer an information package by first class mail containing at least the following information concerning the requested change:

(1) The information is being sent to confirm a telemarketing order placed by the customer within the previous week;

(2) The name of the customer's current IXC;

(3) The name of the newly requested IXC;

(4) A description of any terms, conditions, or charges that will be incurred;

(5) The name of the person ordering the change;

(6) The name, address, and telephone number of both the customer and the soliciting IXC;

(7) A postpaid postcard which the customer can use to deny, cancel or confirm a service order;

(8) A clear statement that if the customer does not return the postcard the customer's long distance service will be switched within 14 days after the date the information package was mailed to [name of soliciting carrier];

(9) The name, address, and telephone number of a contact point at the Commission for consumer complaints; and

(10) IXCs must wait 14 days after the form is mailed to customers before submitting their PIC change orders to LECs. If customers have cancelled their orders during the waiting period, IXCs, of course, cannot submit the customer's orders to LECs.

Remarks of David Hollingsworth

Director of Finance and Administration

Kansas City FiberNet

to the

Senate Commerce Committee

Honorable Alicia Salisbury

Chairman

Kansas Statehouse

March 27, 1996

Topeka, Kansas

Senate Commerce
March 27, 1996
Attachment 6 thru 6-7

Chairman Salisbury, Members of the Committee - Thank you for the opportunity to be before you today. I am David Hollingsworth, Director of Finance and Administration for Kansas City FiberNet. Kansas City FiberNet has been certified by the Kansas Corporation Commission as a competitive local telecommunications provider in Kansas.

When I originally testified before the House Select Committee I commended the Leadership for their vision in appointing such a committee. I presented my views on the Telecommunications Strategic Planning Committee report and had high expectations we would develop an initiative which would build upon recent telecommunications advances. Since then, federal telecommunications legislation has passed which further encouraged the deployment of sophisticated telecommunications at the lowest possible prices to all Kansans.

After much testimony, discussions and amendment, we conclude Substitute HB 2728 is anti-consumer, anti-rural, anti-urban, anti-competitive, and will create a legal quagmire because of its many conflicts with federal legislation. The beneficiaries of substitution HB 2728 are not your constituents, but the existing monopoly local telephone companies. The net result is a bill that clouds the issues and assures litigation for the future.

For your information I have attached a copy of Federal Universal Service Fund Subsidy for Kansas Local Exchange Companies. This represents only a small portion of their subsidy and does not include intrastate access, interstate access and interstate end user line charges.

With Substitute HB 2728, SWBT can lock-in at current rates which have not been examined by the KCC since the 80's (Section 6.l.). In other SWBT states, they have been forced to reduce rates by hundreds of millions because of excessive rates. Additionally, Rural customers may see their monthly phone bills increase without any review for a need to raise these rates (Section 8.c.1.).

Local telephone companies will be given nearly unlimited pricing flexibility before there is any evidence of effective competition (Section 6.d.). This pricing flexibility can be extended to an individual customer. Other similarly situated customers, which haven't been approached by a competitor, likely will not receive the same price reduction. Additionally, all miscellaneous services will be completely deregulated without regard to the level of competition (Section 6.g.). These anti-competitive pricing provisions will discourage the development of competition, create massive barriers to entry and will likely create a deregulated monopoly.

Substitute HB 2728 is in direct conflict with the federal law. Areas of conflict include funding of the Universal Service fund, rural exemptions and rural service area. I will not go into detail, because I am sure many others will discuss the specifics.

I do not know how anyone could call this a consensus Bill. It appears the only consensus is among the local phone monopolies. It completely lacks consumer and competitive safeguards in a market which is dominated by companies with monopoly power. For this legislature to consider mandating advanced services without regard to the demand for those services and to channel exclusive receipt of subsidies only to existing local telephone service providers simply underscores the need for a State agency like the KCC.

When the Telecommunications Strategic Planning Committee was formed and when the Select Committee on Telecommunications was appointed, it was too early to know the direction of Federal initiative in Telecommunications. Today, we have the direction and the Federal Law. I would like to express to you, the Senate Commerce Committee, in strong terms this state proposal is anti-consumer and anti-competitive and is no longer needed. The local phone monopolies want this legislation to thwart developing competition, lock-in their monopoly profits, and perpetuate their receipt of massive subsidies. Substitute HB 2728 will only serve to cloud and slow down the competitive posture Kansas has advanced in telecommunications.

The choice is clear, NO to Substitute HB 2728.

1994 USF $ Received by each LEC

10/94			
NECACODE	STUDY AREA NAME	ST	1993 USF$
320792	MULBERRY COOP. TELEPHONE CO INC.	IN	0.00
320795		IN	0.00
320796	NEW LISBON TELEPHONE COMPANY INC.	IN	0.00
320797	NEW PARIS TELEPHONE INC.	IN	129,956.66
320800	NORTHWESTERN INDIANA TEL. CO. INC.	IN	0.00
320801	ODON TEL. CO.	IN	88,948.42
320807	PERRY-SPENCER RURAL TEL. COOP. INC.	IN	0.00
320809	COMMUNICATIONS CORP. OF SOUTHERN INDI	IN	0.00
320811		IN	0.00
320813	PULASKI-WHITE RURAL TEL. COOP. INC.	IN	0.00
320815	ROCHESTER TELEPHONE CO. INC.	IN	0.00
320816	S & W TEL. CO.,INC.	IN	4,952.68
320818	SMITHVILLE TEL. CO.,INC.	IN	0.00
320819	SOUTHEASTERN IND. RURAL TEL. COOP INC.	IN	80,998.07
320825	SUNMAN TEL. CO. INC.	IN	0.00
320826	SWAYZEE TEL. CO. INC.	IN	0.00
320827	SWEETSER RURAL TEL. CO. INC.	IN	0.00
320828	THORNTOWN TELEPHONE CO. INC.	IN	0.00
320829	TIPTON TELEPHONE COMPANY INC.	IN	0.00
320830	TRI-COUNTY TEL. CO. INC.-IN	IN	0.00
320831	ALLTEL INDIANA INC.	IN	0.00
320832	UNITED TELEPHONE CO. OF INDIANA INC.	IN	0.00
320833	Wadesville Tel Co Inc	IN	0.00
320834	WASH. CTY. RURAL TEL. COOP. INC.	IN	0.00
320837	WEST POINT TELEPHONE CO. INC.	IN	0.00
320839	YEOMAN TELEPHONE COMPANY INC.	IN	0.00
323034	CONTEL OF SOUTH, INC. DBA GTE SYSTEMS O	IN	117,794.23
325080	INDIANA BELL TEL CO	IN	0.00
411317	UNITED TEL CO OF EASTERN KS	KS	7,989,585.59
411741	ASSARIA TEL EXCHANGE INC	KS	0.00
411746	BLUE VALLEY TELEPHONE COMPANY	KS	156,599.11
411756	COLUMBUS TELEPHONE COMPANY	KS	0.00
411758	COUNCIL GROVE TEL. CO.	KS	0.00
411761	CUNNINGHAM TELEPHONE CO. INC.	KS	246,149.10
411764	ELKHART TELEPHONE COMPANY INC.	KS	0.00
411777	GOLDEN BELT TELEPHONE ASSN. INC.	KS	161,677.12
411778	GORHAM TELEPHONE COMPANY INC.	KS	34,527.34
411780	HAVILAND TEL CO INC	KS	161,906.55
411781	H & B COMMUNICATIONS INC.	KS	223,584.95
411782	HOME TELEPHONE COMPANY INC.	KS	238,578.87
411785	J.B.N. TEL CO INC	KS	183,361.66
411786	JETMORE TEL CO	KS	0.00
411787	HAVILAND TEL CO, INC	KS	0.00

6-6

1994 USF $ Received by each LEC

NECACODE	STUDY AREA NAME	ST	1993 USF$
10/94			
411788	KANOKLA TEL. ASSOC. INC.- KS	KS	321,776.42
411789	KANSAS STATE TEL CO	KS	0.00
411790	CONTINENTAL TEL CO	KS	0.00
411791	LA HARPE TEL CO, INC	KS	9,542.05
411801	MADISON TEL. CO. INC.- KS	KS	208,562.61
411807	MOKAN DIAL, INC.- KS	KS	74,600.23
411808	MOUNDRIDGE TEL. CO.	KS	408,377.48
411809	MUTUAL TEL CO	KS	14,130.32
411814	PEOPLES MUTUAL TEL. CO.-KS	KS	231,457.84
411817	PIONEER TELEPHONE ASSOCIATION INC.	KS	1,527,711.30
411818	CRAW-KAN TELEPHONE COOP INC- KS	KS	0.00
411820	RAINBOW TEL COOPERATIVE ASSN INC.	KS	132,888.58
411826	RURAL TEL. SERVICE CO.,INC.	KS	1,464,904.80
411827	S & T TEL. COOP. ASSN.	KS	811,258.34
411829	S & A TEL CO,INC	KS	151,875.20
411831	SOUTH CENTRAL TEL. ASSN. INC.-KS	KS	98,249.47
411833	SOUTHERN KANSAS TEL. CO.,INC.	KS	458,515.15
411835	SUNFLOWER TEL. CO.,INC.	KS	727,280.35
411839	TRI-COUNTY TEL. ASSN. INC.-KS	KS	206,529.28
411840	TWIN VALLEY TEL. INC.-KS	KS	262,356.12
411841	UNITED TELEPHONE ASSN. INC.	KS	793,448.62
411842	UNITED TEL CO OF KS	KS	3,084,474.68
411845	WAMEGO TELEPHONE COMPANY INC.	KS	0.00
411847	WHEAT STATE TELEPHONE, INC.	KS	372,280.63
411849	WILSON TELEPHONE COMPANY INC.	KS	359,538.57
411852	ZENDA TELEPHONE COMPANY INC.	KS	54,672.94
411957	THE UTC OF MO DBA UTC OF SE. KS	KS	0.00
412030	TOTAH TEL CO INC	KS	396,594.19
415214	SOUTHWESTERN BELL-KANSAS	KS	0.00
260396	BALLARD RURAL TEL. COOP. CORP. INC.	KY	0.00
260398	BRANDENBURG TELEPHONE COMPANY, INC.	KY	0.00
260401	DUO COUNTY TEL. COOP. INC.	KY	0.00
260402	ALLTEL KENTUCKY, INC.	KY	0.00
260406	FOOTHILLS RURAL TEL. COOP. CORP. INC.	KY	0.00
260407	GTE SOUTH INC. - KENTUCKY	KY	820,988.88
260408	HAROLD TELEPHONE CO INC.	KY	0.00
260410	CONTEL KY, INC. DBA GTE KENTUCKY	KY	8,041,068.12
260411	LESLIE COUNTY TEL. CO.INC.	KY	581,966.02
260412	LEWISPORT TEL. CO. INC.	KY	0.00
260413	LOGAN TELEPHONE COOPERATIVE, INC.	KY	0.00
260414	MOUNTAIN RURAL TEL. COOP. CORP. INC.	KY	0.00
260415	PEOPLES RURAL TEL. COOP. CORP.	KY	0.00
260417	SALEM TEL. CO.	KY	0.00

6-7

TESTIMONY BEFORE THE SENATE COMMERCE COMMITTEE

DATE: 3-26-96

RE: HOUSE SUBSTITUTE BILL NO. 2728

FILED BY: STEPHEN L. SAUDER, PRESIDENT & CEO OF
THE VALU-LINE COMPANIES, EMPORIA, KANSAS

Valu-Line is a small company started nearly 14 years ago in Emporia to provide alternative long distance services for people in rural Kansas who did not have a competitive choice.

In our 13 plus years Valu-Line has grown from a reseller of WATS to become an interexchange carrier with our own network and switch. While our 65 employees and 13,000 customers may seem small when compared to other companies, we operate exclusively in Kansas and do business in every county in the state.

I'm testifying today because this legislation has me scared to death.

My greatest fear has always been my company might be regulated or legislated out of business. Today, my fear is we could be inadvertently legislated out of business.

The reason for my fear stems from the feeling this bill is premature and the process is moving too quickly.

Change, reform, deregulation and competition are all inevitable in my business, but the need to rush to judgement on these issues is not. The KCC is more than capable of regulating this industry until the issues become more clearly defined.

The new federal telecommunications legislation is just a few weeks old and the FCC has just begun its rule making process which will take more than a year to complete.

Substitute HB 2728 came through the House of Representatives in a manner that can only be described as "pass something, even if it's wrong." Moreover, it has not been given the scrutiny one would hope would be used to change such important policies.

This is an extremely complex issue that should be understood before it is adopted. Too many questions about compatibility with federal law, the effect this legislation will have on the competitive environment and what it will mean for consumers, still exist.

My biggest fear, as I said previously, is my company could be inadvertently legislated out of business. Substitute HB 2728 is so complex, so large, so far reaching and was created so quickly it has the potential to do just that, accidently put a small company like Valu-Line out of business.

There are no bonus points for being first to enact telecommunications legislation, but there could be a large price to pay for many Kansans if you are premature in your judgement.

Thank you.

Senate Commerce
March 27, 1996
Attachment 7