

Approved: 4-5-96  
Date

MINUTES OF THE HOUSE SELECT COMMITTEE ON TELECOMMUNICATIONS.

The meeting was called to order by Chairperson Doug Lawrence at 1:35 p.m. on February 14, 1996 in Room 313-S of the Capitol.

All members were present except:

Committee staff present: Lynne Holt, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Mary Ann Graham, Committee Secretary

Conferees appearing before the committee: Edward H. Hammond, President - Fort Hays State University  
Ben Childers, Economist - Telecommunications Department of the Missouri Public Service Commission

Others attending: See attached list

Chairman Doug Lawrence called the meeting to order at 1:35 p.m. He called the committee's attention to an analysis of the Federal Legislation verses the Telecommunications Strategic Planning Committee report provided by Joe Weber, Consultant to the TSPC report, which was requested by Senator Alicia Salisbury. (See Attachment 1) He announced that **HB 3030** was introduced today, the Internet bill, which relates to dial-up access to on-line or internet providers. Also today, in House Appropriations Committee, a bill is being introduced which relates to city franchise. He announced that the agenda for next week is out, and the remainder of bills which this committee will hear this session, are on next weeks agenda.

The Chairman opened the public hearing on **HB 2994**.

**HB 2994:** An Act concerning telecommunications services; relating to competition in rural areas; amending K.S.A. 66-1,187 and repealing the existing section.

The Chair introduced Bill Blase, Southwestern Bell Telephone Co. Mr. Blase gave a presentation on **HB 2994**, explaining the framework. (See Attachment 2)

The Chairman welcomed Edward Hammond, President, Fort Hays State University, to the committee. Dr. Hammond spoke in favor of **HB 2994**, he feels for individual Kansas Citizens, universal service policies will determine whether a family living on a rural farm or in an inner city receives basic telephone services. Universal service policy decisions will also determine the economic, educational, and health care futures of the communities in which these citizens live. (See Attachment 3)

The Chair introduced Ben Childers, Economist, Telecommunications Department of the Missouri Public Service Commission. Mr. Childers was in opposition of **HB 2994**, he is a strong proponent of deregulation where market forces can reasonably be expected to replace the historic role of the regulator. (See Attachment 4)

The Chairman allowed time for the committee members to ask questions of the conferees.

The meeting adjourned at 3:15 p.m.

The next meeting is scheduled for February 15, 1996

SELECT COMM. ON TELECOMMUNICATIONS  
COMMITTEE GUEST LIST

DATE: 2-14-96

NAME	REPRESENTING
<del>Ann Thompson</del> <del>Ann Thompson</del>	KASB
MIKE LURA	AT&T
Mike Reese	AT&T
Jeff Russell	SPRINT
H. CHARRESSIMEAUX	CLASSIC COMMUNICATIONS
BILL BLASE	SWBT
JASON PITSEURBERGER	KGC
John Reinhart	KPA
Scott Richardson	SWBT
Karen peice	SWBT
GARY LONG	SWBT
Gordie Gallagher	SWBT
Alan Bell	FIDSU
Mike [unclear]	KETA
Anne Humphrey	KHA
Melissa Hungerford	KHA
Patrick [unclear]	AT&T
John D. [unclear]	SITA
David Brevitz	KCC

As discussed this morning, I have reviewed the recent Federal telecommunications legislation, and would like to share with you my judgments about its relationship to the policy framework developed by the TSPC. Please feel free to share this with Doug Lawrence or anyone else you think appropriate.

Before I make specific comparisons, I would like to mention that the Telecommunications Act of 1996, despite its length and complexity, delegates a great deal to the FCC and to the states. Implementation will not occur overnight.

The form of this note will be to look at the substantive sections (3-6) of Chapter VII of the TSPC Final Report and see how they comport with the Telecommunications Act of 1996.

### Section 3 - Universal Service

The Framework does not specify the form of Universal Service. It merely recommends a process for developing a support system. The Federal legislation essentially does the same thing, calling on the FCC to convene a Joint Board to do develop a process for a Federal Universal Service program. States are allowed to adopt their own system so long as it is not inconsistent with the Federal requirements.

### Section 4 - Competition

This is the area on which the Federal legislation focuses. The specifics are as follows.

#### A. Facilities Based Local Competition.

Although phrased differently, the very first sentence of the Federal legislation, "Each telecommunications carrier has the duty to

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Attachment 1*

interconnect...with the facilities or equipment of other telecommunications carriers" appears to reflect identical intent.

#### B. Unbundling of Local Loop, Switch and Trunk Facilities for Resale.

The Framework makes this an option for the LECs, but does not require it until interLATA is available to Bell, or until 1998. The Federal legislation has no such time delay. Specifically, it calls for access to unbundled telephone company facilities at "any technically feasible point" with the rules to be set by the FCC within six months, and providing for exclusions for rural companies. However, the specific offering of loop, switch and trunk facilities for resale is part of the checklist for Bell to enter the interLATA market.

There are additional requirements for resale of LEC services in the Federal legislation which are not covered in the Policy Framework.

Although this section is not inconsistent with the Federal legislation, it is largely preempted by it.

#### C. 1+ intraLATA Competition.

This provision of the Framework appears to be identical to the Federal law.

#### D. Interconnection Rights

This section essentially mirrors the Federal legislation, although the latter has more specificity about the process. However, the Framework is more aggressive in terms of time for negotiation, giving only 90 days before arbitration and then requiring "expedited" Commission proceedings. The Federal law gives 135 to 160 days, and then gives the commission 9 months. In addition, the Framework requires access to 911 service, which is not specifically mentioned in the Federal law except as part of the Bell checklist.

### Section 5 - Telecommunications Infrastructure

This is simply not addressed, except for generally supportive words in the context of Universal Service

### Section 6 - Regulatory Reform

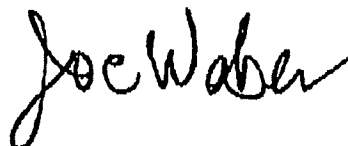
In general, nothing in this section is addressed in the Federal legislation. To the extent that pricing is discussed in the Federal law, it appears to be limited to the prices for interconnection, resale, and unbundled facilities. Pricing and services for end users, which are the foci of this section of the Framework, are not subjects covered in the Telecommunications Act of 1996.

The last paragraph of Section 6 G of the Framework provides for certification of carriers. Although this must be done in such a way as not to be construed as a barrier to entry, it is allowed by the Telecommunications Act of 1996.

To summarize, I think that the Framework as proposed remains an appropriate basis for State legislation. The provisions of Section 4, however, are for the most part dealt with in great detail by the Federal legislation, as noted in my specific comments above. I don't know how expeditiously the implementation of the Federal legislation will proceed, but I suspect that interconnection of facilities based local carriers will get started more rapidly under the Kansas legislation than under the Federal legislation, and that, if facilities based carriers in Kansas wish to extend their services using resold loop, switch or trunk facilities, many of the telephone companies, and particularly Bell, will not resist.

I hope this is helpful to you, and I will be happy to answer any questions you may have.

Sincerely,



# HB 2994

<u>SECTION</u>	<u>TOPIC</u>
1	Definitions
2	TSPC Policy Framework/Rural Entry
2(b)	Competition Guidelines
2(b)(5)	Rural Entry
2(c)	Network Infrastructure Plan
2(d)	Regulatory Reform Plan
3	LifeLine Plan (KLSF)
4 & 5	Universal Service Plan (KUSF)
6	KLSF & KUSF Recipients
7	KLSF & KUSF Funding
8	KLSF & KUSF Administrator

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Attachment 2*

Before the Select Committee on Telecommunications

Testimony In Support of H.B. ~~2961~~ 2994

Dr. Edward H. Hammond

February 14, 1996

Mr. Chairman and Members of the Committee, universal service is the most important piece of the telecommunications regulatory system. For individual Kansas Citizens, universal service policies will determine whether a family living on a rural farm or in an inner city receives basic telephone services. Universal service policy decisions will also determine the economic, educational, and health care futures of the communities in which these citizens live. These futures are dependent upon high quality services being available in each community. While many telecommunications companies will provide services above and beyond those determined by policy makers to be the minimum, in a number of circumstances, the level established by policy makers as the universal service standard will determine the level of services available to a community.

The policy makers who determine this issue must set the bar high enough that areas of Kansas are not left behind. The standard established must also guarantee an open network environment which will facilitate interconnectivity and interchange throughout the state.

The standards described in HB 2961 are good and take Kansas a great deal of the way it needs to go. However, there are a number of refinements and few additions which are necessary in order to keep Kansas competitive. I would like to address these comments to Section 2 of HB 2961.

- Subsection (2) requires basic and primary rate ISDN capability throughout the service area of the telephone company. This is an excellent requirement; however the terms

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"basic" and "primary" need to be defined. I would suggest that "basic" be defined as 384 Kbps and "prime" be defined as 1.5 Mbps. This is the standard that some phone companies in the state have already adopted and a uniform standard should be codified.

- Subsection (3) requires "full fiber interconnectivity, or the technological equivalent, among central offices." This is an important step in assuring high quality services throughout the state. Although some counties have and will have multiple central switches, others only have one and in the future may not have any. This is not because service will be abandoned, but because it may not be technically necessary to service a county with a central switch physically present in that county. We must make certain that fiber interconnectivity is available at least to the county seat of every county so that the costs to a business or other entity needing fiber connectivity is not prohibitively expensive. Language should be added to guarantee this access for every county.
- Subsection (4) will be a very positive step. It requires "broadband capable facilities to all schools, hospitals, libraries and state and local governmental facilities which request broadband services ..." In order to guarantee that this broadband service is usable and of value, language should be included requiring that "Broadband service should require multi-point video conferencing with 45 Mbps digital switching services as well as video conversion services for dissimilar codecs and speeds."
- An addition to universal service standards which is important for the commercial future of the state and for uses such as transmitting medical reports, is to guarantee that the telecommunication system be capable of minimally accommodating fax transmissions of 46 K to 1.5 Mbps.



- I would commend the drafters of H.B. 2961 for covering many significant services. The missing component is local phone service Internet access. Policy makers should not mandate how telephone companies provide this service, but should assure Kansans — wherever they live — that they have Internet access in an affordable manner. It can be reached by a variety of means. Many of the independent phone companies in the state have decided to provide local Internet access to both residential and business users as well as for critical consumers such as schools. Southwestern Bell has been working to develop cost effective calling plans for Internet access.

Business use of the Internet is growing geometrically. There are a number of types of businesses for which Internet access will be a must to compete economically. Students and teachers in schools with access to the Internet have a tremendous resource advantage over those without.

- The final issue which I would like to address is that of the adoption of uniform standards. Standards for services should be adopted. These may be similar to or include the standards the State of Kansas adopted for the state IBM System Network Architecture (SNA) and the Open Systems Interconnect (OSI) that were developed by the International Standards Organization (ISO). As we move into the world where computer and communications systems are converging to the point where they are almost indistinguishable, a broader approach or model must be employed.

The Open Network Architecture (ONA) requirements for RBOCs require that network elements be accessible to third party software suppliers, resellers, Value Added Networks (VANS) and Interexchangeable Carriers (IXCs). In order to accommodate various kinds of media providers and continue to build support for an advanced statewide

information infrastructure, a common platform for information sharing and exchange based on ONA should be adopted.

Regardless of the policy body which sets universal service standards for Kansas, this issue should be revisited periodically as technology changes. Some requirements which are vital today may become outdated as alternative means of providing services arrive and should be dropped. On the other hand, the bar needs to be nudged higher every two to five years to assure that all of Kansas residents and businesses have the opportunity to receive critical services. For example, just three years ago, primarily universities and very large corporations such as Boeing were connected to the Internet. The World Wide Web did not exist outside of a select number of university and corporate campuses. No one foresaw that in 1996, that the Internet and the Web would become the phenomena that they are today in America.

I would like to close by sharing with you a sneak preview of a national study which is being finalized by Fort Hays State University's Docking Institute of Public Affairs. The Docking Institute asked telephone companies from across the United States what the level of universal service should be to the home. They were also asked about their plans for implementing services by the year 2000.

The largest share of companies, just over 36%, suggested that "video dial tone" -- defined in the survey as "interactive television, voice, data, text, fiber level services" should constitute "universal service." Just under thirty percent responded that basic audio dial (the status quo today in most service areas) should constitute universal service. Of the four options offered in the survey, these two are technologically the furthest apart.

I appreciate this opportunity to testify and would be pleased to answer any questions.

## National Survey of Telecommunications Companies

### Executive Summary concerning Universal Service

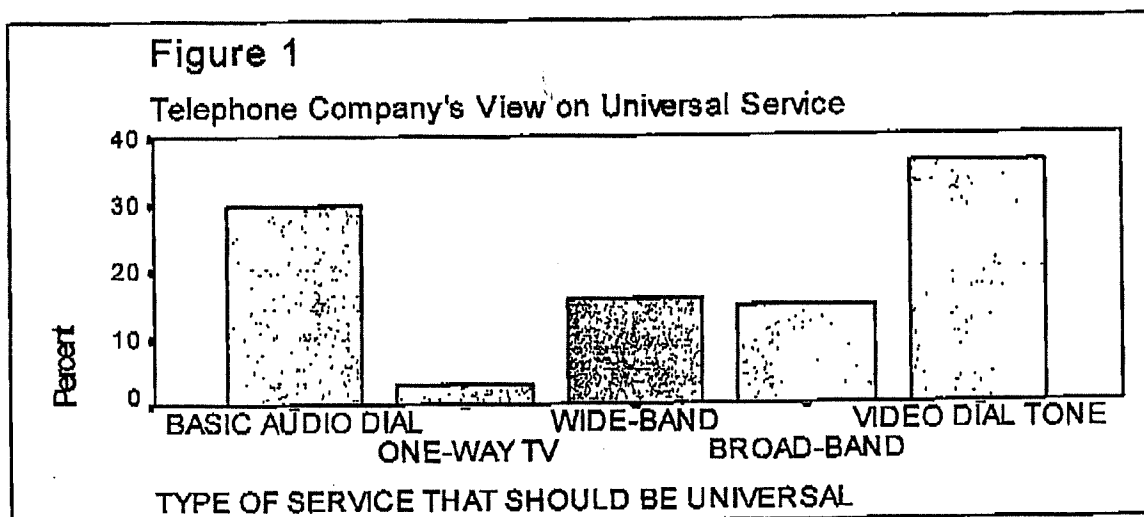
The Docking Institute randomly sampled 400 telephone companies from approximately 800 local service providers across the nation and mailed them a survey regarding their economic development efforts and their views towards universal service. One-hundred two telephone companies completed and returned the survey.

One of the keys in today's world that determine the level of available telecommunications services is the regulatory definition of universal service. However, the policy goals of availability and affordability are not the only factors defining universal service. Telephone companies are some of the most important groups in deciding the feasible level of service that can be delivered to every home in America or in a particular state. The survey began with questions concerning universal service, both in terms of what the companies believed should constitute universal service and what services they plan to make easily accessible within the next five years. Question number one asked:

*"Given the scope of the technological changes influencing telecommunications, which of the following best describes your telco's view about the type of universal services that should be provided. (Circle only one number)*

1. Basic audio dial tone (status quo today)
2. One-way television plus voice (cable and phone)
3. Wide-band communications (voice, data, text, computer link)
4. Broad-band communications (one-way TV, voice, data, text, computer link)
5. Video Dial tone (interactive TV, voice, data, text, fiber level services)"

The results of the question showed that the largest share of local providers, just over 36%, believe that "video dial tone" should constitute "universal service." On the other extreme, just under thirty percent, responded that basic audio dial (the status quo today in most service areas) should constitute "universal service." Of the four options offered in the survey these two are technologically the farthest apart.



The Docking Institute of Public Affairs ©1996

Center for Survey Research: Mark Bannister and Patrick McGinnis

**Comments of Ben Childers to the  
Kansas State Legislature  
Select Committee on Telecommunications**

**February 14, 1996**

Good afternoon Mr. Chairman and members of the Committee. My name is Ben Childers and I am an Economist with the Telecommunications Department of the Missouri Public Service Commission. I thank you for the opportunity to appear before the Select Committee on Telecommunications today. I am appearing before you not as a representative of the Missouri Commission or as a member of the Commission Staff, but rather as a practicing regulatory economist facing many of the same issues and challenges of deregulation of this most important industry. The views expressed today are my own personal views.

At the outset, let me state that I am a strong proponent of deregulation where market forces can reasonably be expected to replace the historic role of the regulator. After all, the role of regulator has been and is to simulate many of the effects a vigorous market would otherwise accomplish. In addition, there are additional goals, such as maintaining universal service, that must be assured if the citizens of not only Missouri and Kansas but the entire country are to benefit fully from the growth and diversity of the telecommunications industry of the future. Moreover, I believe that deregulation is vitally necessary for the

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Attachment 4*

long term health of the telecommunications industry.

Where there was once not so long ago only one long distance carrier for the entire country -- AT&T -- there are now over 200 certificated carriers in Kansas and Missouri. AT&T has had to adapt. No one can say it hasn't been a challenge for that company. But the resulting competition, provision of new and innovative services offering many more choices to the customers and lower prices are all results of that transition. The local market is different, never the less, competitive possibilities exist that can benefit consumers.

Last weeks signing of the Telecommunications Act of 1996 requires the state commissions to conduct cost studies and be an active participant in facilitating a competitive environment. While many of the details have to be worked out at the FCC level, it is clear the major telephone companies will have greater competitive latitude in the very near future. States will continue to play a vital role in the transition to competition.

Given the transition toward a competitive industry, the question is how to handle the change so some are not left out or forced to pay the price with increased rates while others receive the benefits. No single factor illustrates the complications that may arise from this transition better than the rural and urban issues. Actual competition in local service is likely to arise first in the urban areas. After all that's where the densest cluster of customers exist. The incumbent companies will reduce rates to compete and make up for revenue shortfalls by raising

rates to the rural customers where competition is likely slower to arise. A state-wide local rate basket under rate caps will allow this to happen.

Two courses of action are possible on the state level. One, is to try and prescribe competition into existence through detailed laws. That would be to select the future technology, type of service and quality and consumer choice and to support one road into the future to the detriment of others. If history has taught us anything, the ingenuity of the many entrepreneurs in our economy far surpasses our ability to predict how technology and an industry will develop in the future. If computer manufacturing had been a regulated industry when IBM was essentially a monopoly, which of us could have predicted the personal computer? Certainly not me. More importantly, certainly not IBM. That company knew computers -- big, multi-million dollars and only for the very few. Time proved IBM wrong and they struggled for years to catch-up.

The telephone monopoly of today, with three-quarters of a century of protection, is not the only source of innovation. Innovation will likely come from the new smaller companies, finding a niche and then expanding, challenging the historic monopoly.

But prescribing competition is not the only way. The second option is to seek the gains from competition by insuring an environment that fosters many and diverse approaches to the future. Today's local environment was created by a government

protected monopoly, sanctioned through most of the 20th century. To say that the current monopolist has an awesome starting advantage under any future lessened regulation is an understatement. To deregulate the current market structure on a flash-cut basis is to turn a somewhat controlled monopoly into an uncontrolled monopoly which can use its starting market dominance to frustrate meaningful competition in the foreseeable future. Moreover, to frustrate competition, the monopolist can selectively lower prices in certain areas yet insure its monopoly profits by raising the prices to its most captive customers -- likely the residential and small business customers and certainly the rural customers.

The larger Local Telephone Companies (LECs) have long contended that given the choice, they prefer the pricing policy of placing the highest profit margins on services to the customers unable to secure alternative telephone services. Economists call this Ramsey pricing although various terms, such as value pricing are sometimes used. Under this pricing policy the Company will want to lower prices to some customers -- mostly large businesses or urban customers -- as competition starts offering choices first to these customers. This also means that the Company will want to raise prices to customers where competition is least likely to soon occur -- the rural areas. The current bill will enable the LECs to engage in Ramsey pricing by deregulating many prices and allowing the cap baskets to be state averaged. Lower prices the company offers when competitively threatened in the urban areas

will be offset by higher prices in rural areas.

How will competition develop in the local exchange market? The incumbents want the competitors to build out a huge infrastructure as the price to begin service. The Telecommunications Strategic Planning Committee recommended that concentration be placed on facilities based competition, instead of resale. The stated rationale was that facilities based competition would force the full range of services and innovation and efficiencies from the new entrants. If such efficiencies and innovations exist, rest assured new entrants will fully exploit them as a means of providing superior service at lower rates. If such efficiencies do not exist, facilities based competition will simply not develop or develop only on a very limited basis.

Of course, the LECs will often claim they face stiff competition already. Companies often make a great protest about bypass, such as when large firms connect directly to long distance companies and avoiding the local exchange switch. Bypass is often cited by the Companies to alternately point out how unfair current regulation is today, justify increasing other rates to compensate for supposed competitive losses and then, in the same breath, declare just how competitive the telephone industry is already. Even after eleven or twelve years with long distance companies diligently selling bypass connections in every town and to every customer they could find, the only surprising point today is just how minuscule the traffic is that actually bypasses the local bottleneck loop. And remember, the local telephone company



actually provides much of the bypass service themselves as special access services. The existing bottleneck local switch and local loop is a barrier to competition that is not going to be easily overcome by fledgling competitors.

There are no secrets in encouraging competition. Services have to be unbundled, incumbents must not be allowed to use their current dominant position to thwart new entrants and rates have to more reflect actual underlying costs. I used the term "actual" costs intentionally, for nowhere else is the incumbent more protected than by the use of the incremental cost (long run, or total service, etc.) method of pricing to combat competition. No competitive company facing the embedded infrastructure of the incumbent that yields the small incremental costs can actually enter and compete for customers. With monopoly services actually providing the revenue needs, an incumbent company can afford to price some services at incremental costs so as to block entry by potential competitors.

Some suggest that incremental cost is the appropriate minimum price for a service, especially since it is supposed to be immune from the controversial necessity of allocated costs. Incremental costing is no stranger to a host of allocation issues -- its just that the allocation is in one direction, away from the service!

But there is a more critical with incremental costing -- its the largely 19th century assumption that the local exchange is the only necessary service in the telephone industry. The assumption, historically based on how the industry first developed in the late

1800's, is that the single local exchange service is the primary telephone service unit. Any additional service is simply an "add-on". This attitude developed in the latter part of the 19th century and was solidified earlier this century when the AT&T/Bells sought to push costs back down to the local switch and loop where it was assured of a profit by state rate-of-return regulation.

In Missouri, we have large local calling scopes in the three largest metropolitan cities encompassing many exchanges and much of the state's population. Even outstate, over 80% of the local subscribers have mandatory multi exchange calling scopes that average 3.3 times their own local exchange lines. The time is long past where every six miles there is a town providing the retail, hospital, and sundry services and products needed today. Having a telephone exchange boundary every few miles and declaring calling beyond that line as something optional is just as out of date. The telephone network structure no longer even follows these old historic boundaries. Switches are often regional covering many old "exchanges" and the call within an exchange may actually cross several exchange boundaries and travel much farther than a toll call.

In my experience, the incumbent is quick to shift the discussion about costing method to fully allocated costs when it comes to local service. This means that costs necessary to provision toll and other services suddenly appear as costs to local service. The often stated case that the local service does

not recover its costs is based on these long outdated 19th century concepts of cost allocation. As we near the 21st century, it may very well be appropriate to seriously question how the incumbent telephone companies cost out services.

Inherent in the bill before you, by accepting current rates, appears to be the assumption that no telephone company is making an inordinate profit. The assumption that significant monopoly profits are absent should not be taken at face value. While it is often difficult to identify such profits, a recent case in Missouri did manage to identify 80% of all charges for one service as being monopoly profits. Of course, the companies say such profits are for historic franchise obligations, etc. But this argument is used more of as an excuse, because they resist any attempt to quantify the costs and establish the value of such obligations. The new Federal Telecommunications Bill mandates that non-competitive services not be allowed to subsidize competitive services, so such costing efforts must soon be undertaken. In Kansas such efforts have already been started.

In general, I believe the bill before you is overly prescriptive. This approach may not allow the flexibility needed in a high technology industry moving from monopoly to competition. Some parts of the bill may be unnecessary and some may even hinder competition. Some of it is also in conflict with my reading of the Federal Telecommunications Act of 1996. I believe that less prescription is better and that allowing the current efforts underway by the Kansas Corporation Commission to come to fruition

is preferred. Should that not be the desired approach, please allow me to make some comments about specific points in the bill before you.

- Although resale is allowed under some conditions in 2(b)(2), wholesale pricing is critical to actually encourage competition. The Federal Act mandates states must insure proper wholesale pricing and sets costing guidelines to be used.
- Mandating CLASS services, SS7, ISDN and fiber may not be necessary 2(c)(1)-(3). These services are being provided by the incumbents already and will be provided by new companies so as to compete.
- While "basic" intraLATA toll prices may not be deaveraged, its unclear what "basic" means 2(d)(B). With the proliferation of so many new special calling plans, and the availability elsewhere in this bill of customer specific pricing of services, geographic deaveraging of toll seems to be possible. However, the Federal Bill seems to prohibit geographic deaveraging which may be in conflict with customer specific pricing.
- Price caps are on single party residential and business, including touch tone, but everything else is deregulated 2(d)(2). Many people will experience local rate increases because the popular, even common, "optional" services like call waiting, etc., will be subject to increases.
- If cost studies can only be done in response to a complaint 2(d)(2), then how can it be assured that prices are not set below incremental costs? I have already expressed my opinion that incremental costing is a concept that does not serve competition well, and a method that gets closer to the actual costs associated with a service would be better. The Federal Bill mandates states set costing standards for competitive and non-competitive services to prohibit cross subsidy.
- In the determination of price caps, some index other than the CPI would be better, certainly an index that captures the actual decrease in costs experienced in the telephone industry in the last dozen years would be best 2(d)(3).
- Any productivity factor, the "X", that is not showing a 5% to 7% productivity gain in each of the last several years is likely too low and understates actual productivity gains

2(d)(3).

- The rationale for the "Y" adjustment factor is unclear 2(d)(3). It appears to be for "revenue balance" and to insure "revenue" neutrality, terms that have a great deal of imprecision in application. This also seems to accept the belief without question that the current revenue is appropriate.
- Given the opportunity, local rates will certainly go up \$1.50 a year, especially in areas without competition 2(d)(3). Should these rates be increased without cost justification, but based solely on the lack of competition holding them down? How many years can this occur? How high should local rates go without consideration of cost?
- Mandating lower access rates be flowed through to the consumer may be impossible to insure as tariffs will be largely optional 2(d)(4). Assuming some method of enforcement, this obligation could easily be met by simply lowering selective customer's rates where competition threatens.
- "No audit or earnings review" for the price caps embodies whatever level of monopoly profits currently exist without consideration as to the appropriateness or reasonableness of what Kansas citizens are receiving for their current expenditures for telephone service 2(d)(5).
- A five year wait before adjusting a price cap formula may be too long to capture the real changes in productivity and index values that will occur 2(d)(6).

Let me emphasize that my perspective and commitment to fostering competition is by no means unique. Many others, in Kansas and around the country, are as committed to moving forward in a manner conducive to full and fair competition in telecommunications. The transition must be handled in a manner that assures that some are not neglected or forced to pay for the benefits that accrue to others. The transition must not be done so quickly as to allow the incumbent's market power to make it necessary to re-regulate. The transition must also not be done so

slowly as to harm the incumbents. States need flexibility to manage that transition effectively.

I wish to again thank this committee for allowing me to come and express some personal thoughts about this potential legislation. Ultimately I will not be the one affected, but rather the millions of Kansas residents and businesses. Telecommunication deregulation is a reality as manifested by the Federal Telecommunications Act of 1996 signed by the President last week. Some states like Kansas had already begun the journey toward that more competitive future. Consideration should be given as to whether this bill before you will encourage or hinder that process.

If you ultimately decide this bill does not foster the vigorous, supportive environment necessary to encourage competition, I hope my comments will assist you in identifying areas that may need reconsideration. It may very well be appropriate to consider whether this bill is still advisable or necessary in light of recent Federal action and the efforts underway by the Kansas Corporation Commission.

I would be pleased to answer any questions you may have.