Approved: March 19, 1997
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 18, 1997 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Barone, Brownlee, Donovan, Gooch, Jordan, Ranson, Steffes, Steineger and Umbarger.

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

Conferees appearing before the committee:
Kendall Mikesall, Vice President, Southern Kansas Telephone Company
Glenda Cafer, Director of Utilities, Kansas Corporation Commission
Walker Hendrix, Consumer Counsel, Citizens' Utility Ratepayer Board

Others attending: See attached list

Upon motion by Senator Steineger, seconded by Senator Ranson, the Minutes of the March 17, 1997 Meeting were unanimously approved.

HB 2314 - Use of Kansas Universal Service Fund

Lynn Holt, briefed the Committee on the Kansas Telecommunications Act of 1996, requiring local exchange carriers to reduce intrastate switched access charges to interstate levels over a three year period. The intent of rate rebalancing is to bring intrastate access rates, considered to be priced above cost, and local rates, considered to be priced below cost, nearer to actual cost, and to enable local exchange carriers to compete with long distance and cable companies. Attachment 1

Ms. Holt advised the Committee that independent local exchange carriers (ILECs) were authorized to recover from the Kansas Universal Service Fund (KUSF) any lost revenues resulting from the reduction in intrastate switched access rates. The 1996 Act required that the Kansas Corportion Commission (KCC) establish, on or before January 1, 1997, the KUSF. The legislation also required that the initial amount of the KUSF be comprised of revenues lost due to rate rebalancing, and that revenues be recovered on a revenue neutral basis to be collected from any company providing intrastate telecommunication service in Kansas. Companies were authorized to pass the costs assessed to them onto their customers. Distributions from the KUSF are to be made to providers of service to low-income consumers and consumers in rural, insular, and high cost areas. Ms. Holt stated in addition to using the KUSF to offset reduced revenues due to rebalancing initiatives, the Act of 1996 authorized supplemental KUSF funding subject to a filing and review procedure for: infrastructure expenditures, shortfalls due to additional rate rebalancing needed to maintain parity, access revenue requirements due to changes in federal rules, and infrastructure expenditures resulting from facility or service requirements established by any legislative, regulatory, or judicial authority.

Ms. Holt stated the 1996 Act did not specify the class of customer (residential or business) to receive benefits from the KUSF. The KCC issued an order on December 27, 1996, determining those companies providing service in high cost rural areas will receive support. Rural areas were defined as exchanges with 10,000 and fewer lines, and determined the support was to be applied to residential lines only at a rate of up to $36.88 per residential loop. The order specifically excluded business lines but recgonized the Federal Communication Commission (FCC) was reviewing universal service and access charges, and that the KCC's decision may be revisted based upon the outcome of the FCC's proceedings.

Ms. Holt stated **HB 2314** expressly prohibits the KCC from denying any application from a qualified carrier or provider for supplemental or additional KUSF funding based solely on the classification of service as a single line or multiple line basis.

Kendall Mikesall, Vice President of Southern Kansas Telephone Company, testified on behalf of 35

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

small independent telephone companies in Kansas, in support of **HB 2314**. Mr. Mikesall stated the 1996 Telecommunications Act called for the establishment of the KUSF and a reduction of intrastate access charges to interstate levels with a revenue neutral movement. The 1996 legislation contemplated KUSF future growth by establishing a regulatory procedure as the method a telephone company could seek additional KUSF funding. Intrastate access is capped, as it must mirror the interstate access rate, consequently, the KUSF is the only variable. When a telephone company invests in infrastructure there are only two sources of recovery of the intrastate portion of the investment: the combination of intrastate access and KUSF, and the local ratepayer. Attachment 2

Mr. Mikesall stated the KCC issued a reconsideration order on February 3, 1997 denying telephone companies KUSF support for multi-line business grown. **HB 2314** is designed to clarify what the 35 independent local exchange carriers believe is the legislative intent on KUSF eligibility. **HB 2314** does not require the KCC to approve the recovery of any investment made by a telephone company nor does it require the KUSF to pay for such investment. **HB 2314** makes clear legislative policy that investments made by telephone companies to provide universal service in high cost areas may be recovered in part from the KUSF without discrimination between one customer served and another. Mr. Mikesall stated his company's current basic residential rate is $6.94 and the current basic business rate is $10.54, and estimates the fiscal impact of **HB 2314** is approximately $90 thousand.

Glenda Cafer, Director of Utilities, Kansas Corporation Commission, testified in opposition to **HB 2314.** Ms. Cafer stated the KCC, in issuing its order denying telephone companies KUSF support for multi-line businesses, considered the following: 1) keeping service affordable, 2) equity to all Kansans; 3) avoiding creation of an incentive for competitors to cherry pick the highest revenue producing customers and then give KUSF support, and 4) avoiding creation of a corporate welfare program. The KCC does not believe residential customers should subsidize businesses. The KCC informed the Committee the FCC decision on universal service will be issued in May 1997 and the revenue neutral provision in its order issued in February 1997 insures continued support for present service providers. Attachment 3

Walker Hendrix, Consumer Counsel, Citizens' Utility Ratepayer Board, testified in opposition to **HB 2314**. Mr. Hendrix stated **HB 2314** expands the scope of universal service funding to include multi-line business and residential service which is beyond the original intention, and provides for additional subsidies for carriers of telecommunications service. The Federal-State Joint Board on Universal Service proposed not to fund multi-line service because the concept of universal service is to fund programs for the support of individual households. The funding of multi-line services as provided in **HB 2314** would pose a harship on basic service by requiring basic service customers to bear the subsidies for the multi-line service, a type of corporate welfare. Attachment 4

Mr. Hendrix further stated **HB 2314** is an attack on the KCC and its decision not to expand support beyond single line service. If there is any integrity in the administrative process, **HB 2314** should not be passed, inasmuch as it will increase the rates of local service more than is presently anticipated. Mr. Hendrix questioned whether it was appropriate for elderly customers to subsidize large volume corporate customers who may deduct the full amount of their telephone services under federal and state tax laws.

The Chair informed the Committee she had asked staff to assist her in determining whether there was anything on record, either in the House or the Senate, as to legislative intent to include multi-line service; there is nothing.

The meeting was adjourned at 9:00 a.m.

The next meeting is scheduled for March 19, 1997.

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: March 18, 1997

NAME	REPRESENTING
John D. Pinegar	SITA
Bud Grant	KCCI
Tom Day	KCC
Rob Hodges	Ks Telecom Assn
KENDALL S. MIKESELL	SOUTHERN KANSAS TELEPHONE
Steve Sackrider	Wamego Tel. Co. Inc
Jerry Lammers	KCC Staff
Glenda Cafer	KCC
WALKER HENDRIX	CURB
Roger Fraudé	KGC
JASON PITSENBERGER	KGC
Patrick J. Hurley	ATT
Tom Gleason	Independent Telecom. Group
Nelson Krueger	Leading Edge Ltd.
Mike Reecht	AT&T
Brad Smoot	AT&T
Megan Griggs	Kearney Law Office
Julie Hein	Hein & Weir

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March 18, 1997

To: Senate Committee on Commerce

From: Lynne Holt, Principal Analyst

Re: Kansas Universal Service Fund

Implications of Rate Re-balancing

The 1996 Legislature enacted Senate Substitute for Substitute for H.B. 2728, otherwise known as the Kansas Telecommunications Act of 1996. That legislation required local exchange carriers (Southwestern Bell and United) to reduce intrastate (within Kansas) switched access charges to interstate (out-of-state/long distance) levels over a three-year period. The Kansas Corporation Commission (KCC) was authorized to increase local residential and business rates to offset reductions to intrastate access and toll charges. The intent of this rate re-balancing initiative is to bring intrastate access rates, considered to be priced above cost, and local rates, considered to be priced below cost, nearer to actual cost, to enable incumbent local exchange carriers, such as Southwestern Bell and United, to compete more effectively with telecommunications carriers, such as AT&T, MCI, Sprint, cable companies, and others.

With the enactment of the federal Telecommunications Act of 1996, local competition was authorized to begin no later than February 1999 or as soon as Southwestern Bell is authorized to provide toll (interLATA) service, whichever is earlier. In this legislation, Congress articulated a framework and set of objectives to enable new competitors to enter local telephone markets and also allow Southwestern Bell and other local exchange carriers to compete in long distance markets. To create "a level playing field" that would promote competition, states, such as Kansas, have been active in their efforts to eliminate subsidies, such as above-cost intrastate access charges, that have kept local rates below actual cost. If such subsidies are not eliminated, rates will not reflect the actual cost of providing service and certain carriers will consequently experience a competitive advantage over others.

The Kansas Telecommunications Act of 1996 also required the independent local exchange carriers (ILECs) in Kansas to reduce intrastate (within Kansas) switched access rates to interstate levels on March 1, 1997, and every two years thereafter. ILECs also were authorized to increase their aggregate monthly rates for basic local services to an amount not to exceed $1.00 annually until such monthly rates reach an amount equal to the average of all ILECs in the state for such services.

Kansas Universal Service Fund

The Kansas Telecommunications Act of 1996 provided that, for local exchange carriers, any reductions in access and toll which are not recovered through increased local rates will be recovered from the Kansas Universal Service Fund (KUSF). ILECs also were authorized to recover from the KUSF any lost revenues resulting from the reduction in intrastate switched access rates.

The Kansas Telecommunications Act of 1996 required that the KCC establish, on or before January 1, 1997, the KUSF. This legislation also required that the initial amount of the

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KUSF will be comprised of revenues lost due to the rate re-balancing activities outlined above. This legislation further required that revenues be recovered on a revenue neutral basis, to be collected from any company that provides intrastate telecommunications service in Kansas. Companies are authorized to pass the costs assessed to them onto to their customers. Furthermore, distributions from the KUSF are to be made, in correspondence with federal law, to providers of service to low-income consumers and consumers in rural, insular, and high cost areas of the state. In addition to authorizing the KUSF to be used to offset reduced revenues resulting from re-balancing initiatives, the Kansas Telecommunications Act of 1996 authorizes supplemental KUSF funding, subject to an expedited filing and review procedure, for: infrastructure expenditures necessary to serve additional customers within the qualified utility's service territory; shortfalls due to additional rate re-balancing needed to maintain parity with interstate access rates; access revenue requirements resulting from changes in federal rules; and infrastructure expenditures in response to facility or service requirements established by any legislative, regulatory, or judicial authority. Furthermore, there is a provision for additional supplemental funding from the KUSF.

H.B. 2314

The Kansas Telecommunications Act of 1996 did not expressly specify the class of customer (residential or business) to receive benefits from the KUSF, although there has been considerable debate about legislative intent with respect to the legislation. The KCC issued an order on December 27, 1996 on the telecommunications competition docket. In that order, the KCC determined that those companies that provide service in high cost rural areas will receive support. Rural areas were defined in the order as exchanges with 10,000 and fewer lines. The KCC also determined that the support was to be applied to residential lines only at a rate of up to $36.88 per residential loop. The order explicitly excluded business lines but recognized that the Federal Communication Commission (FCC) was reviewing universal service and access charges and that the Commission's decision may need to be revisited based upon the outcomes of the FCC's proceedings. On January 14, 1997, various parties filed petitions for reconsideration of that order. On February 3, 1997, the KCC issued an order on reconsideration which authorized funding from the KUSF for single line businesses but not multiple line businesses. In that order, the KCC stated its position that "the KUSF was designed to assure all Kansans have access to universal service at an affordable price and was not intended to provide subsidies to businesses, especially not large businesses which require more than a single line." The KCC's intent, as reflected in the February order, is to await the FCC's decision on universal service (expected in May 1997) and to assess its impact at that time. H.B. 2314 would expressly prohibit the KCC from denying any application from a qualified carrier or provider for supplemental or additional KUSF funding solely on the classification of service as single line or multiple line or on the basis of customer class (residential or business).

The policy questions underlying the debate on this bill could be summarized as follows:

1. Did the 1996 Legislature intend for the KUSF to support multiple-line businesses insofar as the legislation outlined certain infrastructure requirements and objectives?

2. What are the implications of expanding the service classification to include multiple business lines (who pays and who benefits)?

TESTIMONY ON BEHALF OF
THIRTY FIVE SMALL INDEPENDENT TELEPHONE COMPANIES OF KANSAS
BEFORE THE SENATE COMMERCE COMMITTEE

KENDALL S. MIKESELL

MARCH 18, 1997

Chairperson Salisbury and Members of the Committee:

Thank you for giving me the opportunity to testify before you today. It's always a pleasure to address members of the Kansas Senate. My name is Kendall Mikesell. I am Vice President of Southern Kansas Telephone Company, headquartered in Clearwater, about 15 miles southwest of Wichita. My company has been owned and operated by the Mikesell family since 1940, and I represent the third generation of family management. Southern Kansas Telephone is a certificated local exchange carrier serving approximately 4,500 customers across seven counties of south central Kansas.

I'm here today, on behalf of 35 small independent telephone companies of Kansas, to speak as a proponent of House Bill No. 2314, a bill designed to clarify legislative intent on KUSF eligibility in Substitute For Substitute For House Bill No. 2728, commonly referred to as the Kansas Telecommunications Act.

I'd like to begin by revisiting with you the vision statement embodied in the Kansas Telecommunications Act:

Be it enacted by the Legislature of the State of Kansas:

New Section 1. It is hereby declared to be the public policy of the state to:
(a) Ensure that every Kansan will have access to a first class telecommunications infrastructure that provides excellent services at an affordable price;
(b) ensure that consumers throughout the state realize the benefits of competition through increased services and improved telecommunications facilities and infrastructure at reduced rates;
(c) promote consumer access to a full range of telecommunications services, including advanced telecommunications services that are comparable in urban and rural areas throughout the state;
(d) advance the development of a statewide telecommunications infrastructure that is capable of supporting applications, such as public safety, telemedicine, services for persons with special needs, distance learning, public library services, access to internet providers and others; and
(e) protect consumers of telecommunications services from fraudulent business practices and practices that are inconsistent with the public interest, convenience and necessity.

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SOUTHERN KANSAS TELEPHONE CO., INC.
112 S. Lee / P. O. Box 457 / Clearwater, Kansas 67026-0457 / 316-584-2255 / Toll Free 800-362-2396 / FAX 316-584-2260
Serving Southern Kansas Since 1940

The small independent telephone companies of Kansas wholeheartedly support this vision of a telecommunications landscape for all Kansans. As we have for the better part of a century, we are willing to make it a reality. We take very seriously the obligations we have under the Act, noting there is no distinction between classes of customers. We have been comfortable in excepting the obligations, in part, because of our ability to seek sufficient and predictable universal service support.

The Kansas Telecommunications Act called for the establishment of a Kansas Universal Service Fund (KUSF), to make explicit universal service support that had previously been built into intrastate access charges. The Act called for a reduction of intrastate access charges to interstate levels, with a revenue neutral movement of the shortfall to the KUSF (see Attachment 1).

The Act contemplated KUSF future growth in Section 9(e), establishing the existing regulatory procedure as the method in which a telephone company could seek additional KUSF funding. It is important to note that the combination of intrastate access and KUSF, according to the Act, is available for the same purposes, and through the same procedure as was covered by intrastate access charges alone before the Kansas Act was passed. Further, intrastate access has now been capped, since it must mirror the interstate access rate. This means that KUSF becomes the only variable. When a telephone company invests in infrastructure, it has only two sources of recovery on the intrastate portion of the investment: The combination of intrastate access and KUSF, and the local ratepayer. There simply is nowhere else to go.

During the last year, we have worked with the KCC through the regulatory process as they wrote the rules implementing the Kansas Telecommunications Act. The KCC has now issued a final order denying telephone companies KUSF support for multi-line business growth. We sought to convince the commission to allow inclusion of this category of customer, and in fact were able to convince staff, but the commissioners stood firm in their decision, siting the Federal-State Joint Board *recommendation* to the FCC on universal service as the basis for their ruling. The independent telephone companies are concerned that the KCC is assuming the recommendation will be adopted, when in fact, it has been roundly criticized in Washington. I have attached a copy of a letter signed by 25 US Senators, including both Kansas Senators Roberts and Brownback, reminding the FCC of Congressional intent that ***"Universal Service support mechanisms should not exclude non-residential consumers in rural, high-cost areas or limit rural residential consumers to second class service."*** At either the federal or state levels, termination of an existing form of universal service support would be inconsistent with legislative intent to keep local rates affordable. We believe Congress and the Kansas Legislature understand that deploying advanced telecommunications infrastructure in high cost areas can only be brought about through a sufficient and predictable system of shared responsibility.

In summary, House Bill No. 2314 is a simple bill designed to clarify what we believe is the legislature's intent on KUSF eligibility in the Kansas Telecommunications Act: That KUSF is available to support investment in rural areas regardless of customer classification. For the rural companies, KUSF is an important investment recovery source, if rates are to be kept at reasonable levels. And it's important to remember HB 2314 does not provide any support opportunities that were not available under the intrastate access procedures we used before. HB 2314 does not require the KCC to approve the recovery of any investment made by a telephone company. Nor does it require the KUSF to pay for such an investment. HB 2314 simply makes clear the Legislature's policy that investments by telephone companies to provide universal service in high cost areas *may* be recovered in part from the KUSF, without discrimination between one customer served and another.

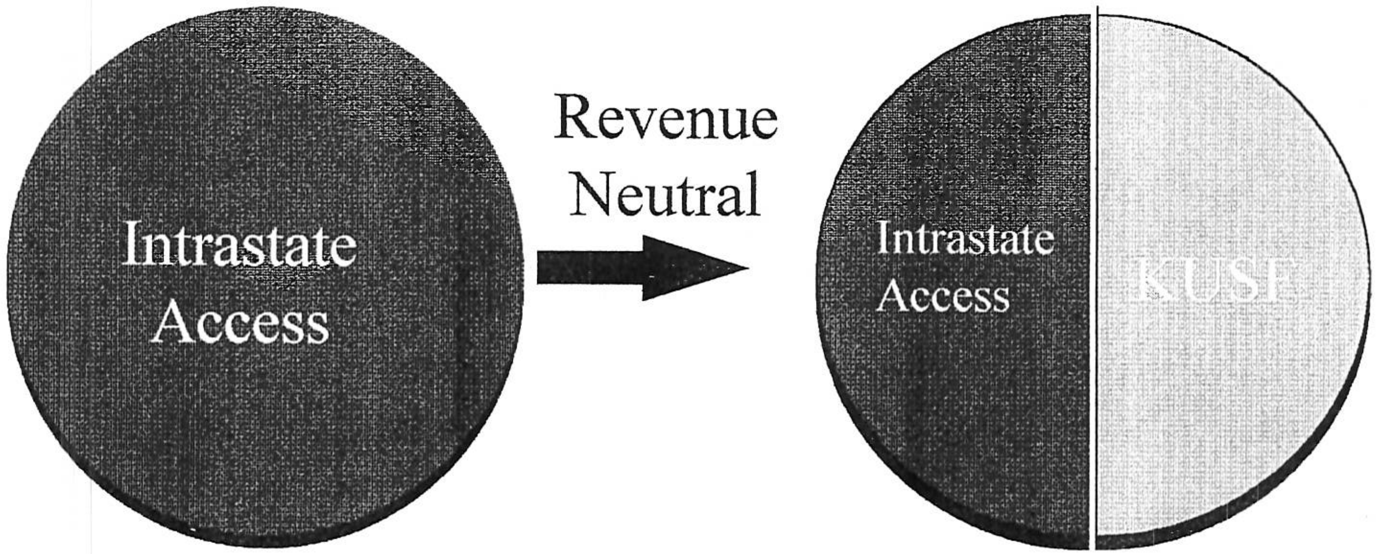
We stand ready and willing to bring the vision of an advanced telecommunications infrastructure to a reality statewide. We need only be made able under the Kansas Telecommunications Act, as we have been able in the past. One key element of that ability is a sufficient and predictable KUSF. On behalf of the small independent telephone companies of Kansas, I urge you to report House Bill No. 2314 favorably to the Senate.

Attachment 1

BEFORE

AFTER

The Kansas Telecommunications Act



Intrastate Access Recovery

Intrastate Access Recovery

United States Senate

WASHINGTON, DC 20510

March 3, 1997

The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, NW
Room 814
Washington, DC 20554

RE: Report No. 96-100, Joint Board Universal Service Recommendations, CC Docket No. 96-45

Dear Chairman Hundt:

We are writing to underscore one of the very clear goals set forth in the Telecommunications Act of 1996 -- to ensure that all Americans have access to affordable telecommunications services regardless of where they live. As the Commission considers the recommendations of the Federal-State Joint Board to implement Section 254 of the Communications Act which establishes universal service support mechanisms, we urge you and the other members of the Commission to remain mindful of the Act's call for a universal service system that encourages competition and ensures affordable rates. To meet these goals, the Commission should craft the new universal service system to reflect and improve the accomplishments we already enjoy.

When developing the Telecommunications Act of 1996, the Congress went to great lengths to structure the legislation to ensure that consumers would not experience significant rate increases. It is absolutely imperative that the Commission take the appropriate steps to ensure an end result that allows consumers to enjoy universal service and to benefit from competition where competitive markets emerge. In providing for competition, especially in rural areas, it is clear in the Act that Congress rejected a "one-size-fits-all" approach. Thus, it is important that the Commission structure universal service support mechanisms appropriately to reflect the unique circumstances of rural, high-cost areas.

According to the filing submitted by the U.S. Department of Justice [CC Docket No.96-98] before the Commission, the economic cost-based model proposed by the Commission in the interconnection proceeding could result in rate increases for about 30% of the general population. The Justice Department predicts that in "sparsely populated areas," aggregate consumer costs for basic local phone service will increase $6.9 billion annually. The prospect of this kind of result greatly concerns us. In fact, the Act's universal service provisions were carefully designed to prevent this result.

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Consumers in rural, high-cost areas ought not be adversely affected by the Commission's local competition rules and universal service changes presently under consideration. It is absolutely imperative that the Commission provide for "specific, predictable and sufficient" universal service support mechanisms in such a way as to avoid dramatic increases in rates paid by rural consumers.

We understand and affirm the underlying premise of the Telecommunications Act, namely, that consumers will benefit from lower prices and receive more opportunities to access advanced telecommunications services primarily through competition. However, the Act specifically recognizes the unique circumstances of different markets, such as rural, high-cost areas. Universal service support is necessary to deliver affordable services that are comparable to services available in competitive markets.

There are several principles with respect to Congressional intent of the Telecommunications Act of 1996 which must not be ignored:

(1) Congress did not vote for the Telecommunications Act to increase phone rates and degrade service;

(2) The Act was intended to encourage and facilitate local exchange competition and infrastructure investment; not discourage it; and

(3) The Congress rejected a one-size-fits-all approach for all market circumstances and the new law was designed to ensure that the introduction of competition and the maintenance of universal service would be appropriate to unique market conditions. Evidence of this is Section 251(f) where Congress provides for exemptions for rural telephone companies and waivers for local exchange providers with less than 2% of the Nation's subscriber lines. The law also provides that the Commission ought to establish different "specific, predictable, and sufficient" mechanisms as appropriate to ensure universal service support where needed.

The end result of the universal service proceeding -- as well as all other proceedings by the Commission to implement the Act -- must be consistent with these principles.

To this end, the Commission was given the responsibility to reform universal service support mechanisms so that the support is adequate to provide affordable rates and that such support is targeted to the unique needs of rural and high cost areas. Below are four specific areas we wish to draw to your attention.

(1) Universal Service should not be capped under a single fund. Section 254(b) of the Act specifically states that universal service must ensure that services are available at "just,

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reasonable, and affordable rates" and that "specific, predictable, and sufficient Federal and State mechanisms" be established to preserve and advance universal service. A capped fund puts both of these principles at risk. Appropriate levels of support can be sized without reliance on a universal service cap. In addition, the ability of eligible carriers to compete for universal service support, as provided under the Act, ensures that market forces help keep universal service support costs in check.

The Act does not refer to the establishment of "a fund" -- it refers to the establishment of "universal service support mechanisms." In fact, during the development of the Telecommunications Act of 1996, the language requiring the Commission to establish "a fund" was specifically deleted. The letter of the law and the legislative history make it clear that establishing a "capped fund" to fulfill the Act's universal service requirements contradicts the statute. We are particularly concerned that the Joint Board's recommendation to establish a capped fund for Section 254(h), should not establish a precedent for universal service in general.

It is important that the Commission understand that the universal service provisions in the Telecommunications Act of 1996 were developed, in part, in reaction to the Commission's universal service proceeding under the Common Carrier Docket 80-286. As you know, this proceeding was pending while the Telecommunications Act was being developed. One element of that proceeding that greatly concerned us was the proposal to cap the universal service fund and thus, the legislation was designed to avoid this kind of result. There should be no question that the Congress did not intend for universal service to be capped.

Under existing subsidy mechanisms for telephone service, the Universal Service Fund, for example, helps small telephone companies in rural and high cost areas keep rates affordable. Other support mechanisms, such as access charges, provide for universal service as well. It is imperative that the Commission take into account *all* existing forms of universal service support when contemplating the size and scope of new universal service mechanisms and their effect on comparability and affordability. Only with this approach can the Act's promise of affordable access to telecommunications services be assured.

(2) Both the Commission and the States have primary roles in assuring access to telecommunications services at affordable rates. It is the responsibility of both the Commission and the states to ensure affordable access to telecommunications service. The Joint Board recommendation that the states make the primary determination as to whether rates are affordable and for taking necessary actions to ensure affordability should not suggest that the Commission and the federal universal service support mechanisms have a limited role in assuring universal service. The Congress understood the importance of a strong federal role in assuring universal service at affordable rates, now and in the future, and not make affordability solely a state responsibility. We urge the Commission to provide for adequate federal and state support mechanisms. There must be a federal foundation of support.

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(3) Universal Service support mechanisms should not exclude non-residential consumers in rural, high-cost areas or limit rural residential consumers to second class service. The Joint Board's recommendations to eliminate universal service support for business and other non-residential consumers in rural, high-cost areas appears to misinterpret the Act as to restrict universal service support to single-line residential consumers alone. Section 254(b)(3) provides for services that "are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas." The statute does not exclude rural multi-line residential consumers, businesses and public service institutions from comparable services at affordable rates. While the distinction may have merit in a high-density urban market where competition will thrive or in the case of "lifeline" services in wealthy areas, such a distinction is inappropriate and will likely lead to significant rate increases for rural businesses and residential consumers in rural, sparsely populated areas. The Joint Board's recommendations could have a profound effect on economic development in rural areas and deny rural areas the benefits of the opportunities that can be associated with access to quality telecommunications services.

Rural America should not be expected to give up affordable Internet access, fax lines or home security systems because of a misguided interpretation of the Act. We urge the Commission to reject this Joint Board proposal.

(4) The effect of other proceedings on universal service. We have heard from rural phone companies and cooperatives concerned about forward looking costs in interconnection and proxy models under the Joint Board's recommendation. These rural providers believe that such cost models do not provide sufficient flexibility or predictability. We are concerned about the interaction of the Commission's interconnection and access charge reform proceedings with universal service. If the Commission does not provide an adequate cost formula for rural and high cost areas, it could have profound effects on rural phone rates. A disregard for actual investments that have been made in networks to provide universal service under a regulatory scheme could provide upward pressure on local phone rates unless universal service reforms and access charge reforms are structured appropriately.

Again, the Congress mandated that universal support mechanisms be *sufficient* and rates be *affordable*. In addition, uncertainty about cost recovery appears to be deterring local exchange carriers from making necessary infrastructure investments. This uncertainty is heightened for rural phone companies in the Commission's pending rule making on access reform.

For many small, rural telephone companies, access charges constitute the bulk of universal service support. While access charge reform may be necessary to spur local competition, it is imperative that adequate support mechanisms are maintained to prevent dramatic increases in local telephone rates. Not a single Senator or Member of Congress who

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supported this landmark legislation voted to increase local phone rates or freeze investment.

The Commission should recognize that the interconnection and access charge reform proceedings place a larger burden upon universal service needs than would otherwise be the case. It is imperative that the Commission ensure that there are adequate universal service support mechanisms to sustain affordable rates for all Americans.

We understand the difficult task the Commission has before it to implement the Telecommunications Act of 1996. We appreciate the hard work of the Commission and its employees. The Commission should view its task as one of continual fine tuning and refinement to balance the public interest and ensure affordable, ubiquitous service in a competitive marketplace. The Commission's action in it's several rulemakings will determine whether the promises of the Telecommunications Act of 1996 are fully realized. We look forward to working with you and the Commission to implement this landmark new law.

Thank you for your consideration.

Sincerely,

Page Six
The Honorable Reed Hundt

Pat Roberts	Tom Harkin
Chuck Grassley	Max Baucus
Jay Rockefeller	Paul Wellstone
Dick Durbin	Carl Levin
[illegible]	Robert C. Byrd
Richard Shelby	Ron Wyden
James M. Inhofe	Barbara A. Mikulski
John Breaux	

cc: Commissioner Chong
Commissioner Ness
Commissioner Quello

Presentation Before the Senate Commerce Committee
House Bill No. 2314
by the Kansas Corporation Commission Staff
March 18-19, 1997

- The Kansas Telecommunications Act of 1996 called for excellent telecommunications service at an affordable price. [Act, 1(a)]

- What is affordable? Attachment 1 shows the disparity in local service rates paid by business customers in Kansas. Attachment 2 shows what is considered affordable in surrounding states.

- KUSF support is predominantly paid to help support service in rural areas.
  -Cost to provide local loop average from $221 to $1211. Federal USF steps in at $288.
  -USF funding ranges from 0 to $ 685 per line, most are $125 to $250 per line.

- KUSF support available to all residential lines.
- Expanded its decision to include single line business service.

- Balance the interests of all Kansans. Being fair to residential and metropolitan customers.

- Tie support to the costs. Most of the high cost is associated with running facilities 20 miles to reach farms. Multiline business customers are typically located close to the central office.

- Untie subsidy from multiline services. Avoid creating an incentive for competitors to cherry pick the highest revenue producing customers and then give KUSF support.

- Avoids creating a corporate welfare program for approximately 12,000 customers (50,000 lines).

- Wait and see:
  - FCC decision on Universal Service will be issued in May, 1997.
  - No harm initially, the revenue neutral provision insures continued support for the present service providers.

Senate Commerce Committee
March 18, 1997
Attachment 3-1 thru 3-4

Local Rates

State of Kansas

Local Service Rates for ILEC's Sorted by Business Rate

Uses composite rates

March, 1996

COMPANY	LOCAL RATE RESIDENCE	BUSINESS	Range of Rates
Columbus	3.50	5.00	
Pioneer	3.92	6.77	
Home	6.86	6.86	R6.19-9.29,B6.19-9.29
H&B Comm.	4.80	7.30	
South Central	4.00	7.50	R4-4.50,B7.50-8
Haviland	4.70	7.70	
Blue Valley	6.75	8.25	
Council Grove	5.30	8.80	
Southern KS	6.20	8.95	
LaHarpe	6.50	9.00	
Sunflower	5.73	9.43	R5.50-6.75,B9-12
Gorham	5.80	9.45	
United Tele. Assoc.	4.50	9.50	
MoKan	6.20	9.70	
S&A	7.82	9.86	R6.30-8.95,B7.05-12.40
Totah	7.25	10.00	
KanOkla	7.13	10.19	R6.25-7.75,B9.25-10.75
Golden Belt	7.40	10.50	
Rural	7.16	10.76	
Twin Valley	7.85	10.85	
Moundridge	7.20	10.95	
Craw-Kan	7.50	11.00	
Wilson	7.00	11.25	
Zenda	8.85	11.35	
Cunningham	7.25	11.40	
Mutual	8.20	11.50	
Rainbow	7.80	11.85	R7.50-8.30,B11.45-12.25
Tri-County	7.18	11.93	R6.90-7.40,B11.65-12.15
Wamego	8.10	12.00	
Madison	7.90	12.70	
Peoples	9.15	13.05	
Wheat State	8.85	13.50	
JBN	10.09	15.23	R9.42-10.78,B14.21-16.26
Elkhart	10.10	16.30	
S&T	11.60	18.60	
S. Cntrl Kiowa	11.59	20.00	
ILEC Average Used for Legislation	$6.94	$10.54	

3-2

Local for SWBT
& United

State of Kansas

Local Service Rates for United and Southwestern Bell
April, 1995

COMPANY	RESIDENCE	SINGLE LINE BUSINESS
United Tele		
High	14.69	25.23
Low	6.35	9.33
Average	9.13	14.47
S W Bell		
High	12.05	25.80
Low	8.95	13.80
Average	11.16	23.89

United Telephone Company Local Rates

Residence	E-Untd Ext Sv - -	United	A-South Cen	A-Eastern*	A-Southeast*
1- 1-500	6.90	6.35	10.99	10.99	10.91
2- 501-1000	6.95	6.44	11.58	11.58	11.62
3-1001-2000	7.05	6.54	12.16	12.16	12.28
4-2001-4000	7.20	6.69	12.52	12.52	
5-4001-8000	7.50	6.99	13.11	13.11	
6-8001-16000	7.65	7.14			
Metro >50000				14.69	
	7.21	6.69	12.07	12.51	11.60
Business					
1- 1-500	9.84	9.33	18.97	18.97	20.02
2- 501-1000	10.14	9.63	20.00	20.00	21.43
3-1001-2000	10.64	10.13	21.08	21.08	22.48
4-2001-4000	11.29	10.78	22.16	22.16	
5-4001-8000	12.19	11.68	23.25	23.25	
6-8001-16000	13.29	12.78			
Metro >50000				25.23	

SWBT	Rate Groups	Residence	Business	Multiline	Trunks
0-499	1	8.95	13.80	15.15	20.85
500-1799	2	9.40	15.05	16.55	23.05
1800-5999	3	9.80	16.80	18.60	26.10
6000-15999	4	10.05	18.55	20.60	29.20
16000-99999	5	10.70	21.00	23.40	33.45
100000-229999	6	11.00	22.00	24.55	35.20
230000-549999	7	11.25	23.75	26.60	38.30
> 550000	8	12.05	25.80	28.95	41.85

AVERAGE BUSINESS RATES

The following information was used by Southwestern Bell in the Competition Docket to demonstrate the affordability of business service. This data may differ from the averages shown for Southwestern Bell on Attachment I since these include touchtone charges, but the comparison is still valid since it uses the same method to gather the data for all the states shown. This demonstrates that "affordability" for business service is in the $ 25 to $ 40 range.

STATE	BUSINESS RATE
Kansas *	$25.44
Arkansas	$30.55
Missouri	$29.37
Oklahoma	$34.60
Nebraska	$40.55
Colorado	$37.23
National Average	$32.34

* The rate used in Table 3 of the original testimony reflected a proposed increase. This increase has been removed so that it reflects current rate levels. Rates shown do not include any state Universal Service Assessments such as the KUSF.

State of Kansas

Citizens' Utility Ratepayer Board

BILL GRAVES GOVERNOR
FRANK WEIMER CHAIRMAN
DONNA KIDD VICE-CHAIR
A.W. DIRKS MEMBER
LAVON KRUCKENBERG MEMBER
GENE MERRY MEMBER
WALKER HENDRIX CONSUMER COUNSEL

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BEFORE THE SENATE COMMERCE COMMITTEE

PRESENTATION BY WALKER HENDRIX, CONSUMER COUNSEL
THE CITIZENS' UTILITY RATEPAYER BOARD

H. B. 2314

H. B. 2314 proposes to amend Kansas Telecommunications Act by expanding universal service funding to include multiline business and residential service. This proposed change expands the scope of universal service beyond its original intention and provides for additional subsidies for carriers in the rendition of telecommunication service in Kansas. The end result of this legislation will be to increase the cost of basic service, which, in turn, will subsidize multiline telecommunication service for large volume users. This legislation turns universal service on its head and provides for the possible subsidization of all telecommunication access in rural and high cost areas.

After a fairly exhaustive study of these issues, the Federal-State Joint Board on Universal Service, in its recommended decision, proposed not to fund multi-line service. The Joint Board made its decision to limit the scope of funding based on the principles which are outlined in Section 254 of the Federal Telecommunications Act. The Joint Board defined universal service to include: "voice grade access to the public switched network, with the ability to place and receive calls; touch-tone or dual tone multi-frequency signalling (DTMF) or its equivalent; single-party service; access to emergency services; access to operator services; access to interexchange services; and access to directory assistance." Besides the issues of cost, the Joint

Senate Commerce Committee
March 18, 1997
Attachment 4-1 thru 4-3

Board elected not to fund multi-line services, because the concept of universal service is to fund programs for the support of individual households. The goal of universal service is to keep penetration rates high so that everyone has access to a telephone network. It is not designed to fund every aspect of telephone communication access, especially where the economics are such that support is unnecessary. In fact, the funding of multi-line services would pose a hardship on basic service by requiring basic service customers to bear the subsidies for the rendition of multi-line service. In essence, multi-line subsidies for business would be the ultimate type of corporate welfare.

High cost providers already receive substantial subsidies under federal and state law. Under federal law, there are three programs which more than amply support rural service. Carriers in Kansas receive substantial amounts of money from (1) high cost assistance, (2) Dial Equipment Minute weighting and (3) long term support. In Kansas, carriers receive support through access charges and the payment of $36.88 per residential loop. Adding more subsidy to support multi-line service is overkill, given the amount of funds already received by carriers.

Section 254 (i) provides that universal service is to be provided at "affordable rates." Consequently, the federal law envisions some economic hardship to permit universal service funding. Moreover, the Federal Act limits universal service to those services "subscribed to by a substantial majority of residential customers." The Federal law simply does not envision providing universal support for multi-line business customers. Conversely, it does not envision that basic service customers would be subsidizing large business concerns in providing telecommunication services through multi-line support.

At the time of the passage of the Kansas Telecommunication Act (H. B. 2728), no one reasonably considered providing for subsidies for multi-line service and it was not provided as part of the definition of universal service or enhanced universal service. The absence of universal support for multi-line services was no accident.

Finally, this legislation would be a collateral attack on the Corporation Commission and its decision in Docket No. 190,492-U not to expand support beyond single line service. If there is any integrity in the administrative process, this legislation should not be enacted. Inasmuch as the Corporation Commission has provided for substantial increases in the rates of basic local service without supporting multi-line services, the outcome of this legislation will be to increase the rates of local service even more.

In concluding, I leave you with this question: Is it appropriate for the elderly customer, who uses telephone service as a matter of survival and may be on a fixed income, to support large volume corporate customers who may deduct the full amount of their telephone services under federal and state tax laws?