

Approved: January 20, 1998
date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on January 16, 1998 in Room 123-S of the Capitol.

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

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

Conferees appearing before the committee:
Rob Hodges, Kansas Telecommunications Association
Brenda Eddy, Program Administrator, Telecommunications Access Program
David N. Dittmore, Utilities Division Director, Kansas Corporation Commission
Jerry Lammers, Kansas Corporation Commission

Others attending: See attached list

Rob Hodges, representing Kansas Relay Services, Inc., stated the 1996 Telecommunications Act provided for the Telecommunications Access Program (TAP) which was established through an order by the Kansas Corporations Commission. The program was placed with the Kansas Relay Services for administrative oversight and funded through the Kansas Universal Service Fund. A program administrator was hired in June of 1997. (Attachment 1)

Brenda Eddy, Program Administrator, TAP, stated the purpose is to provide vouchers to Kansans with disabilities so they can acquire the specialized equipment needed to access basic telecommunications services. Many people with disabilities are required to buy expensive adaptive phone equipment to take advantage of telephone services. TAP levels the playing field so that hardware costs are not a factor in obtaining telephone services. TAP has a budget of \$450,000, has received 473 applications as of January 15, 1998, and issued vouchers totaling \$225,460 in the same time period. The average voucher recipient amount is \$476.65.

Ms. Eddy stated the Program has provided a number of persons with disabilities the means to communicate.

Michael Byington, Director, Envision Governmental Affairs Office, provided the Committee with written material. Mr. Byington expresses the need of converting written text to speech, which is not considered by TAP as being a basic communications service, and the funding is not sufficient to address this issue. (Attachment 2)

David N. Dittmore, Utilities Division Director, Kansas Corporation Commission (KCC) presented an overview of the initiatives set in motion by the 1996 Federal Telecommunications Act. Mr. Dittmore stated the 1996 Federal Act focused the direction of the states and the United States, toward a progressive, interactive and integrated network designed to promote competition. (Attachment 3)

Mr. Dittmore stated the competitive design set forth in the Federal Act contains numerous initiatives. Some of the initiatives are under the responsibility and oversight of the state through the KCC; others are the responsibility of the Federal Communications Commission (FCC); and others are under a joint responsibility of both the state and federal commissions which is vague. Major initiatives are: Interconnection Requirements; Cost and Pricing; Local Number Portability; Quality of Service-Service to Schools/Libraries and Rural Hospitals, and Long Distance Competition. Mr. Dittmore stated there are 37 competitive local companies in Kansas that have been certified and for which interconnection agreements have been filed and approved.

The Local Number Portability requirement of the Federal Act is a monumental undertaking, and the largest that the industry has ever tackled. The FCC has mandated an aggressive early deployment schedule in

the most highly populated cities of the country, known as the top 100 Metropolitan Statistical Areas (MSA). In Kansas, the Kansas City MSA is in Phase III period of April 1 through June 30, 1998 and Wichita is in the fifth Phase, October 1 through December 1998. Mr. Dittmore stated that nationwide seven new Limited Liability Corporations have been created to independently handle the administration of the new network architecture; a new computer system and data bases are in the final development/deployment stages, new software features have been developed and are in the process of being deployed in certain switching systems throughout the country and here in Kansas. Costs for this capability will be significant and substantial. The recovery of cost mechanism has not yet been adopted by the FCC. There is a possibility that the responsibility for deciding cost recovery issues will be shifted by the FCC to the states.

The Federal Act provided that telephone customers be provided high quality services at affordable rates. Both basic and advanced services for schools, libraries and rural hospitals have been given a high priority. Therefore, the Federal Universal Service Fund (USF) has been modified to provide a higher level of monetary support for these services.

Mr. Dittmore stated the FCC is in the process of revising the Separation Rules. The outcome of this review is important because these rules divide the local telephone company's (LECs) costs between the federal and the state jurisdiction. The KCC is concerned that there are no large shifts of cost from interstate to the state. If there is a shift of accounting costs from the federal level to the state jurisdiction, it may be necessary for telephone companies to petition KCC to raise intrastate rates. At least five consultants who represent Kansas independent companies submitted comments to the FCC on this issue.

Jerry Lammers, presented an overview of the Federal Universal Service Programs. An existing USF program has provided support for high cost companies since 1984. Mr. Lammers stated existing federal support for Kansas companies is \$45 Million: but due to DEM weighing support for small companies, discontinued support for United, and three year phase down of support for small independent local exchange carriers, the support will decline to zero. This order of the FCC will cause increases in Kansas Universal Service Fund and/or intrastate rates. (Attachment 4)

Mr. Lammers reported on the increased support in the Lifeline Program. Effective March 1, 1998, the state participation will be \$3.00, the federal share at \$6.75 for a total of \$9.75. Effective March 1, 1999, the share will be state \$3.50, federal \$7.00, for a total of \$10.50. Federal funds are derived from the New Federal Universal Service Fund (USF) of \$500 Million nationwide and state fund from the Kansas USF. The new USF is designed to support the high cost that has been assigned to the interstate jurisdiction for recovery, in contrast with the current USF which was designed to fund the high cost not assigned to the interstate jurisdiction for recovery through access charges. Mr. Lammers stated companies may receive support from the New USF, but the KCC does not believe there will be replacements for any of the current support that the companies receive from the existing USF.

Mr. Lammers stated monies set aside for Schools, Libraries, and Rural Health Care is \$2,250 Million, monies also derived from the New USF. The monies ear-marked for Schools and Libraries includes telephone service, internet access, inside wiring, etc. Schools can receive a discount for their telecommunications service, ranging from 20% to 90% (E-Rate). The discount percent is determined by participation in the hot lunch program. Schools must file a technology plan approved by a review team set up by the State Board of Education office. Mr. Lammers stated Kansas is prepared to commence processing applications. The discount percent for Libraries is determined by the hot lunch program for the public school district where the library is located. Libraries are also required to file a technology plan approved by a library review team.

The total amount set aside for Rural Health Care is \$400 Million from the New USF. This program is expected to start operation by mid-February. The discount is based on the cost for comparable service in metropolitan areas.

The FCC is assessing all intrastate, interstate, and international revenues at the rate for the first quarter of .0072. LECs, who are being assessed, are being allowed to recover their assessment in their interstate access charges. Intrastate charges have not been adjusted at this time.

Upon motion by Senator Ranson, seconded by Senator Steffes, the Minutes of the January 15, 1998 meeting were unanimously approved.

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

The Kansas Corporation Commission will continue its report on this issue at the next meeting scheduled for Tuesday, January 20, 1998.

SENATE COMMERCE COMMITTEE COMMITTEE GUEST LIST

DATE: January 16, 1998

| NAME | REPRESENTING |
|------------------|--------------------------|
| Tom DAY | KCC |
| Brady Cantrell | CURB |
| Rob Hodges | KTA |
| Brenda Eddy | TAP |
| Dave Dittmore | KCC |
| Glenda Capu | KCC |
| Jerry Lammers | KCC |
| STEVE KUKTA | KCC |
| BILL FANSLER | KAD/KCD44 |
| Carolyn Jeffries | TILRC |
| George Barbee | Rural Tele Agent Council |
| Bill Drexel | SURBT |
| Laura Weed | KCC |
| Melton Krueger | Leading Edge |
| Bob Vancrum | AT & T |
| WALKER HENDRIX | CURB |
| Uyungo Stan | AT&T |
| Mild Reed | AT&T |
| Brood Smoot | AT & T |

SENATE COMMERCE COMMITTEE COMMITTEE GUEST LIST

DATE: _____

| NAME | REPRESENTING |
|-------------------|-------------------------|
| Mike Murray | Sprint |
| Jay Scott Emler | KENI L.C. |
| STEVE KEARNEY | KINI L.C. |
| Steve Montgomery | CAS Coastruction |
| Ron Herli | Classic Communications |
| Mike Enns | Comptel-KS |
| Doug Smith | SITA |
| Roger Traudie | Ks Gov Consulting |
| JOHN OLIVER | CIA |
| DENNY KOCH | SW BELL |
| Cody Denton | DOB |
| SHAWN M. MCKENZIE | SOUTHWESTERN BELL |
| Carol Crispin | Hawaii News |
| Marty Hawer | Hawver's Capital Report |
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Executive Summary

Senate Commerce Committee
January 16, 1998

HISTORY

The Telecommunications Access Program (TAP) was implemented in March of 1997 as a result of the state Telecommunications Act of 1996. The program was established through an order by the Kansas Corporation Commission and is funded through the Kansas Universal Service Fund. The program was placed with the Kansas Relay Services, Incorporated (KRSI) for administrative oversight. A program administrator was hired in June of 1997. TAP began accepting applications in October. Actual voucher issuance began in November of 1997.

PURPOSE

The purpose of the Kansas Telecommunications Access Program is to provide vouchers to Kansans with disabilities so they can acquire the specialized equipment they need to access basic telecommunications services in their residence. Many people with disabilities are required to buy expensive adaptive phone equipment to take advantage of telephone services. This program levels the playing field so that hardware costs are not a factor in obtaining telephone services.

PROGRAM MODEL

The original model for establishing the Telecommunications Access Program was proposed by the Kansas Commission for the Deaf and Hard of Hearing (KCDHH) and supported by a coalition of disability groups. Their proposed model consisted of a centralized voucher administration program whereby the eligible person receives a voucher to purchase equipment from an approved vendor of their choice. There is no charge for an eligible person to receive a voucher.

An eligible applicant must be a resident of Kansas, have telephone service in their place of residence, have a certified disability that requires specialized equipment to utilize the telephone, and have an annual gross income of less than \$55,000 (this amount can be adjusted upwards by \$3,000 per dependent in the household.). The disability must be certified on the application by a medical professional. The recipient of equipment retains ownership of the equipment. The applicant can apply for equipment every four years.

Senate Commerce Committee

Date 1-16-98

Attachment # 1-1 thru 1-7

FINANCIAL AND STATISCIAL REPORT

- Initial TAP Allocation – **\$450.000 annually**
- Number of applications received as of January 15, 1998 - **473**
- Total dollar amount of vouchers issued as of January 15, 1998 - **\$225,460**
- Weekly averages (based on 12 weeks of history) -
 - **39 individuals apply per week**
 - **69 vouchers issued per week**
 - **\$18,788 total per week in vouchers**
- Average voucher recipient amount - **\$476.65**

ACCOMPLISHMENTS FOR 1997

- Remodeled KTA conference room to create office space for TAP administrator
- Hired TAP program administrator
- Researched other existing states' equipment distribution programs
- Conducted consumer user groups for program input and application design
- Installed new phone system to accommodate TAP related calls
- Developed TAP logo, brochure, application and other printed materials
- Developed press releases
- Researched equipment for establishment of voucher amounts
- Purchased sampling of equipment for establishment of demonstration centers
- Selected and appointed five new advisory council members to represent the interests and needs of TAP users
- Developed vendor application, approval processes, and vendor list
- Contracted with accounting firm to design database and voucher issuing/tracking system
- Hired part-time temporary data-entry clerk
- Received training on use of AS 400 database system
- Initiated application approval and voucher redemption processes
- Wrote year-end status report to Kansas Corporation Commission

GOALS FOR 1998

1. Develop and implement a comprehensive public information campaign.
2. Develop and implement a comprehensive outreach plan.
3. Develop and implement a program evaluation and quality assurance plan.
4. Develop and implement strategies to address the training needs of TAP applicants (if training budget allocation approved by Kansas Corporation Commission).
5. Continue to adjust and fine-tune the Telecommunications Access Program and data collection/reporting system.

**Telecommunications Access Program of Kansas
Established Voucher Amounts**

| | |
|--|------------|
| Text Telephone (TTY) | \$450.00 |
| Voice Carry Over (VCO) Telephone | \$300.00 |
| TTY Modem and software | \$450.00 |
| Large Number Amplified Telephone | \$150.00 |
| In-Line Amplifier | \$50.00 |
| Amplified Handset | \$75.00 |
| Large Number Telephone | \$60.00 |
| Large Number Telephone w/ Number Announcer | \$165.00 |
| Large Number Telephone with Braille | \$85.00 |
| TTY with Large Visual Display | \$900.00 |
| Braille TTY | \$6,500.00 |
| TTY with External Printer Port | \$360.00 |
| Speech Amplified Handset | \$75.00 |
| Personal Speech Amplification System | \$350.00 |
| Deskstyle Speakerphone | \$100.00 |
| Hands-Free Telephone w/ accessories | \$600.00 |
| Cordless Amplified Telephone | \$200.00 |
| Picture Telephone | \$125.00 |
| Visual Signaler. | \$100.00 |
| Audible (loud ring) Signaler | \$100.00 |
| Tactile Signaler (deaf-blind) | \$450.00 |

January 7, 1978



LEAH W. YOUNG
404 WEST MADISON
LINDSBORG, KS 6741

12/13/97

Telecommunications Access Program,
Brenda Eddy, Program Adm., 700 SW
Jackson, Suite 704, Topeka, Ks66603-
3758

Dear Ms Eddy:

Thank You for your letter, together
with Vouchers for Voice Carry Over
(VCO) \$300.---. Also for Visual Sig-
naler \$100.00 - together with approved
Voucher list.

I am in the process of contact with
various Vendors for the above equip-
ment.

As I understand all calls - local &
long distance , go through Ks. Relay
Service, Lawrence, Ks - for service.
Please give their phone for my use, &
also address.

Question - Are operators certain all
24 hrs. in the Relay Office?

Please give any further information
for operation, etc.

Your prompt reply will be appreciated.

I am elated to know I will possibly be
able touse the phone after 5 yrs.

Thank You, Walter Rutzmann



Mr Walter Kretzmann
908 Terran Ave
Lyons KS 67554

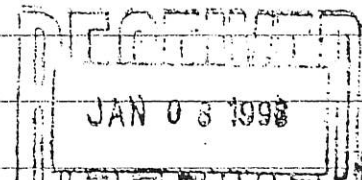
Dear Ms Eddy,

yesterday, Jan. 6, I ordered a
VCO and loud ringer from L&S Group.
I had called for a catalogue and the
old ones were gone and new not arrived.
I found one to borrow and have sent
the vouchers.

After reading carefully, I've
decided that I would like instructions
how is that provided and when. Do I
let you know when the equipment
arrives?

I really look forward to being
able to communicate! My phone never rings
Gratefully Thanks to you for making
this possible.

Sincerely,
Leah W. Young



4-1

1-4



KANSAS RELAY SERVICE, INC.
700 SW JACKSON ST. SUITE 704
TOPEKA, KANSAS 66603-3758
VOICE/TDD: 913-234-0307 FAX: 913-234-2304

KANSAS RELAY SERVICE, INC.

1998 Advisory Council Members

Fred Banks - Olathe

Michael Byington - Topeka

Jerry Crabb - Wichita

Ken Culver - Lawrence

Tracy Kinderknecht - Ellis

Elmer Lundstedt - Ellis

Mary Miller - Topeka

Christine Mosiman - Olathe

Ruth Nester - Hiawatha

Kathy Nix - Hugoton

Teresa Rundell - Salina

Pam Spohn - Parsons

Ron Starks - Wichita

Patrick Terick - Wichita



CARLA J. STOVALL
ATTORNEY GENERAL

State of Kansas

Office of the Attorney General

CONSUMER PROTECTION DIVISION

301 S.W. 10TH, LOWER LEVEL, TOPEKA 66612-1597
PHONE: (913) 296-3751 FAX: 291-3699 TTY: 291-3767

CONSUMER HOTLINE
1-800-432-2310

ASSISTIVE DEVICE "LEMON LAW"

In 1996, Kansas became one of fifteen states with a "lemon law" for assistive devices. This consumer protection law covers assistive technology which malfunctions repeatedly during the warranty period. Attorney General Carla J. Stovall supported this law and wants consumers to be aware of this protection.

K.S.A. §50-696, *et seq.*, covers all assistive technology and defines assistive device as "...any device, including a demonstrator, that a consumer purchases or accepts transfer of in this state which is used for a major life activity which includes, but is not limited to, manual wheelchairs, motorized scooters and other aides that enhance the mobility of an individual; hearing aide, telephone communication devices for the deaf (TTY), assistive listening devices and other aides that enhance an individual's ability to hear; voice synthesized computer modules, optical scanners, talking software, braille printers and other devices that enhance a sight impaired individual's ability to communicate; and any other assistive device that enables a person with a disability to communicate, see, hear or maneuver".

This law requires a manufacturer to furnish an express warranty for the assistive device that "...shall not be less than one year after first delivery...to the consumer". If, after reasonable attempts to repair, the nonconformity is not repaired, there are specific steps for the manufacturer to follow to either replace the item or issue a refund. A nonconformity is a condition or defect which "...substantially impairs the use, value or safety..." of the device. A reasonable attempt to repair would include four (4) attempts to repair the device or the device is out of service for an aggregate of at least thirty (30) cumulative days.

Effective July 1, 1996, this law may be enforced by the Office of the Attorney General. In addition, a consumer may bring a private action for damages. If you have questions or wish to file a complaint, please contact the Consumer Protection Division of the Attorney General at 1-800-432-2310.

This is not a check. Redeem at TAP-approved vendor for equipment listed below.
NO CASH VALUE TO CUSTOMER

Voucher Number
0000



Telecommunications
Access Program
700 SW Jackson, Suite 704
Topeka, KS 66603-3758
Phone: 785-234-0200 V/TTY

ISSUE DATE: 11/05/1997
VOID AFTER: 2/06/1998

VOUCHER AMOUNT
\$****165.00**

This voucher may only be used to purchase the following equipment:
LARGE NUMBER TELEPHONE WITH NUMBER ANNOUNCER.

AUTHORIZED SIGNATURE

TRAVIS JACKSON
C/O PRIVATE SCHOOL
4325 SCHOLAR LANE
OVERLAND PARK KS 66213

Security features on the face of this check include a color background and a micro-print lower border line. The reverse side has an artificial watermark. Hold at an angle to view.

Non-Negotiable. This voucher may only be used for items designated above. No equipment substitutions allowed.



Telecommunications
Access Program
700 SW Jackson, Suite 704
Topeka, KS 66603-3758
Phone: 785-234-0200 V/TTY

FOR VENDOR/RETAILER USE ONLY - TAP COPY
(RETURN WITH VOUCHER TO TAP ADDRESS FOR REIMBURSEMENT)

Voucher Number: 000021
Voucher Amount: 165.00

Equipment: LARGE NUMBER TELEPHONE WITH NUMBER ANNOUNCER.

INSTRUCTIONS TO VENDOR:
Complete this section and mail with attached voucher to the TAP address above. Payment will be made within 15 days of receipt.

Issue Date: 11/05/1997
Void After: 2/06/1998

Customer:
TRAVIS JACKSON
C/O PRIVATE SCHOOL
4325 SCHOLAR LANE
OVERLAND PARK KS 66213
657482

| VENDOR: PLEASE COMPLETE THIS SECTION (Please print) | |
|--|----------------|
| Vendor Name: | _____ |
| Vendor Address: | _____ _____ |
| Equipment Brand Name: | _____ |
| Model: | _____ |
| Serial Number: | _____ |
| Sale Date: | _____ |
| Equipment Price: | _____ |
| Sales Tax: | _____ |
| Shipping (if applicable): | _____ |
| Total Reimbursement: | _____ |



Telecommunications
Access Program
700 SW Jackson, Suite 704
Topeka, KS 66603-3758
Phone: 785-234-0200 V/TTY

FOR VENDOR/RETAILER USE ONLY - VENDOR COPY
(DETACH AND RETAIN FOR YOUR RECORDS)

Voucher Number: 000021
Voucher Amount: 165.00

Equipment: LARGE NUMBER TELEPHONE WITH NUMBER ANNOUNCER.

INSTRUCTIONS TO VENDOR:
Retain this section for your records.

Issue Date: 11/05/1997
Void After: 2/06/1998

Customer:
TRAVIS JACKSON
C/O PRIVATE SCHOOL
4325 SCHOLAR LANE
OVERLAND PARK KS 66213

| VENDOR: PLEASE COMPLETE THIS SECTION | |
|--------------------------------------|-------|
| Equipment Brand Name: | _____ |
| Model: | _____ |
| Serial Number: | _____ |
| Sale Date: | _____ |
| Equipment Price: | _____ |
| Sales Tax: | _____ |
| Shipping (if applicable): | _____ |
| Total Reimbursement: | _____ |

Choices & resources for people who are blind or low vision



EnvisionSM

**PLEASE REPLY TO: Michael Byington, Director
Envision Governmental Affairs Office
P. O. Box 1063
Topeka, Kansas 66601
(785) 575-7477 (local office and voice mail)
(785) 233-2539 (FAX)
mbyington@delphi.com or mbyingto@ink.org**

January 15, 1998

TO THE SENATE COMMERCE COMMITTEE:

Rob Hodges, Telecommunications Association, has informed me of the presentation he and Brenda Eddy are making before the committee on January 16th. He invited me to participate, but unfortunately, I am scheduled to be at a meeting out of town on this date. I am asking, however, that Mr. Hodges and Ms. Eddy provide you with these written comments on my behalf.

I first of all want to thank the Committee for its good work which lead to the development of the Telecommunications Access Project (TAP). Ms. Eddy is doing an excellent job and the only complaints I have heard are from her two previous employers both of whom would appreciate having her back as they have not found equally talented replacements for her.

I want to call your attention, however, to an inequity in the TAP which has been identified by a number of us who advocate on behalf of blindness and low vision related issues. TAP defines services in categories of basic telecommunications services and secondary services. The priority of the TAP is then directed largely toward meeting primary, basic

Senate Commerce Committee

Date 1-16-98

Attachment # 2-1 thru 2-2

801 EAST LINCOLN - WICHITA, KS 67211
Tel 316.267.2244 • Fax 316.267.4312
Web <http://www.envisionus.com>

telecommunications needs. The foremost basic need is identified as use of telephone equipment to communicate with others using speech. This means that equipment to allow a person who can not speak or who can not hear well enough to use the telephone is covered under the TAP.

Equipment to assist people who are deafblind and speech disabled blind to use the telephone is also covered, and as this equipment is usually completely out of reach of such individuals without assistance, this is most appreciated.

Furthermore, certain small pieces of equipment of enhancements are covered to assist people who are blind in dialing the telephone. Again, the inclusion of this population is appreciated.

For most citizens who are blind, however, the issue where they are most limited in terms of telecommunications is not one of converting spoken words to writing, as is needed by those who can not speak or hear in order to use the telephone, but rather the issue of converting written text to speech. TAP is not considering this need as being a basic communications service, and reports that it is not funded sufficiently to address this issue. I would argue that the exponential growth of the internet and other electronic data retrieval and research methods is fast making the ability to deal with text over the telephone a basic need. Each day, such data access is becoming more and more basic to employment and to competitiveness in our society.

I would therefore submit for the Committee's consideration that text to speech needs to be regarded as a basic telecommunications need, and that TAP needs to be provided with the resources required in addressing this issue.

Thank you for this opportunity to provide input.

Sincerely yours:

Michael Byington
Director of Governmental Affairs

MB/mb

INITIATIVES SET IN MOTION BY THE 1996 FEDERAL
TELECOMMUNICATIONS ACT

Before the Senate Commerce Committee

David N. Dittmore

Utilities Division Director

Kansas Corporation Commission

January 16, 1998

The 1996 re-write of the Federal Telecommunications Act focused the direction of the states, and the U.S. (both Nationally and Internationally) toward a progressive, interactive and integrated network designed to promote competition. Because of the technical nature of telecommunications, the design for this global plan was to be started at the lowest level; at the basic level of local telephone service. The federal law anticipates that once the competitive design is implemented at the local level, it will move to the interstate long distance level, and then it will quickly become uniform across the nation. Already a record number of International communications agreements have been reached since the passage of the federal law solely because of anticipation of the effects of this open competition design.

It's safe to say that competition has not progressed as quickly as some congressional leaders would have liked. There's been a great deal of debate and finger pointing between major industry players, the FCC and Congress as to the cause for the relatively slow movement towards competition.

This competitive design set forth in the Federal Act contained numerous initiatives. In Kansas, some of these initiatives are under the responsibility and oversight of the state through the Kansas Corporation Commission; others are the responsibility of the Federal Communications Commission (FCC); and yet others are under the joint responsibility of both the state and federal commissions.

The major initiatives are as follows:

Interconnection Requirements: Existing local telephone companies are required to interconnect with the new providers, who so request, such that local customers can continue to call each other.

Senate Commerce Committee

Date 1-16-98

Attachment #3-1 thru 3-4

In Kansas 37 competitive local companies have been certificated. Interconnection agreements have been filed and approved. The Commission is responsible for arbitrating the unresolved terms of the interconnection agreements. The KCC has arbitrated three of the agreements. (Sprint, AT&T, Dunn & Associates) Two of the arbitrated agreements are yet pending resolution.

Costs and Pricing: The rates charged by the local telephone companies to offer interconnection must be based upon the cost of the interconnection. In other words, the rates should not be exorbitantly high, nor should they be artificially low. The Commission has issued a schedule to determine permanent prices.

Local Number Portability: Local telephone numbers were ordered to be made portable so that customers could take their number(s) with them, if they choose to change local service providers. This initiative, known as Local Number Portability (LNP) is a monumental undertaking, in many respects the largest that the industry has ever tackled.

The FCC has mandated an aggressive early deployment schedule in the most highly populated cities of the country, known as the top 100 Metropolitan Statistical Areas or MSA. Here in Kansas the Kansas City MSA is in the Phase III period of April 1 through June 30, 1998 and Wichita is in the fifth Phase, October 1 through December 1998.

- Nationwide, seven new Limited Liability Corporations (LCS) have been created to independently handle the many administrative functions associated with this new network architecture.
- Highly sophisticated new computer systems and data bases, with detailed supporting administrative agreements and instructions, are in the final development/deployment stages.
- New software features have been developed and are in the process of being deployed

in selected switching systems throughout the country and here in Kansas.

- Costs for this capability will be significant and substantial. At this time cost recovery mechanism has not yet been adopted by the FCC and its possible that the responsibility for deciding cost recovery issues will be shifted by the FCC to the states.

Quality of Service/Service to Schools/Libraries and Rural Hospitals: Telephone customers will be provided high quality services at affordable rates. To accomplish this, the basic services have been listed and defined. Both Basic and Advanced services for Schools, Libraries, and rural Hospitals have been given a high priority. As a result, the federal Universal Service Fund has been modified to provide a higher level of monetary support for these services.

Long Distance Competition: Once the connections are made and local competition is operational, the Regional Bell Operating Companies (Southwestern Bell) will be allowed to compete in the long distance markets within its own service territory. The verification that the local markets are open is made by the FCC based in part, upon information gathered by the KCC. Steve Kukta will discuss this process and related legal issues in much greater detail.

Changing Separations Rules: The FCC will be revising the Separations Rules. The outcome of this review is important because these rules divide the local telephone company's costs between the federal and the state jurisdiction. The KCC is concerned that there be no large shifts of cost from interstate to the state. If there are, this shift of accounting costs from the federal level to the state jurisdiction may cause telephone companies to petition the KCC to raise intrastate rates.

With the large LECs on the verge of competition and price cap regulation, the FCC is questioning whether these accounting rules should continue. In contrast, small independent LEC are still regulated on a cost basis (rate of return), and receive substantial recovery of their cost from their interstate access rates and need to have consistent rules. At least five cost Consultants who represent Kansas independent companies submitted comments to the FCC on this issue. It

may be appropriate for the FCC to redetermine a new direction for Separations, and we hope that the process will provide stability for the companies and avoid any major shifts to the states.

FEDERAL UNIVERSAL SERVICE PROGRAMS

Presented by Jerry Lammers, KCC

January 16, 1998

Main Programs:

- Existing Universal Service Fund providing support for high cost companies
- Lifeline Program changes
- New Universal Service Fund for high cost support
- Schools, Libraries, and Rural Health Care

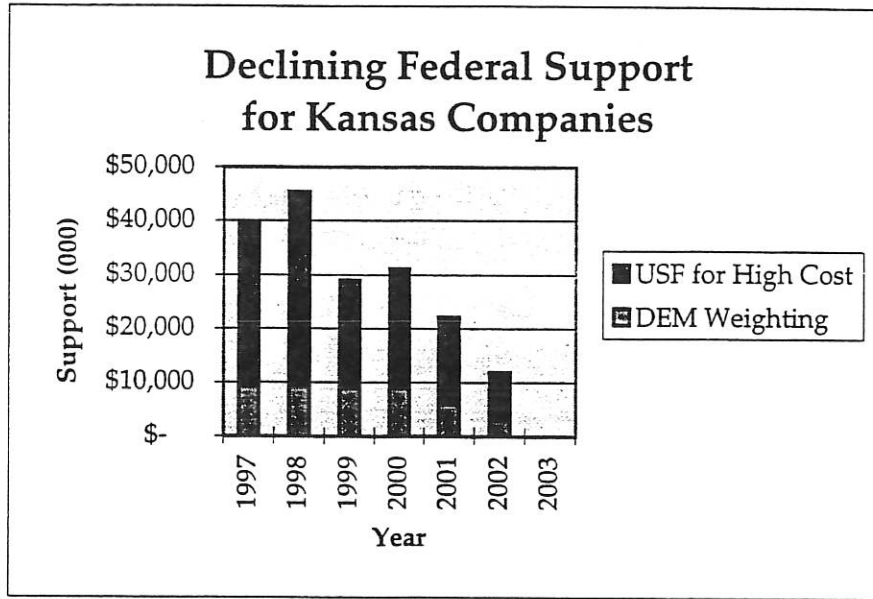
Senate Commerce Committee

Date 1-16-98

Attachment # H-1 thru H-4

EXISTING FEDERAL SUPPORT PROGRAMS

- Current Support Declines from \$45M to Zero



Existing Support

| Year | (000) | | | | | | |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| DEM Weighting | \$ 9,300 | \$ 9,300 | \$ 9,000 | \$ 9,000 | \$ 6,000 | \$ 3,000 | \$ - |
| USF for High Cost | \$ 30,575 | \$ 36,046 | \$ 20,092 | \$ 22,101 | \$ 16,215 | \$ 8,905 | \$ - |
| Total Support for KS | \$ 39,875 | \$ 45,346 | \$ 29,092 | \$ 31,101 | \$ 22,215 | \$ 11,905 | \$ - |

Notes:

- 1999 - \$17M Support for United is discontinued.
 - 2001 - 2003 - 3 year phase down of support for the small ILECs.(no specific period has been set)
- DEM Weighting - Support for switching for small companies.
 Federal USF is provided to companies whose loop cost is greater than 115% of the national average.
 Support is provided for the 75% that is not already assigned to interstate.

- KCC has appealed the FCC order to the 5th Circuit Court
- The FCC plan will cause increases in KUSF and/or intrastate rates.

NEW FEDERAL UNIVERSAL SERVICE FUND PROGRAMS Lifeline and High Cost Support

The Lifeline Program \$500M National Support for 1998

| Customer Example | | | |
|----------------------|-------|----------|-------|
| Kansas Participation | State | Federal* | Total |
| In 1997 | 2.00 | 2.00 | 4.00 |
| Effective 3/1/98 | 3.00 | 6.75 | 9.75 |
| Effective 3/1/99 | 3.50 | 7.00 | 10.50 |

* - Federal increase effective Jan. 1, 1998; in 1997 the maximum federal credit was \$3.50.

- Program started on March 1, 1997.
- Over 4,100 customers are participating as of Nov.; with an estimated 50,000 possible.

High Cost Support

- The New Universal Service Fund is designed to support the high cost that has been assigned to the interstate jurisdiction for recovery.
- In contrast the current USF is designed to fund the high cost not assigned to the interstate jurisdiction for recovery thru access charges.
- When amounts are received from the New USF, the Company must make equal reductions in their interstate access rates.
- The FCC is using proxy costs to determine the costs, and a benchmark to determine when a company's costs are "High Cost".
- Companies may receive support from the new USF, but at this time we do not believe that they will be replacements for any of the current support that the companies receive from the current USF.

Schools, Libraries, and Rural Health Care

Schools & Libraries \$2,250M Nationwide

Schools and Libraries can receive a discount for their telecommunications service.

Includes plain old telephone service, internet access, inside wiring, etc.

Includes primary and secondary schools (K-12), both public and private.

The discount ranges from 20% to 90%. This discount is called the E-Rate.

The discount percent is determined by participation in the hot lunch program.

Schools must file a technology plan which is approved by a review team set up by the State Board of Education office.

Requests for discount approval are filed with the Schools Libraries Corporation set up at the FCC's request. Requests received during the 75 days starting sometime this January are treated as simultaneous filings.

For a new service the RFP must be posted for additional competitive bids for 30 days before the contract is awarded.

On September 3, 1997, the KCC approved a matching E-Rate discount for intrastate charges which are recovered thru this fund.

Kansas is ready! Training, forms¹, and planning are all being attended to.

Differences for Libraries

Discount percent is determined by the hot lunch program for the public school district where the library is located.

Libraries must file a technology plan which is approved by a library review team.

Rural Health Care \$ 400M

Expected to start operation by mid-February.

The discount is based on the cost for comparable service in metropolitan areas.

Providers for the service must be an Eligible Telecommunications Carrier, which will be the incumbent local exchange companies and those competitive companies who later qualify.

Requests for discount approval are filed with the Rural Health Care Corporation.

Federal Funding

The FCC is assessing all intrastate, interstate, and international revenues. The assessment rate for the 1st quarter is .0072, which is less than 1%.

The local exchange companies who are being assessed are being allowed to recover their assessment in their interstate access charges and there have not been any intrastate charges adjusted at this time.

¹Forms can be obtained at the SLC web site <http://www.ed.gov/Technology/erateforms/>