

4 Approved: Carl Dean Holmes  
Date 4-29-99

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl Holmes at 9:08 a.m. on March 11, 1999 in Room 522-S of the Capitol.

All members were present except: Rep. Cliff Franklin

Committee staff present: Lynne Holt, Legislative Research Department  
Mary Torrence, Revisor of Statutes  
Jo Cook-Whitmore, Committee Secretary

Conferees appearing before the committee: Mike Lura, CURB  
Mike Ensrud, CompTel-Kansas  
Mike Reece, AT&T  
Debbie Snow, C.W.A.  
Michael Byington, Envision

Others attending: See Attached List

Chairman Holmes stated there were additional handouts on the Y2K issue. Statements from Kansas City Power & Light Company (Attachment 1) and from Wolf Creek Nuclear Operating Corporation (Attachment 2) were distributed.

In response to a question by the committee to the Kansas Corporation Commission, information regarding the Southwestern Bell Telephone Company's draw from the Kansas Universal Service Fund was provided (Attachment 3).

**Continued hearing on HB 2539 - Telecommunications, universal service fund access.**

Mike Lura, Telecommunications Consultant for the Citizen's Utility Ratepayer Board, provided testimony in support of **HB 2539** (Attachment 4). Mr. Lura responded to questions from Representatives McClure, Sloan, O'Brien and Alldritt.

Michael Ensrud, on behalf of CompTel-Kansas, testified in favor of **HB 2539** (Attachment 5). He then responded to questions from Representatives Kuether, Alldritt, Klein, Sloan and McClure.

Mike Reece, Government Affairs Consultant, appeared on behalf of A. T. & T. in support of **HB 2539** (Attachment 6). He answered questions from Representatives Alldritt and Sloan.

Ms. Debbie Snow, President of the Communications Workers of America in Kansas, testified in opposition to **HB 2539** (Attachment 7). She then responded to questions from Representatives Alldritt, Sloan and McClure.

Michael Byington, Director of Governmental Affairs for Envision, testified in support with amendment on **HB 2539** (Attachment 8).

Chairman Holmes announced that the hearing on **HB 2539** would continue tomorrow.

Meeting adjourned at 10:45 a.m.

Next meeting is Friday, March 12.

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 11, 1999

NAME	REPRESENTING
Debby Fleming	Federico Consulting
Susan Mahoney	Senate Leadership Offices
LISA CRIGHTON	Sonnenstein
Wilson Krueger	LEL
WALKER HENDRIX	CURB
Rob Hodges	KTTA
Charles Obit	SWBT
MIKE LURA	CURB
Mike Murray	Sprint
RICHARD LAWSON	Sprint
Mike Moffet	SWBT
SHAWN MCKENZIE	SWBT
LES DEPPERSCHMIDT	SWBT
DAVE D. TEMORE	KCC
Anne Wickliffe	KCC

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 11, 1999

NAME	REPRESENTING
Doug Lawrence	SCOB
McCorm	U
Jerry Lammers	KCC staff
Mike Scott	SWBT
Shirley Allen	SBC
Nellie Snow	CWA
Mike Reed	AT&T
Doug Smith	SITA
Michael Enns	Comp Tel - KS / @ BT
Sandy Braden	McKell, Gaskin & Assoc.
TOM DAY	KCC
Michael Byington	Envision
Dave Henneman	KCC
Sebastian Proctor	
John Piregan	



March 10, 1999

The Honorable Carl Holmes  
Chairperson, Committee on Utilities  
Room 115-S  
State Capitol  
Topeka, KS 66612

Dear Representative Holmes:

**Impact of the Year 2000 Issue**

We have assessed the potential of the Year 2000 Issue on KCPL's Information Technology (IT) and non-IT processes and operations. In 1995 KCPL took advantage of leading technologies and migrated our mainframe computer hardware and software to a more efficient client-server environment. At that time we also replaced most of the business enterprise and support systems (accounting, human resources, customer information, and purchasing) with newer, improved systems, many of which were already Y2K compliant. By doing so, we avoided much of the expense and time related to Year 2000 renovations.

Beginning in 1997, we established a Year 2000 team responsible for evaluating, identifying and correcting problems in all critical computer software, hardware and embedded systems. We utilized both internal and external resources in this process. Because we have invested approximately \$56 million in new Year 2000 ready technologies over the past several years, we identified fewer issues than some companies.

The assessment of all of KCPL's major systems impacted by the Year 2000 Issue has been completed and remediation efforts are well underway. We are substantially complete with readiness efforts for KCPL's major processes with the exception of the new customer information system. We expect the implementation of the new customer information system and testing to be completed by mid-1999; however, as a contingency measure, the current customer billing system is being modified to be Year 2000 ready in case installation of the new system is delayed.

On an ongoing basis, we are sharing information with other electric industry organizations such as the Electric Power Research Institute in order to adequately anticipate and plan for potential problems. We will participate in two scheduled industry-wide drills in April and September 1999. The monitoring phase of KCPL's Year 2000 project will continue through at least the first quarter of 2000. We believe the total costs of the assessment, remediation, testing and monitoring efforts will be approximately \$7 million. These costs will be expensed as incurred.

Regarding the Wolf Creek Nuclear Generating Station, we believe we are in compliance with the Nuclear Regulatory Commission's Year 2000 regulations and will file the required status response with

KANSAS CITY POWER & LIGHT COMPANY

1201 WALNUT • P.O. BOX 418679 • KANSAS CITY, MO 64141-9679 • 816.556.2200 • WWW.KCPL.COM

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the Commission before July 1, 1999. The Commission performed an on-site audit of Wolf Creek's Year 2000 project plans in November 1998, and no areas of concern were identified. Control systems at Wolf Creek utilize analog components that are not date-sensitive which mitigates Year 2000 concerns relative to critical operations of the plant. All assessments of affected systems are expected to be completed by the end of the second quarter in 1999 with remediation being completed by the end of the third quarter. The Commission guidelines are being followed in the development of contingency plans.

We initiated communications with all large suppliers and customers to evaluate KCPL's vulnerability to failure of others to remediate their Year 2000 Issues. While no major issues have been discovered, we cannot be certain their systems will not impact KCPL's operations. Thus, we have developed a number of contingency plans to mitigate potential problems with third party failures. For example, we plan to increase the 1999 fuel inventory by 20% over 1998 levels in case coal delivery problems develop.

KCPL's electrical system is included in the Eastern Interconnection that connects utilities throughout the United States and Canada, east of the Rocky Mountains. The interconnection is essential to the reliability, stability and operational integrity of each connected electric utility. Failure of electric facilities due to the millennium change could affect the interconnection and, if severe, could result in electric service disruptions. KCPL could encounter difficulties supplying electric service if other utilities in the interconnected grid fail to achieve Year 2000 compliance. Recognizing this risk, we are preparing operating contingency plans to protect KCPL's customers and equipment. KCPL's existing emergency procedures for start up after system blackout and its load reduction and restoration procedures will be reviewed and updated. We are evaluating the possibility of forming one or more "islands" to protect a portion of KCPL's system from disruptions and if needed, to provide electricity to assist in the restoration of its system. Alternatives developed during contingency planning will be tested, where feasible, prior to their use. KCPL will be working with local authorities to establish a means of communicating if telephones are not available and will be testing and ensuring emergency radio systems are operational.

While a lot has been done, we also mailed to our 447,898 customers a billing insert last January explaining our work, the progress to date, and KCPL's commitment to customer service. If you have any questions, please feel free to contact me at (816) 556-2897.

Sincerely,



David E. Martin  
Director, Governmental Affairs

# WOLF CREEK NUCLEAR OPERATING CORPORATION

Otto L. Maynard  
President and Chief Executive Officer

March 10, 1999

WM 99-0020

Representative Carl Holmes  
State Capitol, Room 115 South  
Topeka, KS 66612

Subject: Year 2000 Computer Problem

Dear Representative Holmes:

I'm pleased to provide the following information relative to Wolf Creek Nuclear Operating Corporation's readiness for the Year 2000 (Y2K) problem.

WCNOC has known about the Y2K problem for several years and has developed a plan, based on industry guidance documents, to address the issue. We are well on our way through implementation of the plan. The plan involves conducting a thorough inventory of all equipment and computer systems which might experience a problem at the turn of the century or other key "rollover" dates such as February 29, 2000. We have been working cooperatively with other nuclear plants and our owner companies to identify common equipment and components with potential problems, methodically narrowing the inventory to exclude those items which clearly will not experience a problem, investigating the remaining questionable items to determine whether they have a potential problem, and developing and implementing a schedule for correcting any items found to have potential problems. We began actual work on this plan in April 1997, and we expect to have all potential problems corrected by October 1999, with the majority being remediated by July 1999. We are on schedule to meet that goal.

WCNOC has completed its assessment of all "mission critical" components. We have found no problems which would prevent us from safely operating or shutting down the plant. We have found some items which need correction, and we are in the process of addressing these items, including those that will need to be done during our upcoming refueling and maintenance outage in April 1999. Any remediations needed for non-mission critical components are currently scheduled to be completed by the end of October.

As you would expect, regulatory agencies have expressed an interest in Wolf Creek's Y2K program. Staff members of the Kansas Corporation Commission came to the plant in October 1998 to hear a presentation and ask questions about our Y2K plan. Inspectors from the Nuclear Regulatory Commission (NRC) conducted an audit of our plan in November 1998. Both agencies were satisfied that we are addressing the problem in a timely and appropriate manner. In addition, we are required to submit a Y2K status report to the NRC by July 1, 1999.

P.O. Box 411 / Burlington, KS 66839 / Phone: (316) 364-8831

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We realize that the potential impact of the Y2K problem is engendering considerable discussion, not only with regard to the nuclear power industry, but with regard to industry and commerce in general. We welcome the opportunity to describe what we are doing to assure continued safe operation of Wolf Creek. Please do not hesitate to call if you have any further questions about this matter.

Sincerely,



Otto L. Maynard

OLM/ido

# MEMO

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**To:** House Utilities Committee  
**From:** KCC Staff  
**Date:** March 11, 1999  
**Re:** HB 2539

**Question raised:** How much is SWBT drawing from the KUSF per access line?

Attached is a document titled KUSF Net Payable to Companies. Kansas local exchange carriers are listed in alphabetical order and their annual support figures per access line are indicated in the next to the last column. As of June 1, 1998, SWBT's draw per access line equaled \$ 302.53 for every access line located in a high cost area. SWBT has 119 exchanges that qualify as high cost areas, i.e. having less than 10,000 access lines.

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**KANSAS CORPORATION COMMISSION**  
**KUSF Net Payable to Companies**  
*(as of June 1, 1998)\**

Telecommunications Company	Gross Annual KUSF Support	Annual Assessment	Net Payable to Company	Estimated Supported Lines****	Gross Annual Support per Access Line	Monthly Support per Access Line
Bluestem	\$ 169,317	\$ 17,191	\$ 152,126	# 905	\$ 187.19	\$ 15.60
Blue Valley**	468,889	29,434	439,455	2,506	\$ 187.14	\$ 15.59
Cass County	31,433	6,508	24,925	282	\$ 111.58	\$ 9.30
Columbus**	67,999	-	67,999	2,135	\$ 31.85	\$ 2.65
Council Grove**	-	-	-	-	-	-
CrawKan	295,743	219,351	76,392	11,757	\$ 25.16	\$ 2.10
Cunningham	533,448	24,906	508,542	1,336	\$ 399.41	\$ 33.28
Elkhart	-	26,547	(26,547)	-	-	-
Golden Belt	883,514	104,177	779,337	5,625	\$ 157.07	\$ 13.09
Gorham	36,567	1,152	35,415	311	\$ 117.77	\$ 9.81
H & B Comm**	522,616	-	522,616	860	\$ 608.05	\$ 50.67
Haviland**	368,749	-	368,749	3,661	\$ 100.72	\$ 8.39
Home**	515,264	22,105	493,159	1,668	\$ 308.97	\$ 25.75
JBN	509,790	39,288	470,502	2,458	\$ 207.41	\$ 17.28
KanOkla**	643,230	35,411	607,819	2,097	\$ 306.74	\$ 25.56
LaHarpe**	31,184	4,004	27,180	353	\$ 88.39	\$ 7.37
Madison	269,088	13,198	255,890	738	\$ 364.62	\$ 30.38
MoKan Dial**	-	21,356	(21,356)	-	-	-
Moundridge	431,449	44,212	387,237	2,352	\$ 183.46	\$ 15.29
Mutual	23,693	7,648	16,045	422	\$ 56.13	\$ 4.68
Peoples Mutual	122,157	21,827	100,330	1,329	\$ 91.90	\$ 7.66
Pioneer**	629,490	-	629,490	13,891	\$ 45.32	\$ 3.78
Rainbow	135,562	31,082	104,480	1,732	\$ 78.29	\$ 6.52
Rural**	3,661,706	182,549	3,479,157	9,861	\$ 371.32	\$ 30.94
S & A**	548,409	11,032	537,377	792	\$ 692.44	\$ 57.70
S & T**	1,003,145	23,124	980,021	1,392	\$ 720.49	\$ 60.04
S & T of Dighton**	400,060	17,424	382,636	1,077	\$ 371.35	\$ 30.95
South Central**	342,089	-	342,089	927	\$ 369.03	\$ 30.75
So Cent of Kiowa	172,653	13,198	159,455	689	\$ 250.44	\$ 20.87
Southern KS**	-	29,272	(29,272)	-	-	-
SW Bell***	65,042,907	29,486,982	35,555,925	215,000	\$ 302.53	\$ 25.21
Sunflower**	1,257,238	9,072	1,248,166	3,893	\$ 322.99	\$ 26.92
Totah**	273,067	20,743	252,324	1,193	\$ 228.81	\$ 19.07
Tri-County	233,953	35,350	198,603	3,038	\$ 77.00	\$ 6.42
Twin Valley	701,928	39,407	662,521	2,087	\$ 336.32	\$ 28.03
United Telephone Assn**	201,435	-	201,435	5,059	\$ 39.82	\$ 3.32
United of KS***	14,235,296	2,209,135	12,026,161	101,966	\$ 139.61	\$ 11.63
Wamego	-	78,509	(78,509)	-	-	-
Wheat State	671,600	36,750	634,850	2,006	\$ 334.78	\$ 27.90
Wilson	833,350	37,122	796,228	1,983	\$ 420.31	\$ 35.03
Zenda	81,923	3,722	78,201	208	\$ 394.05	\$ 32.84
<b>Totals</b>	<b>\$ 96,349,941</b>	<b>\$ 32,902,788</b>	<b>\$ 63,447,153</b>	<b>407,587</b>	<b>\$ 236.39</b>	<b>\$ 19.70</b>

\*These amounts are based on support calculations as of June 1, 1998. The support payable and assessment amounts are subject to change as companies report changes in their number of access lines.

\*\*These companies signed the ILEC Stipulation and have experienced local service rate increases as part of the movement to the state-wide average. Due to the local service increase, the company's customers are assessed less than \$1.41 per access line. The combined assessment for all companies that signed the ILEC Stipulation covers the complete assessment amount for the ILECs.

\*\*\*SW Bell's & United of KS' assessments are for local service only. The assessment reported does not include assessments for long distance and private line services.

\*\*\*\*Estimated line count is 90% of the 1997 annual report data (10% removed as estimate for multiline business).

United of KS count removes exchanges over 10,000 access lines and excludes one company United of SE, which does not receive KUSF.

SWBT is sum of exchanges in each rate group for exchanges under 10,000.

HB2539  
TESTIMONY OF MICHAEL D. LURA  
ON BEHALF OF THE CITIZENS' UTILITY RATEPAYER BOARD  
MARCH 11, 1999

MY NAME IS MIKE LURA. I AM A TELECOMMUNICATIONS CONSULTANT APPEARING HERE TODAY ON BEHALF OF THE CITIZENS' UTILITY RATEPAYER BOARD. I WORKED IN THE TELECOMMUNICATIONS INDUSTRY FOR OVER 26 YEARS AND RETIRED FROM AT&T IN JUNE OF 1998. I PARTICIPATED THROUGHOUT THE TELECOMMUNICATIONS STRATEGIC PLANNING COMMITTEE SESSIONS AND THE 1996 LEGISLATIVE SESSION WHILE THE STATE TELECOMMUNICATIONS ACT WAS BEING DEVELOPED. I ALSO PARTICIPATED IN COMMISSION ACTIVITIES DEFINING AND IMPLEMENTING THE ACT.

WITH THAT BACKGROUND I AM APPEARING TODAY IN SUPPORT OF HB2539. THIS BILL BUILDS ON AND REFINES THE STATE ACT BASED ON ALMOST THREE YEARS OF EXPERIENCE SINCE THE INITIAL ACT WAS IMPLEMENTED. THE PURPOSE OF THE BILL IS TO ELIMINATE LANGUAGE THAT IS NO LONGER NECESSARY, CHANGE CERTAIN TECHNOLOGY SPECIFIC REFERENCES, REDEFINE UNIVERSAL SERVICE AND ENHANCED UNIVERSAL SERVICE, AND MODIFY THE KANSAS UNIVERSAL SERVICE FUND OR "KUSF."

YESTERDAY THE LANGUAGE CHANGES WERE COVERED SO I WILL NOT GO THROUGH THEM AGAIN. HOWEVER, I WILL MENTION ONCE MORE THE REFERENCES TO ISDN. BECAUSE TODAY THERE ARE ALTERNATIVE

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TECHNOLOGIES AVAILABLE, SUCH AS XDSL, ISDN SHOULD NOT BE SINGLED OUT. HOWEVER, THAT DOES NOT MEAN THE BILL PLACES ANY LOWER PRIORITY ON ADVANCED SERVICES IN ALL AREAS OF THE STATE. THE BILL RETAINS STRONG EMPHASIS ON DEPLOYMENT OF ADVANCED SERVICES IN URBAN AND RURAL AREAS. SEE FOR INSTANCE PG.3, LN.14-27; AND PG.7, LN.1-10.

I WILL ALSO BRIEFLY MENTION THE CHANGES IN THE DEFINITIONS OF UNIVERSAL SERVICE AND ENHANCED UNIVERSAL SERVICE. THE ADVANTAGE OF THE CHANGES IS THAT NOW BOTH OF THESE DEFINITIONS ARE MORE IN LINE WITH THE FCC DEFINITIONS. THIS MAKES THEM EASIER TO ADMINISTER, MAKES FUNDING FOR UNIVERSAL SERVICE MORE CONSISTENT BETWEEN INTERSTATE AND INTRASTATE JURISDICTIONS, AND MAKES THE DEFINITIONS MORE COMPETITIVELY NEUTRAL.

WHILE CURB IS VERY INTERESTED IN MANY OF THE CHANGES CALLED FOR IN HB2539, AND LOOKS FORWARD TO PARTICIPATING IN FORUMS HERE OR AT THE COMMISSION ADDRESSING THEM, THE FOCUS OF MY TESTIMONY TODAY IS ON THE CHANGES TO THE KUSF. THREE YEARS OF EXPERIENCE HAS SHOWN THAT THE CREATION OF A VERY LARGE UNIVERSAL SERVICE FUND CAN BE COUNTER PRODUCTIVE AND IN FACT HAS THE BIGGEST IMPACT ON THE VERY CONSUMERS IT WAS DESIGNED TO HELP. IT CAN BE VERY DIFFICULT TO EXPLAIN TO

CONSUMERS THAT THEIR <sup>Local</sup> BILLS ARE GOING UP TO MAKE SURE THEY CAN AFFORD TELEPHONE SERVICE.

STATUTE, 66-2008(d) (PG.13, LN. 26-29) STATES IN PART, "THE COMMISSION SHALL PERIODICALLY REVIEW THE KUSF TO DETERMINE IF THE COSTS ... TO PROVIDE LOCAL SERVICE JUSTIFY MODIFICATION OF THE KUSF." THE KANSAS SUPREME COURT SAID, "AS WE READ THE KANSAS ACT, IT DOES NOT PREVENT THE KCC FROM MAKING APPROPRIATE ADJUSTMENTS AND PERFORMING A COST STUDY OR FROM CONDUCTING AN AUDIT OR EARNINGS REVIEW AT THIS TIME." ACCORDINGLY THE KCC HAS OPENED TWO DOCKETS TO BEGIN THE DEVELOPMENT OF A COST BASED KANSAS UNIVERSAL SERVICE FUND. HOWEVER, THE DOCKET OPENED TO EXAMINE SOUTHWESTERN BELL'S COST TO PROVIDE UNIVERSAL SERVICE HAS PROGRESSED VERY SLOWLY. HB2539 PROVIDES AN INCENTIVE BASED PLAN TO ENCOURAGE ALL LOCAL EXCHANGE CARRIERS TO COOPERATE, WHEN THE KCC OPENS DOCKETS TO EXAMINE THEIR COSTS, TO HELP EXPEDITE THE PROCESS.

FOR PRICE CAP COMPANIES, THE BILL ACCOMPLISHES THIS BY ESTABLISHING WHAT I WILL CALL A SURROGATE RATE OF \$36.88 PER YEAR FOR EVERY RESIDENTIAL AND SINGLE LINE BUSINESS LOOP IN HIGH COST EXCHANGES, DEFINED AS EXCHANGES WITH 10,000 LOOPS OR LESS. HOWEVER, AND THIS IS A KEY PART OF THE BILL, ANY PRICE CAP COMPANY THAT DOES NOT AGREE WITH THE \$36.88 RECOVERY CAN MAKE A SHOWING TO THE COMMISSION OF WHAT THE PROPER AMOUNT

SHOULD BE AND, UPON COMMISSION APPROVAL, RECEIVE THE ADDITIONAL SUPPORT REQUESTED. HB2539 PROVIDES THE INCENTIVE FOR LOCAL EXCHANGE CARRIERS TO PROMPTLY COOPERATE WITH THE KCC INVESTIGATIONS.

PERHAPS THE SIMPLEST WAY TO DEVELOP A COST BASED UNIVERSAL SERVICE FUND IS TO DETERMINE THE COSTS, SUBTRACT THE REVENUES THAT SUPPORT THOSE COSTS, AND THE REMAINDER IS THE AMOUNT OF SUPPORT NEEDED. THE COMMISSION HAS ALREADY STARTED THE PROCESS TO DETERMINE THE COSTS. THE COMMISSION HAS ALSO ASKED A SERIES OF QUESTIONS OF THE INDUSTRY REGARDING THE DEVELOPMENT OF THE REVENUES TO SUBTRACT, KNOWN AS A REVENUE BENCHMARK. IT IS CRITICAL THAT THE COSTS OF PROVIDING UNIVERSAL SERVICE BE COMPARED TO THE REVENUES USED TO SUPPORT UNIVERSAL SERVICE. IT HAS LONG BEEN ACKNOWLEDGED THAT REVENUES FROM BUSINESS SERVICES, THE CARRIER COMMON LINE COMPONENT OF ACCESS CHARGES, VERTICAL SERVICES, YELLOW PAGES, FEDERAL UNIVERSAL SERVICE SUPPORT, AND PERHAPS OTHER REVENUE SOURCES, SUPPORT UNIVERSAL SERVICE. HB2539 PROVIDES THE KCC THE EXPLICIT AUTHORITY IT NEEDS TO CARRY OUT THE PROVISIONS OF THE STATE AND FEDERAL ACTS TO DEVELOP A COST BASED UNIVERSAL SERVICE FUND.

THERE ARE SEVERAL ITEMS IN THIS BILL OPPONENTS MAY DISAGREE WITH. FIRST, THE \$36.88 MAY BE CALLED INADEQUATE OR

ARBITRARY. HOWEVER, THE BILL CLEARLY PROVIDES THAT IF THAT IS THE CASE, A LOCAL EXCHANGE CARRIER NEEDS ONLY TO SHOW HOW MUCH THE SUPPORT SHOULD BE . IT SHOULD NOT BE TOO MUCH TO ASK THAT IF COMPANIES ARE TO RECEIVE SUPPORT FROM RATEPAYERS THAT THEY BE ASKED TO SHOW HOW MUCH SUPPORT THEY NEED. NO LOCAL EXCHANGE CARRIER, AND IN PARTICULAR PRICE CAP REGULATED LOCAL EXCHANGE CARRIERS, SHOULD EXPECT OR RECEIVE A BLANK CHECK.

SECOND, OPPONENTS MAY SAY THAT HB2539 IS A RETURN TO RATE BASE RATE OF RETURN REGULATION. IT IS NOT. TODAY IN KANSAS, ALL OF SOUTHWESTERN BELL'S AND SPRINT/UNITED'S REGULATED SERVICES ARE UNDER PRICE CAP REGULATION. THIS FORM OF REGULATION ALLOWS THEM TO EARN AS MUCH AS THE MARKETPLACE AND THEIR OWN EFFICIENCIES ALLOW, WHILE AFFORDING CONSUMERS SOME PRICE PROTECTION. NOTHING IN HB2539 CHANGES THAT. INDEED, THE ONLY REVENUES THAT CAN BE IMPACTED UNDER THE CURRENT STATUTES, OR UNDER THIS BILL, BY GOING TO A COST BASED KUSF, ARE THE KUSF SUBSIDIES. AND THOSE SUBSIDIES WILL ONLY BE IMPACTED TO THE EXTENT IT CAN BE SHOWN THAT THEY ARE NO LONGER NECESSARY TO SUPPORT UNIVERSAL SERVICE.

THIS BILL STRIKES A GOOD BALANCE BETWEEN THE INTERESTS OF THE CONSUMER AND THE INTERESTS OF THE LOCAL EXCHANGE CARRIERS. HB2539 PROVIDES THE OPPORTUNITY FOR SIGNIFICANT REDUCTIONS IN KUSF CHARGES, PROVIDES ADDITIONAL TOOLS FOR

ESTABLISHING COST BASED UNIVERSAL SERVICE RATES AND ALLOWS RECOVERY OF ALL UNIVERSAL SERVICE COSTS. IT INHERENTLY RECOGNIZES THE DIFFERENCES BETWEEN RURAL TELEPHONE COMPANIES AND THE LARGER LOCAL EXCHANGE CARRIERS AND TARGETS SUPPORT WHERE IT IS MOST NEEDED. AND, IT PROVIDES A MECHANISM FOR CONTINUED DEPLOYMENT OF UNIVERSAL SERVICES AND ENHANCED UNIVERSAL SERVICES THROUGHOUT THE STATE AT PRICES THAT CONSUMERS CAN AFFORD.

# CompTel-Kansas

*Competitive TELECOMMUNICATIONS  
Kansas ASSOCIATION*

**Before the House Utilities Committee  
Comments by Michael Ensrud  
On Behalf CompTel Kansas  
March 11, 1999  
House Bill No. 2539**

CompTel Kansas supports HB # 2539. It is our understanding that no other state has an assessment rate of the magnitude that exists in Kansas. (See Attachment I) Our customers complain vociferously about the magnitude of the KUSF rate.

HB 2539 addresses what level of reimbursement is appropriate from the common funds collected from all sources – i.e. the KUSF. No CompTel member has yet to draw from the fund. We offer service, today, without benefit of subsidy, yet our members are required to contribute to the KUSF.

Since the KUSF methodology does provide that, under some circumstance, reimbursement take place, the amounts of draws allowed should be constrained to reasonable level. HB2539 establishes a proper balance between those who pay into the KUSF and those who draw from the fund.

The other major emphasis of my presentation is that HB 2539 is not a return to traditional rate-of-return regulation. Instead, the bill merely substitutes one surrogate (for company-specific underlying costs as the criterion to set rates) for a more up-to-date surrogate.

If a Local Exchange Company (LEC) believes that the new “surrogate” results in the LEC receiving less revenues than justified, HB 2539 states the LEC has recourse. If dissatisfied with the stated amount of draw, the LEC would then be entitled to ask for additional monies. They must, however, prove there is justification for additional monies from the KUSF. The “proof” would entail a cost study showing that the “standardized” \$36.88 “draw” from the KUSF provides an insufficient reimbursement. There is nothing unfair about requiring proof of need prior to doling out subsidy.

There are a few points that I would like to offer about the nature of regulation, in general, and how HB #2539 fits into the scheme of regulation. Hopefully this will clarify my initial statement.

- There are basically two types of regulation prevalent today – “traditional rate of return” regulation versus “price-cap” or “alternative” regulation. (*The Legislature chose to make “price-cap” or “alternative” regulation an option in 1996. Again, HB 2539 is consistent with that determination.*)

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- In traditional “rate-of-return” regulation, the major premise is that the underlying financial condition of the entity being regulated, should be the determining factor as to whether that entity is entitled to price increases or price reductions. The company’s overall costs determine the appropriate level of revenues for that particular utility. The prices (rates) are set so that revenues will cover that specific company’s cost. *(HB 2539 does not provide for rate changes.)*
- In “price-cap” regulation, the major premise is that the underlying financial conditions of any particular entity do not matter. It presumes that there is some surrogate that can be used to determine the “appropriate” price (rates) for services rendered. Results derived by the use of indexes, formulas, models or national averages are “close enough” to supplant actual, company-specific financial information. It is only a slight exaggeration to assert that when an entity picks “price-cap” regulation, that entity is saying, “my specific costs don’t matter. Instead, regulate me by use of a surrogate to my actual costs.”
- The 1996 Kansas Act dictated that “revenue neutrality” was the surrogate – at least, for the first three (3) years. In other words, the rates produced by the last rate case were considered a proper “balance” of rates and costs. Unfortunately, costs and volumes of traffic change over time. They are dynamic in nature. Originally, the 1996 legislation set the initial “price- cap” surrogate at existing prices. Those rates were already seven years “out of date” at time of passage of the bill. The bill went on to require “revenue neutrality”. The subsequent access “phase-down” occurred without ever determining whether the access costs being reduced were justified by cost. The rates charged for access service were inflated above their costs. **Therefore, when dollar-for-dollar reimbursement was allowed for access reductions, that reimbursement exceeded the underlying cost of access service.**
- SB 2539 is consistent with the FCC’s rules that insure that the KUSF “draws” are “cost based”. The Supreme Court only recently upheld that the FCC, not the state, is the appropriate jurisdiction to determine the criterion used for reimbursement or draws from the fund. Any company wanting more than the “standardized” draw need only comply with the FCC requirement and cost-justify the additional monies requested.
- SB 2539 merely updates the surrogate being used from “revenue neutrality”, circa 1989, to a better surrogate. As described in the Senate testimony of Ms. Wickliffe, the \$36.88 monthly “draw” was derived from federal universal service calculations, albeit a “blended” cost for all states. My understanding of staff’s representation is that the methodology used to calculate that figure is consistent with the methodology used by the FCC.

- Therefore, I would characterize SB # 2539 as actually allowing a company to choose between traditional rate-of-return regulation or “price-cap” regulation. Further, if a LEC does choose price-cap regulation and is dissatisfied with the monies generated by the \$36.88 surrogate, it still has one more option. The LEC can provide a cost study to justify a draw of a higher amount from KUSF. However, these cost studies provided can in no way impact the existing rates charged. **It merely impacts the draw from KUSF.** In this aspect, ~~SB~~ #2539 could be characterized as more lenient than traditional “price-cap” regulation.
- There is probably some variation between both surrogates (1989 revenue neutrality vs. 1997 national average) and “true” underlying cost for any specific company. The problem of variance between company-specific “costs” and a surrogate figure is inherent in “price-cap” regulation. If such a variance is unacceptable, then “rate-of-return” regulation is the solution. I assume this body wants to stay with “price cap” regulation.
- Based upon this assumption, I would support ~~SB~~ #2539 in that it establishes a more appropriate surrogate. The use of such a figure is more likely to be reflective of current “underlying” costs.

UNIVERSAL SERVICE FUNDS

APPLICABLE ASSESSMENTS RATES

MARCH, 1999

OKLAHOMA	.456%
ARKANSAS	.50 %
TEXAS	.79 %
FEDERAL	4.90 %
KANSAS	8.26 %

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# MEMO

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**To:** SB 290 Subcommittee  
**From:** KCC Staff  
**Date:** March 4, 1999  
**Re:** Response to Subcommittee Inquiries

Staff was asked to respond to two questions: 1) What was the test year for the last full KCC audit of Southwestern Bell Telephone Company?; and 2) Has the Commission made a finding that a \$7.00 local rate increase for Southwestern Bell Telephone Company customers would be justified? In addition, Staff would like to address the question of the \$34.50/month figure raised by SWBT.

1. The last full audit of SWBT was conducted before the TeleKansas I agreement. The audit was based on financial information for the 12-month period (the test year) ending April 30, 1989. As part of the TK I agreement toll rates were reduced by \$17 million, access rates by \$2 million, and other rates by a total of \$ 5 million dollars.

At the end of TeleKansas I Staff initiated an earnings investigation of SWBT using financial information for the 12-month period ending on December 31, 1992. However, the audit was never completed and presented to the Commission because the TeleKansas II legislation was passed which prohibited the KCC from continuing the audit.

2. The Commission did not make a finding that a \$ 7.00 local rate increase to SWBT customers would be appropriate. During Phase II of the Competition Docket (190,492-U, 94-GIMT-478-GIT) Staff member Jerry Lammers stated in testimony that an increase of approximately \$ 7.00 might be justified based on his preliminary review of SWBT cost studies based on a 1995 test year. Staff did not audit the cost information because the State Act, which required revenue neutrality, was put in place before Phase II was completed. The \$ 7.00 figure was a demonstration of a "worst case scenario;" for instance, revenues from vertical services (such as call waiting, call forwarding, etc.) were disregarded and not used to offset the cost of providing basic local service.

After the Commission issued its order in December of 1996, AT&T asked for reconsideration of the application of the \$ 36.88 high-cost support figure to SWBT because SWBT does not qualify for federal universal service support. The Commission denied reconsideration of this issue, pointing

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TESTIMONY OF MIKE REECHT  
ON BEHALF OF AT&T  
TO THE HOUSE UTILITIES COMMITTEE  
ON HB 2539

MARCH 10, 1999

Dear Mr. Chairman and members of the committee:

My name is Mike Reecht and I appear before you today on behalf of AT&T in support of House Bill 2539.

The issues being discussed in HB 2539 have their history dating back to SCR 1617 which was passed by the 1994 legislature. That resolution called for the establishment of a Telecommunications Strategic Planning Committee (TSPC) to determine telecommunications public policy for the state of Kansas.

From the onset, the TSPC committee and ultimately the 1996 legislature were faced with two overriding policy decisions: One dealt with the subject of cost based rates, and the second centered on the role and authority of the Kansas Corporation Commission in the transition to a competitive local exchange marketplace.

AT&T has consistently stressed the importance of setting prices charged to competitive local exchange carriers and long distance companies on the basis of cost. We have also maintained the importance of providing the Kansas Corporation Commission the authority to insure that access charges and KUSF assessments are also based on costs.

AT&T purchases access from the local exchange company. That access is used to originate and terminate our long distance calls to your local telephone. We have argued that, in the past, those access rates were not based on costs to provide access service, but rather contained significant subsidies for local exchange companies that may or may not be needed to provide universal service. We continue to believe that the Commission should have the authority to examine the costs and prices of the incumbent local exchange carrier to insure the KUSF subsidies are actually necessary.

The 1996 legislature recognized that access charges were too high and required them to be phased down to interstate parity levels. Unfortunately, it allowed the local exchange companies through the KUSF to offset those lost revenues or subsidies on a "revenue neutral" basis with no examination of whether those subsidies were actually required to provide universal service.

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Of course, the KUSF does perform two very important functions: First, subsidies that were previously hidden in access charges and ultimately in the long distance rates were made explicit. And secondly, it insured that those same subsidies would become portable. That is, they would be distributed to whatever company served the customer. Both of these provisions are extremely important as we transition to a competitive environment.

It is the explicit component of the KUSF that caused customers for the first time to question the prices they were paying to subsidize universal service. It also prompted questions regarding the desirability of a cost-based approach rather than the revenue neutral approach established for the Kansas Universal Service Fund.

House Bill 2539 addresses some of these issues. It assures a level playing field in that all companies who serve high cost areas of the state will receive the same level of support. That support level of \$36.88 per access line per year was determined by the Commission as the appropriate level of support for new competitive local exchange carriers to draw from the KUSF when they begin to serve high cost areas. House Bill 2539 specifies that incumbent local exchange price cap companies should be entitled to that same level of support which should reduce the size of the KUSF.

In addition, the bill establishes a mechanism for an incumbent or new competitor which needs additional support to request that support based on cost. The bill further insures if money was spent in good faith accomplishing the goals of enhanced universal specified in previous legislation, that money could be recovered by incumbent local exchange companies.

The bill also insures that the Kansas Corporation Commission will be "authorized" to determine the level of support required to provide Universal Service by conducting "audits, investigations and obtain cost and revenue information." It confirms the Commission's authority to maintain ongoing parity with interstate access rates.

The bill also insures consistency with the Federal Act by providing the consumers in Kansas the opportunity to select the long distance carrier of their choice to carry calls within the same area code without having to dial extra digits.

In summary, the legislation establishes a framework that insures the prices that customers pay for their Kansas telecommunications services will be based on costs, that all competitors have access to the KUSF on a competitively neutral basis, and that the Kansas Corporation Commission clearly has the authority to implement the provisions of the bill. AT&T believes HB 2539 is good for consumers and telephone competitors alike.

I would be happy to answer any questions that you might have.

Debbie Snow  
Communications Workers of America  
Kansas House Utilities Committee

Mr. Chairman and Members of the Committee, my name is Debbie Snow and I'm here representing the Communications Workers of America, a labor union that in the State of Kansas has a membership of 4,000 strong. Of this number, over 3,000 of those working men and women find employment with Southwestern Bell. Our fifteen locals span the state from Wichita to Hays, Topeka to Garden City, Salina, Hutchinson, Parsons, metropolitan Kansas City and points in between. As a labor union, we are charged with the responsibility to press for issues that benefit our membership. In that regard, we sometimes find ourselves at odds with our employer, but not on this issue: we need a level playing field in our industry. So with that, on behalf of the Communications Workers of America, we strongly oppose House Bill 2539. I am also here to speak on behalf of the Kansas State AFL-CIO, which is a diverse labor organization that ranges from Plumbers to CWA Telephone Operators and has a combined membership of 109,000 strong in Kansas. The Kansas AFL-CIO also adamantly opposes House Bill 2539.

We are the work force who built, maintained and improved the best communications network in the world. It has been our charge as CWA, workers of Southwestern Bell, to ensure that this network will survive and keep rural Kansas in pace with this rapidly changing technology. This improved network has helped nourish the roots of all Kansas communities, and if maintained will help all of us enter the new century on equal footing.

It is our belief HB 2539 endangers the continuation of the quality of the network for all communities especially in rural Kansas. How many new emerging telec

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companies want to take the responsibility of improving and maintaining the rural network?

None, that I'm aware of. Our competitors expect to use our facilities and sell to customers at a cut rate while we maintain and improve the network at the full rate. If the Southwestern Bell cable to your house or business is washed away by a flood ten times in one year, your bill is not increased, and the workers I represent fix it in a timely fashion. An unlimited number of tornadoes can ravage the state and CWA workers from across the state are there to repair. But HB 2539 in our belief, Southwestern Bell is expected to provide the protection and commitment to maintain the network for all to use and then on the other hand, through audits, be told how much profits are allowed to be. This is not level competition. Does this affect the workers?

Yes.

The wages and benefits won by CWA benefit all Kansans through the ripple effect. We contribute to your churches and charities, enhance your tax bases and put vital commerce into your local communities. Those who would come in to compete in the local loop do not provide for their employees in a like manner, nor do they demonstrate a desire to employ Kansans in such areas as Operator Services. The Kansas Universal Service Fund was to promote the availability of affordable telecommunication services for all Kansans. The Kansas Relay Center in Lawrence that has over 100 employees who assist the hearing-impaired customers of which the KUSF fund supports. Southwestern Bell, because of the excellent customer service provided by the CWA workers, won the bid to provide the same service to Arkansas which will increase the employee base in Lawrence. I would hate to lose the jobs in Kansas to Arkansas.



In Topeka we currently have what is called the Extended Hours Centers in which 260 Kansas CWA Southwestern Bell employees handle calls from the customers of Missouri, Arkansas, Oklahoma, and of course Kansas after 5:00 PM and on weekends. In 1994 Southwestern Bell had 2,869 non-management employees. In the era of downsizing, in 1998 there were 3,064 non-management employees. This demonstrates the constant investment of employees with good paying jobs with excellent benefits. Isn't this what we want for Kansas? We want to attract large business to Kansas not drive it away.

In my twenty-six years of service to Southwestern Bell, I have watched my employer undergo a forced evolution from playing a part in a highly regulated Bell System to standing alone as a player in a rapidly changing marketplace. Our opponents now want us to have one foot nailed to the floor then fire the pistol to start the race for the future of telecommunications.

In closing, we have always held high commitment to customer service in Kansas. We are loyal Kansans with a stake in the future of our state. We helped bring you this far, please help us continue to provide the communications network Kansans deserve. Please I ask you to oppose HB 2539.



Choices & resources for people who are blind or low vision

**Envision®**

**PLEASE REPLY TO: Michael Byington, Director  
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mbyingto@ink.org or  
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**March 11, 1999**

TO: House Utilities Committee

SUBJECT: House Bill 2539 - SUPPORT WITH AMENDMENT

Thank you for your consideration of this legislation. I am proposing the following amendment:

On page three, at the end of line ten, add the following new sentence, "Enhanced universal service also means the use of technology to insure that persons who have disabilities have access to all other universal services and enhanced universal services."

House Bill 2539 is a compilation of five bills floating about in the Kansas Legislature which would change the definition of "enhanced universal services." The Bill most closely looks like Senate Bill 290, and I believe it was exactly like 290 before this bill was amended by the Senate. House Bill 2539 acknowledges that a technical definition of "enhanced universal services" is probably going to have to be changed each time technology or

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best practices in telecommunications transmission change. It instead opts for a plain English definition.

This is a credible approach, but certain segments of the disability community who have difficulty with certain types of telecommunications access, want to make sure that the spirit of Section 255 of the Federal Telecommunications Act is carried adequately into Kansas State Law.

Blind and low vision people, for example, must be able to access information transmitted over telecommunications systems. This includes access to information alternatives for transmission of the graphical user interface (GUI). Without insuring that enhanced universal services will be fully accessible, employment opportunities for people who are blind or legally blind will suffer a great deal. Enhanced universal services are not the every day use of the telephone kind of services. They are the things which will increasingly be used in the employment environment of tomorrow. If blind and legally blind people are to be productive and competitive in the workplace of the next century, then they will need to be able to manipulate and access information at the same efficiency as John Q. Sighted-Worker.

Currently, we know that unemployment among working aged blind and legally blind people in the United States stands at about 74%. This information was generated through 1990 census data.

By the year 2010, it is estimated that nearly 90% of all jobs will require manipulation of data over the airwaves or the telephone lines. Lower tech manufacturing jobs not requiring manipulation and transmission of data are on the decline.

Over the past 50 years, unemployment of persons who are blind has actually decreased. When first measured in the 1930s, figures ranged from 92% to 99% of all legally or totally blind people in the United States being unemployed. This makes 74% look good by comparison, but not nearly good enough. A good employment figure would be one where there is no

more unemployment among people who are blind than there is among their sighted counterparts. This may seem an unrealistic goal, but the frightening reality is that if people who are blind do not have full access to information transmitted via telecommunications, unemployment will increase again rather than decrease further.

Other disability groups also experience a higher than average level of unemployment. Many such groups share the concern that, if the technology bars them from information access in the future, their unemployment levels will increase as well.

Many people, when hearing the term "universal access," or seeing it in legislation, think of it as a cost and distribution equalizer between urban and rural, highly populated and lesser populated areas. Universal access, and thus universal services and enhanced universal services, however, must mean more than simply public access, and access to rural areas. These terms must also stand for access to ALL citizens regardless of disability status.

Earlier during this Legislative session, Senate Commerce Chairman Salisbury was so kind as to request an interpretation from Kansas Corporation Commission officials as to whether some enhanced universal services can be addressed through the current Telecommunications Access Program (TAP), and its enabling legislation as it currently exists. The immediate concern is about access equipment intended to make converting text over the telephone lines to speech output, and thus making this information accessible to persons who are blind or low vision. I am told that a certain degree of such equipment access options for enhanced universal services may be made available under current statutory provisions. At this writing, I have already been contacted by Kansas Corporation Commission officials about this issue, and we have a meeting scheduled to discuss these issues. The amendment referenced for 2539 therefore is intended more to look to the future, not just to equipment for access, but to reminding developers of enhanced telecommunications services that principles of accessible design must be a part of service development, and that it is important to the people of Kansas for "universal access" to truly refer to ALL Kansans.