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 9:03 a.m. on March 15, 1999 in Room 522-S of the Capitol.

All members were present except: Rep. Tom Klein

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

Conferees appearing before the committee: Richard Lawson, Sprint
Shawn McKenzie, Southwestern Bell
David Dittemore, Kansas Corporation Commission
Doug Lawrence, Southwestern Bell
Walker Hendrix, Citizen's Utility Ratepayer Board
Glenda Cafer, Kansas Corporation Commission

Others attending: See Attached List

Chairman Holmes distributed a copy of an article from the *Dallas Morning News* about America Online and Southwestern Bell teaming up for Internet service (Attachment 1). Rep. Sloan provided copies of articles about New Mexico approving deregulation (Attachment 2) and Arkansas's governor possibly calling a special session on electric restructuring (Attachment 3).

Continued hearing on HB 2539 - Telecommunications; universal service fund access

Chairman Holmes stated he had postponed the answering of Rep. Franklin's question from Friday.

Rep. Franklin stated he needed to recollect his thoughts first and would ask the question later.

Chairman Holmes reminded the committee of the request on Friday made by a committee member regarding confidential documents. He stated that both Sprint and Southwestern Bell were prepared to respond to that request.

Richard Lawson, Sprint/United, provided copies of the State of Kansas Universal Service Fund 1998/1999 Carrier Remittance Worksheet for the month of January (Attachment 4). Shawn McKenzie, Southwestern Bell Telephone, provided copies of the same report they filed (Attachment 5).

Rep. McClure: I believe the first question is for Shawn McKenzie, SWBT. I think we started to get into it, but the more general information, it was Sprint and your choice to go under the cost based, price cap regulation versus rate of return regulation. And I think you indicated the advantages were you could be more efficient and make more investments?

McKenzie: Yes, we would benefit from the efficiencies and the investments we would make.

McClure: Your choice was to do that?

McKenzie: Right.

McClure: You also discussed and I didn't understand the 'takings' argument. If we change the rule in midstream, I don't remember exactly where it was in your testimony, you talked about at 'taking'.

McKenzie: I don't recall that but I would be glad to try to address. I think Rep. Loyd kind of addressed that in the inability of one Legislature to bind the action of a future Legislature. Is that what you are referring to?

McClure: I thought it was in your testimony, you talked about the possibility, if we changed with SB 290, if SB 290 passed, because you're on, you talked about a 'taking'.

McKenzie: In general, we would think that we have a 'takings' argument anytime by government action if we're not able to recover our investments, in a very broad, general sense. So that if the Legislature took some action that we are no longer able to recover the investment, the return on the adjustment that was made in Kansas, we could possibly have a 'takings' argument. In other words we would have made an investment and because of government action we wouldn't be able to earn on it, we could possibly have a 'takings' argument.

McClure: If you argue that 'takings' then and that all went to the court, you would still have to show some cost based to so there was something being taken away?

McKenzie: I'm not an attorney either and you're going well beyond my level of expertise to address that kind of issue with specificity, but I think it's fair to say that if we did go to court trying to making a statement claim that we would have to prove that we somehow financially impaired by that 'taking', I think that's a fair assessment. I have my General Counsel with me, if you'd like to have a more specific answer from him, I can bring him up here.

McClure: That'd be fine.

McKenzie: This is our General Attorney, Mike Cavell.

Cavell: Takings arguments for public utilities generally deal with the question of setting rates and whether rates are reasonable and allow the company to earn a reasonable return on it's investments. Takings arguments also arise whenever the government attaches some property to another and takes it from that owner without compensating them adequately for that taking. In this case, since I think Mr. McKenzie is looking at the Kansas Universal Service Fund, in which the, due to legislation, the KCC has placed a certain amount of Southwestern Bell's funds at risk in the Kansas Universal Service Fund and, to the extent it takes those funds, we would be looking at a possible takings argument. Whether it comes through attrition depends upon the nature and the extent of that taking.

McClure: Okay, to confuse us even more, is the argument because of the revenue neutrality or because of the actual cost to provide service in a high cost area?

Cavell: The revenue neutrality negates the questions of taking because you are exchanging one thing of value for an equal thing of value. In this case, the rates from access were changed to either Universal Service Fund or rate re-balancing in some cases for some companies. That revenue neutrality takes care of a takings argument in that sense. Okay. Does that answer your question? Now if you reverse or negate the revenue requirement question next, which is what Mr. McKenzie sees as a possibility out of SB 290 and the current house bill we are discussing today, then we would be looking at the reduction of our draw without equal compensation from other mechanism amounts to a takings of that fund money unconstitutionally.

McClure: And your reading of the '96 state Telecommunications Act that revenue neutrality transition time, was that three years or did it go on into the future?

Cavell: Our reading of the act is the transition time was a three year transition of access downward, it was not a transition into price cap regulation. Price cap regulation was an immediate transition. But for purposes for only some companies and by the way it was only Sprint/United and Southwestern Bell, their access reduction was transitional over a three year period. Everyone else had a flash cut, that is all the other local exchange companies, they flash cut in one year. So that would put the transition period.

McKenzie: From my point of view that the transition was from access charges to local rates, not from access charges to KUSF. If you all recall, those of you that were here in '96, when the bill left the House it was, essentially a $4.50 increase in local rates as a result of access charge reductions, incrementally accomplished $1.50 a year. So the three year transition was, we'll bring access charges down and, to prevent a $4.50 shock to a consumers in Kansas, we will create a transition period, local rates increase $1.50 a year until a total of $4.50 is made up at the end of the three year period. So that would have been the transition. Transitioning those revenues for us from access charges to local rates.

McClure: Someone from the KCC? Can you discuss the Telecommunications Act of '96 and that transition was the rate neutrality.

Dave Dittemore: I think it's safe to say we view the state act a little differently than Southwestern Bell and our view is based on what the Supreme Court has said. We view the transitional nature as being three years. We do not believe the revenue neutral position goes beyond that three year. We think that is consistent with the Supreme Court decision. So we do not believe that the revenue neutrality language is applicable after that three year time frame, which has just expired.

McClure: Is that March 1, 1999.

Dittemore: Yes

McClure: Can I ask Doug the same question?

Doug Lawrence: I just going to speak to, I mean this is a very complicated procedure that occurred in 1996, as you well recall Chairman Holmes. I guess, actually the revenue neutrality language and I want to address one point that has been made relating to takings, one of the reasons we were able to say access charges will be reduced quickly was as a part of the revenue neutrality provision. That was a mechanism to avoid litigation or dispute over the issue of whether or not this money, we wanted to get immediate reduction was a key, it was a very important part of what we were trying to do in 1996. And something else that worked in that process, was the very last agreement in bringing this bill to life in conference and that was the change on one word and that was 'may' to 'shall'. Because all the way through the entire process rate re-balancing was mandatory until we got to that point, at least from the House's position. And the transition period, those two were kind of incorporated together, you know from my perspective, and I remember the day we made that agreement. The argument was made to us that we wanted to provide the Commission flexibility in order to put money, to leave some money on access, to put money potentially not only back on access, but on local rates and possibly put some of the funding in the KUSF. Now what ended up getting was none of two and all of one, which wasn't what I certainly envisioned. Now whether or not it's in line with the Act, you know, it depends what you want to look at the rest of the Act or not. I guess I was disappointed we didn't end up in that circumstance. But there is a transition period and from my perspective, we put money into a holding tank without actually making the transition. We put the money into the KUSF at one point in time and said, once this time expires now, then it's, I guess, fair game.

Lawrence(cont): And that is somewhat complicated, I think the discussions that we have hear, and one of the keys to our whole effort in '96 was to try to make a quick transition to competition and I use the term in '96 "uncertainty of circumstances" to eliminate some uncertainty of circumstances so that people, especially new people wanting to come into the state and compete, were faced with investing millions of dollars would have some idea what the market place would like. And we won't wait five or ten or seven years till we knew what that was like. Understand the transition in the break up of the AT&T system took, there was less competition three years after the fact, than there is in this particular market place now. We were trying to learn from those years of litigation to try to shorten that time period. I'm sure if I've answered your questions entirely, but it's a little bit more complicated than just, well it was a three year transition period and all this money is at risk because it never got put on local rates.

McClure: Walker?

Walker Hendrix: We think the issue of revenue neutrality from the other standpoint. And that is over-collecting from consumers. The fundamental issue that has separated, I think those that have advocated the status quo and those that want to change it, is the fact that there are number of sources to provide funding for universal service. It can come from access, it can come from toll, it can come from vertical services and it can come from, actually, the local charges are assessed for your basic service. If the companies are able to collect more than is needed for universal service, then there is an over-recovery. That point was made crystal clear in the universal service order that the FCC issued, where they said you need to look at all these revenue sources to determine whether there is over-collection or not. So far, we have not been able to analyze those various revenue components to determine whether the companies are being over-compensated for universal service or not. So we look at the issue, not from a taking standpoint, but from the fact the consumers are paying too much and, until we resolve what it does cost to provide universal service, we won't know customers are paying the correct amount or not.

McClure: Would it be a fair statement to say that on those that are rate of return, they have to show their cost that each of those categories that you were talking about, so there shouldn't be over-compensation for those that are on rate base?

Hendrix: Theoretically, for those companies that are on rate of return, it should translate what into what they're allowed to earn that they should be able, if they are over recovering they should have to roll back their rates. The truth of the matter is, is that with respect to most telecommunications companies in this state, we haven't had any kind of review of these revenues or earnings for a substantial period of time. And so, really, people don't know really what it is we are collecting or what it costs so we basically have bought a pig in a poke so to speak because we don't know what the assessment should be.

McClure: What is a substantial amount of time, 10 years?

Hendrix: I can't recall a rate case, the last rate case, there was a rate case, I think in the '90's involving United and the last rate case, with respect to Southwestern Bell was in 1989 which was predicated on rates that were established in 1984. So we're talking about a substantial time having gone by. Our position in this particular case is not to review these rates in terms of trying to roll back the price caps, but to determine the subsidy support that these companies get. Because if they are over-subsidized with respect to the service that they are going to be providing, then that creates a barrier to competition. Because they are being over-funded and, as an incumbent, it's impossible for a new entrant to break in because they have all of these different sources of revenue in order to compensate them for

Hendrix (cont) universal service. The other problem is, is that under the KCC's order, the only thing that a competitor can get is the $36.88. And so it creates an unlevel playing field when the incumbent is able to be substantially compensated with respect to universal service and the competitor can only get $36.88 per year.

McClure: Thank you Mr. Chairman

Rep. Sloan: Thank you Mr. Chairman, Mr. McKenzie, start with you. Is it your company's position, or what is your company's position relative to the revenue neutrality, is that in perpetuity or is that something that will at a later date be changed?

McKenzie: If you look at it in the sense that I described it and the sense that Doug Lawrence described it, it would no longer be an issue. Because what we are now receiving in terms of revenue from the KUSF would be part of our local rates and that money would be subject to our competitors taking it away from us, subject to the price cap formula, lower or raising those revenues. So revenue neutrality, from our perspective, would not be an issue right now if the transition had been made from access charges to local rates.

Sloan: Meaning your basic customer charge?

McKenzie: Yes, what a customer pays to have an access line from Southwestern Bell.

Sloan: But if, neither the Commission nor the Legislature allows that to happen, your position on revenue neutrality is what?

McKenzie: Assuming we change the rules from how we understand them now, I would argue that the revenue neutrality had to do with the initial rates when the '96 Act was crafted. In access charges were part of initial rates when the '96 Act was crafted. Just because, by unilateral action, the KCC makes those rates part of the KUSF, in my mind, does not negate that initial rates were protected under the current language of the '96 Act. So I would argue that my revenue I get from the KUSF now is protected as part of the initial rates discussed in the '96 Act.

Sloan: So, whether it's through re-balancing or through the KUSF, we are making your company and all other companies whole for revenue in 1996.

McKenzie: In 1996 dollars.

Sloan: So when new customer lines are added, those lines are not subsidized by the KUSF, correct?

McKenzie: The minutes of use, what we're talking about is how much we charge per minute for a long distance company to access our network. It's based on those 1996 minutes. Any minutes of growth, any additional use of the network that's occurred since 1996, Southwestern Bell is not being compensated for. We are only being compensated for the flash cut in time, the number of minutes of 1996. Does that answer your question?

Sloan: Yes. I think you testified that you lost 80,000 lines to competition in the last three years or two years or thereabout. I assume you have had a net increase in total access lines?

McKenzie: In residence we have, but not in business.

Sloan: I want to go back, what does an SS7 do in terms of the basic customer service quality or whatever?

McKenzie: Bummer.

Sloan: I score one there.

McKenzie: Installation and repair is my background. I can wire a phone and jacks in your home and splice a little bit, but I've never been in switching. System Signaling Seven is signaling between our central offices and for the average consumer, what they see and the difference it makes for them is that they can now get on their phone information about who called them, or if they don't want to see that information about who called them at that moment, they can have access through our systems.

Sloan: Go back, for you, what was that bit between your office, never mind the customer for a moment, what does it do for the company, that's where I got lost.

McKenzie: Oh, signaling between the offices, I don't know this for a fact, but I suppose that information, does anybody in here know for sure that that could be employed somehow in our billing practices, I just don't know specifically how that's down. It could be used in the routing, could be used in defining information..

Sloan: Could you have somebody, maybe in a simple paragraph, put that out and get it us?

McKenzie: Charlie, do you happen to know?

Charlie Cleek: It's a signaling system that allows the computers to talk to each other and it passes information, like John says, caller ID information from one office to another office. It also allows data base look ups for credit cards, for 800 numbers, it just allows you to bring new services to the customers that you previously couldn't bring to the end users. It a software signaling protocol, it has the computer switches talk between each other, it's basically what it does.

Sloan: What I'm struggling with, I know that your company and Sprint, cause I heard their ad driving in this morning and I assume the others, have put together packages of these various services, the caller ID, the call forwarding, and call notes and all the rest of that stuff, and you have a variety of packages which my wife continues to buy.

McKenzie: Excellent.

Sloan: We have had this discussion at home too and I lose there.

McKenzie: Excellent.

Sloan: What I'm struggling with is, if you're charging for the Works, which is the one that comes to mind now, I forget what's in it, you're charging the customer a fee for that on top of the basic customer service charge. And as I understand it the SS7 makes possible the Works.

McKenzie: Parts of it, parts of it was possible before SS7 was employed to network.

Sloan: My problem is what is the KUSF funding that you're not double recovering through marketing the vertical services? Maybe I didn't phrase that very well.

McKenzie: No, I think you did. An important point I'd like to make is that our basic rates haven't gone up since 1984, so when we began employing SS7, local rates did not go up. If you consider services made possible by SS7 as a means of subsidizing the local rates customer, you've just created another implied subsidy for universal services. I mean, it would be no different than just saying we'll keep access charges high and let them support local as to

McKenzie(cont) say that some other service customers don't have to buy would be used to subsidize local telephone customers. I mean, is that the direction you're going thinking that the revenues from vertical services should be used to subsidize basic local universal service.

Sloan: If KUSF is helping to fund the installation of the SS7 and the other things that are in the statute, then what I'm wondering is, in a competitive market place where your offer means additional services as would be any competitor or he wouldn't be a competitor, shouldn't that be reducing the demand for the KUSF? That's really my question.

McKenzie: I think I understand your question, I just have a hard time seeing that perspective because, in '89, our rates went down. First of all our basic local rates haven't increased since 1984. But in 1989 with TeleKansas, our access charges went down, I believe they went down again in '94, did our access charges part of the '94 deal? We have had several increases in our revenue stream, including in 1996 when access charges went down. I have a hard time relating how access charge reductions pay for investments. I would normally think of a revenue increase, you know, if access charges had been increased then I think there'd be a good argument that in some way those access charges increases had paid for the deployment of SS7. But actually we've seen it go the other way around. As we made additional investments, we saw our access charges being reduced as well as our own toll rates. I mean, it's just hard for me to correlate that revenue stream with paying for the deployment of a new technology.

Sloan: Let's back up and get to a simpler, I think, question. If the Sloan Telephone Company wants to enter the Kansas market, and I can buy service from you at a discounted rate, what's that rate discounted from? From your retail?

McKenzie: Yes

Sloan: Not from your cost, but from your retail...

McKenzie: If you purely resell, it's discounted from our retail price.

Sloan: Okay, 20%

McKenzie: 21.6%

Sloan: If it's not proprietary, that still leaves you, I assume, a return on your investment since you put the equipment in?

McKenzie: We would still be earning money, yes.

Sloan: Or I can, in effect, install my own equipment, which may or may not include lines, but would include the switches and such.

McKenzie: Any piece of the network you want to build yourself, you could.

Sloan: If I then come in and decide we are competing for this customer here, Rep. O'Brien, is the KUSF portable. If he signs on for my service and leaves yours, do I get the KUSF?

McKenzie: The KCC has said it's portable, I don't understand the mechanics and I can't explain them, but the KCC has said that the KUSF is portable.

Sloan: Is it your contention that it remains with you because you are the provider of last resort and have the equipment installed? Or you just don't understand mechanically, how it should flow from you to me?

McKenzie: I don't understand how the KCC says this piece of the KUSF now goes to Sloan Telephone, but the KCC said that the KUSF is portable, but somehow they would make sure the Sloan Telephone Company got that support. I just don't know how that would work.

Sloan: Well, does your company believe that it's portable or not portable?

McKenzie: We believe it's portable.

Sloan: I just want to make sure we're going in the same direction. I'll defer till later.

Rep. Franklin: I've got a new question. Mr McKenzie, thanks for being here and I'm not sure how to ask this one either but it has to do with technology. Last tie you were here, you made a comment about a switch cost about $2,000...

McKenzie: $2 million.

Franklin: $2 million and software cost about $1.7 million. Do these new switches, even though the cost may have gone down, does the new technology allow one switch handle a whole lot of customers? It's not really apples to apples, cause older technology, if it's anything like computers and control systems, the new stuff handles like a hundred times more lines, more inputs, is that true?

McKenzie: The price figures I was giving was as "apples to apples" as we could get it, for a central office that would serve roughly the same number of access lines. The numbers I quoted was in actual equipment, they're essentially just big computers so if you have good computer understanding we could just talk in those terms. The actual price of the computer, just as with PC's, has gone down, but the price of the software has gone up. So our actual cost today of buying the computer equipped with the software necessary is greater than it was in 1989.

Franklin: (sic)

McKenzie: No that same system, I tried to make an apples to apples so that the same system that would have equipped 'x' number of lines in 1989, the pricing I gave was for a system that would equip the same number of lines today.

Franklin: If I remember my questions correctly, I think it went something like this. I got of phone calls when KUSF came out that had to do with cellular phone universal service charge and they (sic) and is that total fee to pay for reducing long distance and, the reason that that kind of doesn't give me a lot of ammunition to combat some of their calls, is because a cellular phone you don't use a whole lot of long distance, (sic) so if the KUSF is basically (Sic) to reduce long distance, what do you tell your cellular phone customers that see a fee that they didn't pay? What are the getting out of it?

McKenzie: They did see access charge reductions, they're not nearly as visible on their bill that says they are paying that KUSF. I don't know what percent of customers that use their cellular phones do or don't make long distance calls, but I would be willing to bet that some do. Not specifically related to this bill, but cellular companies have seen a reduction in the access they pay in the interconnection with land lines. So there's also been that, but that's not specifically related to the Kansas '96 Act. The real solution in my mind is to get

McKenzie(cont) Southwestern Bell out of the KUSF, we didn't want to be in it to begin with, we wanted the rate re-balancing. Have that all done and move forward and if that had been done, the assessment for KUSF for that cellular bill would probably be, I don't know, in the neighborhood of 3% versus the roughly 8% it is now.

Rep. Toelkes: Shawn, I'd like to go back a little bit to the Supreme Court case involving Bell. Can you give me some specifics and maybe some of the results of that case?

McKenzie: In CURB's challenge of the '96 Act, actually it was CURB versus the Kansas Corporation Commission, the Supreme Court voted unanimously to uphold it. CURB was essentially contending that appropriate costs studies and other regulation had not been done in the KCC, perhaps Walker would be better to address this than me, were not constitutional. The Kansas Supreme Court is constitutional and the way the KCC implemented it is constitutional.

Toelkes: So the big thing right now is the cost study. Weren't cost studies provided at that time by Bell?

McKenzie: Yes, as I testified Friday, seems like a lot longer ago now, the KCC did studies at that time and found that they could have increased our rates as much as $7 a month per their testimony to the Kansas Supreme Court and that those increases would have been justified based on the cost studies they had done.

Toelkes: Instead of a price cap, you couldn't have (sic)

McKenzie: Yes

Toelkes: Okay, I have just a little question. What led to this fund, I know you did talk about it on Friday, just to refresh peoples memory. Why is the fund so large now and who is responsible for that?

McKenzie: I think that the fund is so large now because the KCC chose to put all the access charge reductions into the KUSF to keep revenue neutral. And instead of following the plan at that time advocated by the industry and the KCC Staff to rate re-balance. So instead of the KUSF growing, as access charges came down, local rates would go up. And if that had been the case, instead of $100 million fund, we'd have a $25 million fund now.

Toelkes: Okay, can you tell me in the original deregulation situation, what all Bell was forced to give up, as far as the things they had and had to give up, access for instance all the infrastructure?

McKenzie: Well, as part of the '96 Act, we reduced our long distance charges within the state of Kansas and we reduce the access charges long distance companies paid to us to originate and complete their calls. And we did not make, in '96, a specific investment pledge, I think through the TeleKansas I program, with eliminating party lines in the state, replacing antiquated electromechanical switches through out the state, replacing a lot of old copper lines between our central offices with fiber optic, you know, hundreds of million, well, close to $200 million worth of investment and then to build the, essentially, fiber optic video network between schools, hospitals and libraries as part of TeleKansas II, I think what was proven in that time frame was that giving a move away from rate of return regulation to price cap regulation, an environment in which companies would benefit from their investments and efficiencies.....(END OF TAPE) .... Southwestern Bell's continued to invest heavily, even more heavily than we did during the TeleKansas programs in Kansas because we have an incentive to invest.

Toelkes: The access charges, basically what does that consist of, who pays it and why?

McKenzie: From our point of view, long distance companies pay us for every minute of terminating and originating one of their calls. And in Kansas right now that's about 2.5¢ on either end, roughly half of where it was in 1996.

Toelkes: Does access mean that they have an opportunity to use all of your infrastructure that also put in place. I'm really asking because I'm not quite sure how that works. Is that they are paying for, basically producing rental of the equipment and infrastructure that your company has put in over the years? Does that figure into it.

McKenzie: I think you could look at it that way. I mean, there's a lot way to look it. Maybe it's like rental cars. You fly on an airplane from one city to another, and you don't have your car with you so you rent another car there because it's cheaper than having your car packed onto the plane and taken with you. Long distance companies carry their own signals essentially from city to city and then, rather than building their own local network it is more economical for them to pay us access charges in order to complete that or originate that call.

Toelkes: It kinda look like to me, you built all the access and all the infrastructure with some skill with just one company. It's sort of like when you build a new house and you have an upstairs that really neat. And you have someone who decides they want to move into that upstairs and they're going to pay you some rent. They get tired of paying rent and they can say Okay, I'm going to live here and just don't really want to pay that. Is that sort of any kind of an analogy that fits?

McKenzie: In my most devious moments, I think that way. I am sure there are many people in the room that would disagree, but I think that a fair analogy. You build a house, you incur that investment, someone moves and wants to rent those rooms and someone else is dictating the price and at some point, if someone were to come in say that your tenant no longer needed to pay you rent because they've lived there long enough to pay for the room, well then, you would, without knowing it, sold that room over that period time that you were renting the room to your tenant.

Toelkes: So my devious thoughts are pretty right on. Okay, and one last thing. Everybody throws this universal service around. How long has Bell used that term and what have they done to make it happen?

McKenzie: Universal service goes well before my time. I'd say it's some time early in this century in which, back when AT&T was the Bell system, their then president agreed that, if he would be guaranteed revenues from all services that he would ensure that the cost of local service remained low so that everybody that wanted to be on the network, essentially, everybody that wanted to be the network, could afford to be on the network. So local rates for residential customers would be kept artificially low if that system were then allowed to charge well above costs for business services and especially long distance and an number of other services, but those are the primary two. So for most of this century, local residential rates have been kept artificially low under that concept of universal service.

Toelkes: I knew it wasn't a new concept, I wanted your explanation. Thank you.

Rep. Alldritt: Mr. McKenzie since you're on your feet and doing very well, how many lines does Bell have, all lines today?

McKenzie: Between 1.2 and 1.3 million in Kansas. Probably 1.233 or 1.234 or something like that.

Alldritt: You said, you told the committee that you had a loss of 80,000 lines in the last three years. Is that a net loss or is that, you've lost 80,000 and picked up how many more? Can you give an accurate number of what's happened to you since '96? Numbers of lines only.

McKenzie: The 80,000 has just occurred in the less than the last two years. I would say we are pretty close to breaking even, total, on lines, in terms of how many additional lines we gained on network and how many have been served by our customers that we can define for sure.

Alldritt: So you've lost lines and you've gained lines in the last two years. What you just said, you're pretty much even with where you were two years ago.

McKenzie: No, I meant, you asked me a net question. What I'm saying we have had almost as much gain in lines as we have kept as we have had loss in lines that our competitors have taken from us, if you look at in total. If you look at it by market, we have had a net gain in residence and a net loss in business lines.

Alldritt: Total number of lines, more or less, than two years ago for Bell?

McKenzie: Oh, more.

Alldritt: More lines?

McKenzie: Yes

Alldritt: So the statement, 'We've lost 80,000 lines" the other part of that "we've gained more than 80,000 providing other services to other customers, true?

McKenzie: Roughly yes,

Alldritt: So you haven't really lost, you really don't have a net loss of any lines since the last telecom Act, correct?

McKenzie: That's an interesting characterization. If you've got one quarter in your pocket and you lose it and you get another quarter, did you still lose the first quarter, well yes, you still lost the first quarter. I mean we have 80,000 of our customers that are now served by our competitors if it weren't for our competitors.

Alldritt: What I'm saying is, you'd like to serve every customer and every line in the state, you'd like it to be Southwestern Bell, I mean, I got that far. I'm well aware you like to own every customer in the state, I mean that's the way you do business. The fact is, do you have more customer lines today than you did two years ago? That's a yes or a no.

McKenzie: And I've already answered yes, not much, but yes.

Alldritt: Now you're not comfortable, Bell's not comfortable with the $36.88 cost per line number?

McKenzie: No

Alldritt: You suggested that you submitted some documentation, listening to discussion this morning, you submitted some documentation that would substantiate your cost per line?

McKenzie: Yes

Alldritt: What was that number?

McKenzie: $34.50 per month per line.

Alldritt: $34.50 per month per line, what is your actual cost, per line, for providing universal service in high cost areas? What's your actual cost?

McKenzie: Probably in the neighborhood of $60 to $80.

Alldritt: Can you tell me what your, what KUSF support you're getting for access lines right now?

McKenzie: Per line?

Alldritt: Right. You said $60 to $80, that's a wide range, is it closer to $60 or $80?

McKenzie: On average, I would say $70, split the difference.

Alldritt: So it costs you, it costs Bell $70 to provide high cost service.

McKenzie: I was still working on the math on your first question. What does it work out to be, about $25. 1.2 times 12 divided by, I don't know off the top of my head. I would guess its somewhere between $25 to $30 per month.

Alldritt: $25 to $30 per month is what you are receiving from the fund per line, is that right?

McKenzie: I don't know.

Alldritt: $302.50 per line per year?

McKenzie: If you are talking about all of our lines, you would need to divide the $65 million. (From the side - $66) $66 per year, that what I was just told it was.

Alldritt: So you're receiving $66 per year and your costs, your average cost of high cost customers is $70.

McKenzie: Per month.

Alldritt: So you're losing $4 per customers.

McKenzie: $66 per year versus $70 per month. So multiply 70 times 12 then subtract the 66.

Alldritt: Thank you. Glenda Cafer please. Let's just get into an overall discussion. What is wrong with the KUSF?

Glenda Cafer: Well it's still a piece of work that's being created. The Commission, 1996 what I keep hearing everyone saying is oh it was done wrong, it was done wrong; well, it's not done yet. Back in 1996 Southwestern Bell submitted cost information, that's correct, and the Commission had a very short period of time to do a lot of work under the '96 Act and have it done by the end of December 1996. Part of that said you will do this on a revenue neutral basis initially, not on a cost basis and so the Commission reassured itself, the Commission Staff looked at the cost numbers that Bell submitted, but we did not audit those numbers. We did not go in and make adjustments or anything like that to the numbers. And the numbers that Bell submitted to us loaded the cost onto local service and did not include a lot of the revenues that we would have included in our cost of service if we had done a complete audit. So it was a very high number, but it was enough that the Commission felt reassured that at least local service at it's present rates was not subsidizing competitive services, which was one things that CURB argued, that you can't

Cafer (cont) have local service subsidizing competitive services. And so, the Commission said were going to everything into the fund right now and we're comfortable that we don't have local service subsidizing competitive services and then we're going to do a complete cost study for these companies and get their KUSF cost base, which is what the '96 Act requires. That is not an amendment that is being proposed now. It says you'll get a cost based. And that is what the Commission started doing in April of 1998, which we've had some trouble with trying information to get it completed. But it's still being done, with the idea that when we get all those costs in, then we can figure out what local rates can be raised so that they'll be closer to covering their costs, that will constitute a reduction, then in the KUSF. And then, if there is some excess subsidy in there, meaning more subsidy that you can get, that a company should be receiving, the Fund would be reduced by that as well. And that's where they're trying to get.

Alldritt: Do you believe that Kansas telephone customers are paying too much into KUSF?

Cafer: Yes, that's my suspicion.

Alldritt: How much too much?

Cafer: I don't know until we finish our cost docket.

Alldritt: So you really haven't determined the cost, the real cost of what it costs companies to provide that high cost service, service to high cost areas?

Cafer: Not yet.

Alldritt: Why not?

Cafer: Because initially the fund was just revenue neutral over a three year period and so when we read that act, we thought that we couldn't make any of those adjustments, once we had set the initial amount of fund. As I just explained, we did it all in the fund initially and the Commissioners had their good reasons for doing that. But we thought we had to wait until that three year transition period was over before we could make additional adjustments and so that's why we began the audit of Southwestern Bell, which was the largest taker of the Fund and that's why we started it in that order. We begin it in April of 1998, thinking that then when the three years was up in March of '99 we would be prepared to make the cost base adjustment. That hasn't happened.

Alldritt: Do you have the tools you need to make those determinations, what the actual cost is?

Cafer: I feel like we do, I think that there are certain provisions in the '96 Act that Southwestern Bell has relied upon to argue against providing us information that, at least we feel, like we need in order to complete that audit. Ultimately, we have what we need in the end.

Alldritt: But where are we at today, is Bell coming forward with the information that the KCC needs to determine what it needs to determine what the actual costs are in providing high cost area service.

Cafer: They provided, in February, some additional information, in camera, to an ALJ, meaning just to the ALJ in her office, our staff hasn't seen it, she's supposed to be issuing an order, the last I heard it would be today, stating whether or not it was, in fact, relevant information that our staff asked for because Southwestern Bell was claiming that some of it was not relevant to the review that we were doing and then whether or not Southwestern Bell had provided all the information that had been ordered, that they provided.

Alldritt: Why is it important to Kansas telephone customers that they that we know what the actual cost is with these price cap companies are paying to provide that service, why does that matter?

Cafer: Because the customers are the ones being asked to pay the subsidy. And so the subsidy should be the bare subsidy based upon the actual cost of providing that service.

Alldritt: So they won't be happen if the cost study is done and adjustments are made and my constituents and your constituents find out we've been paying $10 million or $50 million a year too much. That won't make them very happy, will it?

Cafer: To find that out or to continue paying it?

Alldritt: Well, either one. They're not happy paying it now. I just want to know, I can't go home, and I'm not sure any member of this committee could go home and say, "well, you pay that because" and that's what that debate is all about. Why do we pay it, justified on what? Why are we paying, why is this fund paying out $100 million? I pay it, everybody in this room pays it, you live in Kansas and have a telephone, you pay the cost. I just want to go home and be able to tell folks why. I want to be able to go home and tell the folks that the Kansas Corporation Commission, representing utility consumers, is doing their best to get the relevant information to make this fair, to justify that expense on their telephone bill every month. And if Bell is not providing you the information that you need to make that determination, then the Legislature made need to take steps to make sure that information if provided. You know, it's gone on for a year and you're telling me that just recently, you've made how many requests from Bell to provide the information?

Cafer: Initially, the order was in April of '98, then questions came up about what type of a study and so oral arguments were held last summer. The Commission ordered, I think, three times since then, what Southwestern Bell should provide.

Alldritt: And they haven't until just recently?

Cafer: As far as I know, the last bit of information we got was what we asked for, but I don't know that.

Alldritt: Where do we go from here? Does the Legislature need to act now? What is we need to do?

Cafer: Well, the bill you're looking at is a mechanism, it has a mechanism that we felt would give the company an incentive to get this information that we've asked and to cooperate in the audit. Because, if in fact, they're taking more money out of the fund that is a fair amount, the incentive is to delay the ultimate reduction that may come from inclusion of that cost study. If the reduction occurs up front, then their incentive is to cooperate with us so that they can get their actual cost based rates. That was the concept behind the $36.88.

Alldritt: Why should Bell give this information?

Cafer: Because we're still the agency responsible for regulating them to the degree that they're regulated still.

Alldritt: Do you believe that Bell has a statutory obligation to provide this information?

Cafer: Yes I do.

Alldritt: Thank you very much.

Rep. McClure: Glenda, while you're up there, on Sprint, it's the other price cap and I believe in '96 when the Act passed they were rate of return and chose to under the price cap. Did the KCC do a cost based study on Sprint when they moved to price cap.

Cafer: No, in fact the state act, the '96 Act says that a company can elect price caps and we can't go in and audit and adjust rates to establish those. The initial rates are the rates they have when they file for price caps. What the Commission did is, in determining the order of the audits was line them up in accordance with who took the most money out of the fund and we began Southwestern Bell's and don't have the resources to do United at the same time so they were scheduled to be done next.

McClure: The Act does allow that you can do the cost base study for the KUSF?

Cafer: Yes, right.

McClure: So the only reason you didn't do Sprint was that you didn't have the Staff, Southwestern Bell was on line first, is that what I heard you?

Cafer: Right, they were first in line.

McClure: And would you explain, again, maybe the difference between an earnings audit and what happens here, what's at risk of the cost base study for KUSF?

Cafer: In an earnings review, like a rate case, the Commission would go in and look at the company's cost to determine how much revenue they needed to earn a reasonable return and then we would look at the revenue they were receiving at their present level of rates and, if there was a shortfall, that would be the revenue increase they would need. And then we would look at all of their services and, what we call rate design, we would decide how much each of those services would be increased until their rates were sufficient to cover their expenses and provide the company with a reasonable return. In the cost studies that we're doing now, we're looking at much of the same information. We need to know what the company's costs are to provide local service. Then we need to look at the revenues to see what they're getting from those local services and if there's a shortfall, then that is the amount of subsidy they need. Looking at the information we will be able to tell what their level of earnings are, but that is not the relevant consideration anymore when a company goes on price caps. You can't go in and say, you're taking $50 million out of fund and if you look at all your services you're over-earning by $30 million, so we're going to lower your fund by $30 million, that's not consistent with the price cap plan. But what you can do, is if you look at the cost of local service, the revenues, and you say, you only need $20 million out of the fund to subsidize local service, then we're going to lower it by $30 million and we shouldn't have to make them whole somewhere else, cause that was an excess subsidy that we're taking away.

McClure: Thank you. I do have another question for Shawn, two actually. When you talk about the rate re-balancing and going to 3% on the percentage for KUSF, what did that raise the local service to that?

McKenzie: To take us completely out of the fund, would take about, right now, $4.20, $4.21 or something like that.

McClure: And did you say your average is $10 for local service?

McKenzie: Yes, our state-wide average.

McClure: State-wide average, so that would move your state-wide average to $14.21?

McKenzie: Yes

McClure: And then, just one more time, try this again. See how you stand, let's go back to neutrality. I think what I heard, and I'm not sure, you were talking about the access and when they are in balance then that transition is over. Am I correct in saying then, when interstate and intrastate equal that those access are equal, which they aren't yet, then you determine that that transition period is over. Did I understand that rightly or wrongly?

McKenzie: No, I think you understood me. Can I say it back to you to back sure I understood you?

McClure: Please do.

McKenzie: You're saying that once interstate and intrastate access are equal and those reductions, as far as Southwestern Bell is concerned, have been transitioned to our local rate, that the revenue neutrality language of the '96 act is no longer an issue.

McClure: So instead of three years, it's when those two numbers are the same, access is equal?

McKenzie: Assuming that intrastate would have to keep coming down to keep up with interstate, yes. I would argue that any time my revenue is reduced and access charges are matched interstate access charges that ought to be done on a revenue neutral basis. But once that's accomplished, yes, I would agree revenue neutrality is no longer a factor. But within the price cap regulation and the advent of competition is what I need to worry about.

McClure: Thank you.

Rep. Sloan: Glenda, basic rates for universal service in all companies, all customers basically to call anyone in the world, right?

Cafer: Right

Sloan: Should then, should those rates be the same for each and all companies and customers?

Cafer: Basic local service rate? There's different philosophies on that, in the smaller rural areas, those customers can't call as many people for their basic local rate and they have to call...

Sloan: No, my question was, basic service allows them to call anyone in the world?

Cafer: Well, no, not without, not in a local calling scope. Basic service allows you to all your local calling scope for no additional charge beyond the basic service charge, to call outside that anywhere in the world I need the basic service to access it, but I'm going to paying long distance.

Sloan: I was trying to make a philosophical move, you weren't willing to go. The KUSF program subsidy does not take into account a company's efficiency, you just sort of accept the numbers, price cap or rate of return. You're basically not saying this company is much more efficient and therefore, getting less funds, this company is the opposite.

Cafer: The way it is done now, it's just revenue neutral. It's not based on cost and efficiency has not been factored into the amount of the KUSF. When we get the KUSF based upon cost, the way I would see it being done is kinda of a benchmark level of cost and revenues, which would consider efficiencies, you know, who is the most efficient, what is the cost on a forward looking basis. And then, all the companies who are serving that customer would get that amount of money, so the efficiency would be factored into that. But I don't know how you would do it on every single company, analyzing what their costs and revenues are

Cafer (cont): and then giving them a different subsidy. I don't know that that's workable.

Sloan: That's a (sic) point. Thank you. Mr. McKenzie, if your company were permitted to increase your customer service charge, the base rate, $2 to $4 or whatever it takes to re-balance, what impact does that have on the competitive market place?

McKenzie: I think it brings a level of certainty to the market place. Everyone knows where the dollars and there's a price cap regulation and they know those dollars are fairly secure, at least for the next five year period of the price cap formula. An increase in the price of that service is going to more attractive for a competitor to try to win that customer from, because there's more money in it now for them. I think it would incent competitors to enter the market. Is that what you're asking?

Sloan: I'm not sure I followed the answer. Let's go back - Sloan Telephone Company wants to come in and compete for a customer. Today we are competing for, basically, the KUSF subsidy, in your base rate, so the subsidy would not be as large for me. Which way am I advantaged, or which way are you disadvantaged or is there no advantage?

McKenzie: Perhaps it's a matter of perspective. Right now, we've said we get $66 a year, but as Glenda has testified, that $66 may be subject to further Commission action. So there's an uncertainty about that $66. Now, if we eliminate that $66 and we increase the price the customer pays, I feel pretty confident that most competitors would rather win from us a customer that's going to pay them $14 a month than a customer that's going to pay them $10 a month. It's greater revenue from that access line. Because there is more money in the market place, competitors are gonna, more likely, want to be in that market place and because there is more certainty about that source of revenue, versus the uncertainty associated with the $66, there is more likelihood that they'd be willing to enter that market place. You have a higher price and greater certainty that that money will remain available for you to win.

Sloan: But you said, it costs $60 to $80 per month per line in the high cost areas, but whether it's $10 or $14, it's still not attractive to me. Unless of course, I've got all these vertical services I'm going to use to subsidize that. I'm still trying to figure out how you're making any money out there.

McKenzie: Toll and access, that's how we make up the difference. We have about $100 million shortfalls even when you through put vertical service revenues into the picture. The real bulk of the difference between the cost and the revenue is made up with toll and access revenue.

Sloan: And you say that you get $66 a year in the KUSF, the Commission handed out something last week and, if I'm reading this correctly, it says that you get $25.21 support per month per line, which is $302.53 a year. What am I missing?

McKenzie: Well, I think I was missing. You saw me trying to run through the math up here when Rep. Alldritt asked me the question and I was guessing, just quickly running through my mind it was $25 to $30.

Sloan: So it's the $302?

McKenzie: Yes, excuse me. I don't know what the $66 number is, that based on all access or just Southwestern Bell's access

(?????) It's all of our access, not just the 211,000. It's based upon the 2 million access lines.

Sloan: If we can live with the $302, let's just stop there. Thank you Mr. Chairman.

McKenzie: The difference is definition is whether or not we talking about all of Southwestern Bell's access lines or just the 211,000 per the KCC's definition of high cost.

Rep. Loyd: Thank you Mr. Chairman. Mr. McKenzie, I think I want to ask you some questions about a little different area, and perhaps this information about the universal service fund is starting to sink in. But I want to look at the issue of, at what point in time is enhanced universal service available state-wide to all of those who live in rural areas. At what point in time, if I happen to live 5 or 10 miles outside the city limits of some community, will I have enhanced universal service? Maybe we need to take a couple of steps before we go there. It is my understanding in looking at this summation that at some point in time all the companies were required to develop and provide and have proof of network infrastructure plans. And I'm assuming that that dealt primarily with renovations, enhancements to the telecommunication system state-wide. Is that correct?

McKenzie: Yes

Loyd: And am I correct that when the Act was originally adopted it was anticipated that those improvements and plans had to be implemented through, by sometime in 2002, is that correct?

McKenzie: That sounds right.

Loyd: So, basically those plans have not been fully implemented at this point in time?

McKenzie: I can't speak for all telephone companies, but for Southwestern Bell, we're essentially done meeting the objectives in terms of enhanced universal service in Kansas. It's not ubiquitous as you described though, and I want to make a differentiation. For example, one of the requirements was ISDN and right now, Southwestern Bell believes that ISDN is available to any of our customers in the state. Some of them pay a greater rate, but they're outside the five metropolitan areas, they pay a link extension charge, which makes the service quite a bit more costly on a monthly basis for them. But that's a tariff rate, we already offer that service, so if someone wants, we'll sell it to them. However, you then threw in five to ten miles outside of a town, well if that's really five to ten miles from one of our central offices, then we cannot provide economically, that kind of service that far from our central office. Just to give you an idea, we ran some numbers and if we were to make that capability ubiquitous in the state of Kansas to our customers alone, and this is not been a publicized number, I mean it wasn't part of our infrastructure plan, but if we were to truly make that kind of bandwith accessible on demand to anyone in the state of Kansas served by Southwestern Bell, it would cost us about $3 billion to do that. And we have about $2.3 billion invested in the state right now. To get bandwith that far from the central office is incredibly expense with today's wire line technology.

Loyd: Is, on ISDN, does that require fiber optics?

McKenzie: No, it doesn't require fiber optics. But it is going to need a digital signal and getting that digital signal that far from a central office is what incurs the tremendous cost that I was referring to.

Loyd: So I live in Garden City, I have an office that's a block and a half from your central office.

McKenzie: No problem.

Loyd: No problem, what kind of, explain to me what kind of costs are involved in securing that service for my office, with its proximity to the central office?

McKenzie: Let me see if I can do this off the top of my head, I may have to grab a sheet out of my portfolio. Garden City is not one of the five cities that we have the service at $45.50 per month. So you would pay the link charge, and the link charge is $30 a month. I'm not going to be able to do it, sorry.

Loyd: Well, approximation are fine, I'm not asking you to bid at point.

McKenzie: I've have a chance of winning the business, Representative Loyd, I'd want to take a shot at it. Here we go. I was close, $36. So in Garden City you would pay $45.50 per month plus the link extension of an addition $66, so it would be $111.50 and that would give you ten hours of time on that ISDN line. If you wanted more than the ten hours, you could pay an additional $34.50 a month, so roughly $145 a month and use that ISDN 24 hours a day. If you didn't want quite that much time you could pay an additional $18 a month and use it for 120 hours a month.

Loyd: How is that what we saw in the way of the AOL and Southwestern Bell announcement for the ADSL, how is that different from what we have just discussed?

McKenzie: Different technology. ISDN is kinda of a two way road, if you look at like an interstate, you've got two lanes going both ways. ADSL is more like two lanes going one way. Primarily from your ISP, your Internet provider, to your business or home, you've got the two lane interstate quality. Going back, you've got a country highway.

Loyd: Do I understand, just from what I've read from that announcement, that basically through the use of the ADSL technology, affect some form of enhanced universal service is going to be made available or accessible?

McKenzie: My plans, right now in the state of Kansas, are that we will start with Kansas City, Topeka and Wichita and we will offer ADSL. I'm not sure we finalized the number yet, but we've been talking about $39 just for the service. If you want to buy it from us, bundled with Internet, then it would be roughly $49 a month.

Loyd: Okay, let's talk about introducing the ADSL capabilities through the next year as you upgrade the systems, is this specific to Kansas or is through the system.

McKenzie: I'm not sure I follow the question.

Loyd: In the material we received, it said that Southwestern Bell plans to introduce ADSL capabilities through next year as it performs upgrades in the different areas it serves.

McKenzie: Right, and the three that we are planning right now in Kansas are the ones I referred to, Kansas City, Topeka and Wichita. I do not have plans beyond that right now.

Loyd: So this particular information indicates that within the year you'll take care of heavily populated urban areas, but that's no indication that in the less populated that capability will be available at some time.

McKenzie: That's correct.

Loyd: How does this original bill, **HB 2539**, impact on your company's investment in the infrastructure.

McKenzie: I'm going to say this very cautiously, because I don't want it to sound like anymore than it is, I just want to convey information. Right now, when you look at the number we look at internally, Southwestern Bell in Kansas gets a return that's in the middle of the pack of the five traditional states of Southwestern Bell and you compare Kansas to Oklahoma, Missouri, Arkansas and Texas, we don't earn the worst and we don't earn the best. We're right in the middle. The way **HB 2539** is written right now, we would have a return of about half of the lowest, and you're a business man, I would think that would disadvantage me in competing against my peers in the other states for capital investment dollars. I'm really cautious how I say that, because I don't mean to deliver that as a threat and it's not a decision that's been made, all I've done is look at the number and looked at the impact so I have an idea of what I'd be facing should this law become enacted, this bill become enacted. Does that answer your question?

Loyd: Well, it does and it doesn't. I'm not sure I asked the question in a way that I could expect to get an answer. I look at this particular issue as having, and that is the availability of enhanced telecommunications services every bit as important as the comprehensive transportation plan we're looking at right now as far as the future of Kansas is concerned.

McKenzie: I agree.

Loyd: I understand an obligation to individual customers (sic) as to whether the rates I pay which may or may not include, which do include contributions to the universal service fund are higher than they either should be or could be. But I'm too new to the process and I'm just trying to get information to help me establish some comfort level as to what impact this bill or this concept of legislation is going to have on insuring that Kansas gets ahead of the pack, leads the pack in terms of having telecommunications infrastructure that is going to help attract people to this area. I'm not sure that was a question. Don't you agree?

McKenzie: I do agree, the more attractive Kansas is as an investment, the better chance telephone companies, not just Southwestern Bell, but any telecommunications provide will invest in Kansas.

Holmes: I have a follow up, I'm going to use your law firm as an example with ISDN. If Ward's law firm has ISDN and that is the only phone system coming into the law office because it does provide more than one wire. If I'm in Garden City and I want to a call Ward's law firm, is that a local or long distance call?

McKenzie: Liberal to Garden City?

Holmes: No, if I'm in Garden City and I'm going to call his firm, is that a local call or is that a long distance call?

McKenzie: I know that sounds like a simple question.

Holmes: Isn't your switch in Wichita.

McKenzie: I've been assured it's still a local call.

Holmes: I've been told in the past I would have to call a number in Wichita, if I had an ISDN line. Anybody that wanted to call me in Liberal, Kansas, they would have to call a Wichita number in order to get a hold of me, because your switch is in Wichita.

McKenzie: That's what I was thinking about, as you asked me the question. How would the call route and would that effect whether or not it was a toll call. Do either of you know?

Holmes: What's that?

(???) I believe it has a POTS number associated with it, but for you I believe it's still a local call. He pays the charges to the extension.

Holmes: Okay, so he would pay the long distance charge, then is that right? If I call his number, and if I'm in Garden City and I call his number, he's going to pay long distance and I don't have to pay? Is that what you just said?

(???) (sic) ISDN to get the extension and that's what carries the call.

Holmes: And how much is that per minute?

McKenzie: There's no additional toll rate if he hasn't exceeded his minutes of usage.

Holmes: But if he has exceeded his minutes of usage?

McKenzie: You have stumped us, Chairman. Can we get back with you with answer on that?

Holmes: Yes. You see what I'm getting at. Because the switch is not in Garden City, so one of us is going have to pay if I'm in Garden City and I want to talk to Ward, the way I understand it.

McKenzie: We don't know for sure.

Rep. Dahl: Thank you Mr. Chairman. Nice seeing you again Mr. McKenzie, but I don't have any questions for you. Ms. Cafer, can I talk to you a minute.

Cafer: Sure

Dahl: Just enlighten me, just where did this KUSF come from, how did it come about, this beast we're talking about.

Cafer: The 1996 Act.

Dahl: How did that come into law? Make it real simple, it came out of this body, didn't it?

Cafer: Yes

Dahl: Okay, we passed it as law?

Cafer: Yes

Dahl: And the KCC had a lot to do it, right, or not?

Cafer: Establishing it, you told us to implement it and we did that by order.

Dahl: But KCC didn't have any input in the writing of that law or anything like that?

Cafer: Well, we were part of the process and we testified, primarily against the'96 Act.

Dahl: Oh, you testified against it, you didn't like it at all?

Cafer: There were certain aspects of it we thought were not positive, the revenue neutrality.

Dahl: Okay, but the '96 legislative body passed that thing, both the House and the Senate.

Cafer: Right

Dahl: And it was signed by the Governor

Cafer: Right

Dahl: Was anything underhanded done during that process, was anybody being devious, crooked?

Cafer: I wasn't, I can speak for my self, I wasn't being devious or crooked.

Dahl: I'm trying to get to Rep. Alldritt's question when he said we like to tell our customers, tell the folks why they're paying into KUSF thing and it's very simple. He can say that the legislative body passed that thing and as far as I know everything was above board during that time. There was nothing illegal or crooked or under the table or something like that. And we as body passed that thing. Now I can sit here and be very pious, because I wasn't in the legislature at that time. Okay, so nobody can point a finger at me, but now here's my question. So, how are we going to change this? Is that what we're debating now? A new law.

Cafer: The **HB 2539** I do not see as a new law, it leaves intact your price cap provisions from the '96 Act and it really does not change too much (END OF TAPE) Two of the things that I see it does is it clarifies how we're going to deploy enhanced universal service, leaving that more with the Commission customers and the companies, rather than trying to set it out in the Act. And it also mandates continued access reductions to maintain parity with federal access rates for price cap companies, which is not a provision in the Act, which a lot of thought it was until we went back and the dust settled and we started reading it. So it does some good things like that and it doesn't really change the foundation of the '96 Act.

Dahl: Well, if it didn't really have that much effect, why is everybody here testifying. Obviously, there is a big change in the law. I mean, we've spent how many days listening testimony, there must be something big about this thing. Or if it's just minor we should had this on the floor on the Consent Calendar a long time ago.

Cafer: Well, I've listened to some of the testimony and I don't agree when the companies say that this is, that this says you're going to go to $36.88 unless we get things based on cost before that time. If we finish the cost docket for those companies, they get in an cooperate, that $36.88 never kicks in. That's not a dramatic provision. It is if it kicks in, except then they can get, ultimately, get that money back to the date that it happened, so there was a protection in it. In the end, it does what the '96 Act says, which it gets the KUSF based upon cost.

Dahl: Okay, but we are changing the law?

Cafer: Oh, yes, it changes.

Dahl: Okay, we're changing the law. Okay, for those people, or those corporations or those companies that signed up or whatever they did in '96, and since then, if we change the law, is that fair to them?

Cafer: I think it's fair to change it the way that you're contemplating.

Dahl: No, I'm asking, hey I gotta balance two things here. I sometimes feel like I'm trying to herd a bunch of black pigs at midnight, you know. I'm trying to protect the customer and also trying to be fair. Is it fair to the companies or corporations that try to abide by the'96 law, to change it on them at this stage or not. Do you think thats.....

Cafer: I think every company knows that laws are subject to change every time the session convenes. I don't think it's unfair that if you feel that this would help the Commission do the job you told us to do in '96 and it would help protect consumers in that process, I do not think that would be unfair to the companies.

Dahl: Okay, I'll just ask one more question of you, and it's probably not a fair question. If we do change this law, do you think there's some companies out there that feel that they have the right for redress or a law suit.

Cafer: I think that they're going to appeal the Commission's decision under the law as it presently stands anyway, if they don't like what the Commission's decision is, so I do not think this causes additional litigation. I think we're headed in that direction. I think that the clarifying language in some of it would actually provide less grounds for litigation. Although the $36.88 is a new element that would, obviously be appealed.

Dahl: Thank you.

Rep. Kuether: Well I don't if I want to follow that up or not. Thank you, Mr. Chairman. I think, I guess, on the same line as Don, that we have a really big picture that we're looking at and I guess the information I need from you. You currently have an open docket looking at costs. And when you determine that that will be completed.

Cafer: The Southwestern Bell cost docket, suppose, the end of the year. The Commission has begun the cost review of Southwestern Bell, they've also got a parallel, generic docket where they're determining some generic issues for all companies that will then, when that's done, which I assume will be done in the fall, would be applied to Southwestern Bell, maybe by the end of the year.

Kuether: So this doesn't, you don't have the 240 days, it doesn't fall under the same provisions as the other.

Cafer: No, the 240 days kicks in when the company files an application for a rate change and that's...

Kuether: So this is on going, this is dragged out for quite some time, okay. So this is a docket that is open to look into one company, right?

Cafer: Right.

Kuether: I guess, in answer to my questions, but other than the fact you're talking about one company in the state that's having it's books open subject to being open and looked at, versus anybody else that wants to come into the state and compete and I just certainly think, that really sort of just boggles my mind, because in some testimony we have in front of us, that the Administrative Law Judge, I mean some of this information wasn't even requested until November. And we're in March and I mean, it took much, much longer to even get the state act going in, it took a long time to study this, and with Don, I think we're not just speaking, as you say a work in progress, I think this is a big heavy hammer over a head of a company that provides the infrastructure for the rest of the people to come into this state and use, yet and be charged, but by gosh by golly they put it in the ground. I mean, I think the best thing to do with this is wait and not do anything. Thank you.

Rep. Alldritt: Thank you, Mr. Chairman. Well, since you're up and Mr. McKenzie used the "E" word. Don, some of sleep well since '96 that were here and voted or didn't vote on that legislation.

Dahl: What color hair did you have in '96?

Alldritt: Well, there was a lot of blood all over when that thing was over. Mr. McKenzie did mention the "E" word and I'm kind of interested in that just as a side note. He said earnings fell kind of in the middle for Bell-Kansas. I know determinations had been made, Bell over-earned $298 million in Texas, Oklahoma Bell over-earned $70 million, do you know about the other two states he mentioned?

Cafer: Arkansas and Missouri?

Alldritt: Yes, do you know what the earnings statements for Bell in those two states?

Anne Wickliff: Missouri has not investigated. We don't know the other states.

Alldritt: So the only two that we know are Texas and Oklahoma?

Cafer: Right

Alldritt: And they average about $175 over-earnings. Does the KUSF encourage competition in Kansas and, if it does, how does it? Does encourage competition for local dial tone service.

Cafer: Not the way that it's structured right now with the revenue neutral and that, but, ultimately, if it is set up properly so that the amount of the subsidy is adequate for high-cost areas and it's portable, then that would be, I would think, the only way the competitor could go and compete in the high cost areas, is to have the KUSF subsidy available to them.

Alldritt: So, is that one step, what are the other steps that we need to take to get true competition for dial tone service in this state?

Cafer: Wow, underlying all that we're trying to do is the concept of getting things based upon cost. And that's where were headed out there, getting pricing, competing companies need to know what prices they're going to pay when they come into Kansas. The Commission is doing that. I don't know that anything needs to come from the legislature on that regard. The continued access reduction to cost is a part of the bill here, it's a positive for that.

Alldritt: If all the barriers were dissolved between all the telephone companies, in statute, no monopoly has statutory authority to be that entity, and it was wide open, and every company was competing with every company, there wouldn't be any need to look at the earnings and justify the cost for any of these companies, would there?

Cafer: No, competition in the market place would drive prices to cost.

Alldritt: Thank you very much.

Rep. McClure: Doug, I've got another question. I think everybody is kinda struggling with the past. The state of Kansas, in '96, didn't just decide to do this. There was a federal act as well, I mean, we didn't just take this upon ourselves. Maybe, just briefly, talk about.

Doug Lawrence: You don't want me to give the whole lecture?

McClure: No, but I just want people to know.

Lawrence: I speak a lot on the issue of the transition into competition. First of all...

McClure: And then to the cost based part of it, those two questions, we didn't just do this on our own.

Lawrence: Well, 1996 was really the end of what had been a fairly extended period of activity in the area of transition and change in the telecommunications industry. For Southwestern Bell, they were put on the price cap structure with the original TeleKansas I in 1990. I think that order expired in 1994 and in 1994 the legislature intervened and extended to what we call TKII for two more years to 1996. At the same time we started an 18 month study, called the TSPC, which I did not serve on. That TSPC delivered a report to us in November, sometime around November, December, maybe it was the very end of '95, right before the '96 legislature started. In November, I was appointed chairman of a select committee that was tasked with one thing and that is to deal with the telecommunications transitions issues to a competitive market place, knowing we were going to have a federal law, that was at some point going to restructure, because this was all going on at time the feds came out. We, I know much to the chagrin of the Senate, took ten weeks in the House to deliver a work product. Part of that was because we didn't have passage of a federal law, part of that was that issue. Also part of that was a great deal of discussion about the state of telecommunications in Kansas period. We've had an awful lot of discussion about Southwestern Bell's earnings and Southwestern Bell's part of this, part of the Act, but I always like to point out that 1996 was about, from my perspective, quality of service. I came to the legislature, and I was chairman of that committee, I was a Sprint customer. I had four party line service, I got my first opportunity to change the long distance carrier right before the legislature started that year and we held hearings in this room. The only time we met in this room was the biggest crowd we had, believe it or not, and we had hearings on the Hill City case. This was one of the concerns we had, was when we moved our price caps, the question was no longer rate of return regulation, it was what's a reasonable price. And the reason for that is because we wanted to focus on quality. We wanted to make sure there was incentive to provide some investments. And those were pieces as you take a look at what happened in the '96 Act, that I think in some cases, got lost. I'm still a Sprint customer, and I got caller ID in November of this year and I will tell you that my aunt who's on four party line service is on the Internet for the first time in her entire life and the first time she's had a computer in her home. Those things have all occurred and I would tell you that we've seen a paradigm shift in our community as far as access to services that I cannot even begin to describe to you and I look at those and I see the fiber interconnectivity between switches and all those other thing that were a part of that, that certainly we in our community have leveraged out of the 1996 Act. So, it was about quality of service and setting the bar someplace, I'm sorry, I'll stop with that, that observation. You wanted...

McClure: On the cost based, we've had a lot of discussion, we're picking on Southwestern Bell, we're picking on Sprint and what was the intent of the bill in '96?

Lawrence: The intent clearly was that the universal service fund would be a cost based fund. Of course we were focusing on a $30 million fund at that point in time, because re-balancing was a part of the mix as well. We're also, you know, I think that it's a tough thing to talk about, but I think it's important to talk about that, that price caps and rate of return regulation are two different creatures. And actually, transitioning from one to the other is problematic and transitioning back is problematic and we did some things in '96 to try to recognize that the rate of return, that price caps were not something that would subject to year-to-year, everyday, or every year intervention on the part of the regulators in the process, we were trying to reduce that. For example, we established a mechanism by

Lawrence(cont): which the price caps could be adjusted on a formula determined by the Commission in advance for a period of five years without further monkeying around other than changes in those calculate figures. That was to stop the opportunity to use that adjustment mechanism as a back door rate of return mechanism. The point of price cap regulations is to assure a reasonable price to the consumer, allow the company to restructure itself for a competitive market place. I don't know what an over-earning is in a competitive market place, because some companies lose money, some companies make money. In a rate of return regulated company, there is some assurance that you're going to have the opportunity to do that. So, if you say, is Southwestern Bell over-earning today, when they have a competitive market place, I'm not sure because I think we all understand, in 1996 we understood, that rates of return, potential rates of return should go up over time, so now two years or three years later, we come back we say well, we think you're earning more that you used to. I don't know. Should that rate be higher or lower, I think that we're better off if we allow, in the transitionary period using price caps to make that transition and we try to stay out of the question of are they earning too much or too little. It's a transitionary tool. And price caps are that, that's what they are, they're a transition, they're a form of regulation, it's an alternative form of regulation but it's still regulation. I'm not sure if I answered your question about cost in that sense.

McClure: I guess the more specific question then, does this current bill that we're looking at make major changes in just specifically the cost based?

Lawrence: Yea, I think that it does. It does a couple of things. One of the things, I'm concerned about the, just even the tone or the direction that we're going here from the standpoint of even future adjustments. There's several big pieces about this bill that make be nervous, I guess. The biggest one is the fact that further access reduction are going to have further costs reviews and the adjustments in the KUSF can be moderated every year and, no matter what you talk about, I mean Glenda talked about the fact that if they got $50 million in the fund and we determine that they could be making $30 million, their earnings, you have to look at their total earning package, and again you're going to make a determination of reasonable rate of return. You don't just look at the cost and say, okay the cost is all we're going to look at, you're going to look at the revenues and do we think we're making enough money. And if they're making too much, if they're showing a return of 30%, you're going to say their over-earning. You're not going to call it that, you're going to say it's over-subsidy. But it's still a regulation of the rate of return of the company, based on efficiency or non-efficiency. At that's the concern I have, you're creating an every year mechanism to look at the earnings and revenues of the company where we have the situation where we really didn't have that but once every five years. So we're back here and the long history of Southwestern Bell and the Corporation Commission, and I'm not going to say this is positive or pejorative toward either of the companies, there's been a lot of acrimony over the regulatory structure and, frankly, we heard a lot and the TSPC heard a lot in '96, during that time period to ours and the FCC has been dealing with cost studies since 1984. And we still don't have definitive determinations on all forms of cost studies from the FCC on these issues. Cost studies are very controversial and they're very difficult. I think that the sense that we had in '96, at least from my perspective, was let's not have five years of litigation or seven years of litigation or ten years of arguments about this, let's try to get on with it and get competitors in the market place and place some pressure if it's there on costs to come down, to true cost finding, which is a competitive market place. And we tried to put every mechanism we could think of that would provide that opportunity, within the constraints of the federal law.

McClure: Thank you.

Rep. Toelkes: Well, I was going to have Shawn come up again and explain, maybe, the slant that he would have, that the company would have and his customers would have as to what this bill would. Doug did such a great job, I don't know if you'd have anything to add, or what, but we all know this bill is bigger than just technical clean up. We know it has a whole lot bigger ramifications and I'd like to know what they are.

McKenzie: I'm not sure I could add too much to what Doug said, other than, anytime you're going to take $67.7 million out of the market place, there's going to be impact. Not just on the companies that the money is being taken, but from the competitors might have entered the market place had that money been available for them to win and with long term investment decisions. I think the return to a more burdensome regulation, from my point of view it's a return to earnings regulation. You've heard another point of view. Either point of view is a more burdensome form of regulation than we have now. We ought to be moving toward a more competitive environment, which would dictate less regulation rather than to more regulation. So I think it's a move in the wrong direction. And there are specific items in there that I, as the president of Southwestern Bell, have specific concerns with because it seems to make me more vulnerable as a price cap company than I would be under the '96 Act. There are more ambiguities in the law as a result of **HB 2539** if it were enacted that there are even now. So, what are the impacts of those things, how might the implementors of this change use those ambiguities, I have a lot of concerns about those kinds of things. But in general, taking money out of the market place and return us to a more burdensome form of regulation seems like the wrong moves at the wrong time.

Toelkes: I do have a couple of little short ones. It was said little while ago, that , the question was asked exactly how did the access charges get put into this universal service fund. Remind us again how that took place, whose decision was it and how was it made, that's where the money would go.

McKenzie: Well, in '96, the Kansas Corporation Commission, chose to do it that way. At that time, the KCC Staff and industry were both advocating a plan that would have had a rate re-balancing methodology followed so that as access charges came down, local rates would go up. The KCC then, unilaterally chose, to implement it as the law allowed them the flexibility of the ambiguity in it at the time, to instead of increasing local rates as access charges came down, they made the KUSF much larger than anyone had anticipated.

Toelkes: Now if this is tinkered with, does that mean that the increase in local service rates will then be on the customers as opposed to having that fund there? Is that what will eventually happen?

McKenzie: I'm not sure what the eventual impact of this bill, if it were to be enacted into law, would be in terms of local residential rates or local business rates. I'm not sure what would be the long term impact.

Toelkes: In order to make up that tremendous shortfall, it seems to me the company and whoever else is involved would have to raise those rates in order to stay in business.

McKenzie: Well, under today's current law, I would argue that if you don't want access charges to go down and if you don't want local rates to go up, well let's let access charges go back up. I mean, Southwestern Bell agreed to access charge reductions no benefit to us, because that's what policy makers in Kansas wanted in 1996. Well, if that's not what's wanted now, I don't mind getting the $65 million from access charges, let them climb back up.

Toelkes: That way it would be the other companies who would end up paying the charges. Well, I don't know, thank you, I think probably that's all I needed to ask. I just have one little thing, I think I would just as soon have the situation stay like it is than have my customers

Toelkes (cont): being told they're going to have their monthly rates raised $4 plus, so. Thank you.

Holmes: I have a couple more that would like to ask questions, and I have a couple of questions. So we're going to, again, recess the hearing until tomorrow at 9:00. For the committee members that asked and this is Richard's questions, about the possibility of having a closed meeting for proprietary information, I've asked the Rules Chair about that. At this point in time, I'm really not interested in having a closed meeting. I would request that each of members that want to prevail themselves of that, to make arrangements with the two companies to do that. We will not do that as a full committee.

Meeting adjourned at 10:53 a.m.

Next meeting is Tuesday, March 16.

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 15, 1999

NAME	REPRESENTING
Rob Hodges	KTIA
Nelson Krueger	LEL
HEINEMANN	KCC
Tom Gleason	Independent Telecom Group
Susan Mahoney	Senate Leadership Offices
MIKE LURA	CURB
Shirley Allen	SWBT
Sandy Reams	KCC
Glenda Cafer	KCC
Dave Dittemore	KCC
Dave Heinemann	KCC
D. Marie Deki	Amy A. Campbell
Sandy Braden	McGill, Gaches, Assoc.
Patrice Scott	Sprint
Stephen Minnis	Sprint

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 15, 1999

NAME	REPRESENTING
Bob Cowdrey	Sprint
RICHARD LAWSON	Sprint
Mike Murray	Sprint
Christine Aarnes	KCC
Susan Palmer	KCC
Mike Reecht	AT&T
WALKER HENDRIX	CURB
DOUG LAWRENCE	SWBT
Debbie Snow	CWA
Shaun McKenzie	SWBT
Charles Clark	"
Mike Cavell	"
Walker Hendrix	CURB
Senator Brownlee	
John Dinegan	

Ed Schaub

Updated **FRIDAY** March 12, 1999

Technology

AOL, Southwestern Bell team up on Internet service

By Alan Goldstein and Jennifer Files
The Dallas Morning News

Beginning this fall, Southwestern Bell customers will be able to connect to America Online at speeds up to 50 times faster than they now experience using a standard modem.

Under an agreement announced Thursday, America Online Inc. will sell asymmetric digital subscriber line service throughout SBC Communications Inc.'s vast territory, which includes Texas, California, Missouri, Oklahoma, Kansas and other states.

ADSL service will cost America Online customers $20 a month in addition to their regular subscription fee -- generally $21.95 a month for unlimited use. Customers will also need new ADSL modems and certain other hardware.

But many residential customers will be able to offset some of the added costs by eliminating their second phone lines. ADSL service, which uses standard telephone wires, allows customers to talk on the phone and surf the Internet simultaneously over a single line.

SBC's Southwestern Bell unit announced two months ago that it would start offering ADSL service in major cities beginning in March. But the latest announcement means America Online's loyal customers also can have the benefit of higher-speed connections.

Southwestern Bell plans to gradually introduce ADSL capabilities through next year as it performs upgrades in the different areas it serves. The company is focusing its efforts first on more heavily populated urban areas and then moving outward.

HOUSE UTILITIES
DATE: 3-15-99
ATTACHMENT 1

GTE Corp.'s ADSL service is available to about 8 million homes nationwide.

For Dulles, Va.-based America Online, the largest provider of Internet access with 14 million customers in the United States, the deal with SBC helps to secure its future in the so-called broadband era.

America Online reached a similar agreement with Bell Atlantic Corp. a few months ago, allowing it to serve customers in the Northeast and mid-Atlantic regions. With the two deals, America Online has 53 percent of its U.S. member base covered, said Tom Ziemba, a company spokesman.

Telephone and cable-based technologies are vying with one another to dominate the next generation of Internet access. As speeds become faster, many analysts expect more audio and video to be delivered over the World Wide Web.

Leading the cable camp is TCI Communications, the nation's second-largest cable company, which is now part of AT&T Corp.

Cable and ADSL services are priced competitively. TCI's cable modem subscribers pay $40 a month for the service. TCI's default Internet service provider is @Home. Customers must pay extra if they want to use America Online.

America Online seeks to make distribution deals with other telephone companies, as well as with cable and satellite operators, said Ziemba. "We want to help customers pick what best meets their needs."

Personal computer manufacturers, including Compaq Computer Corp. of Houston and Dell Computer Corp. of Round Rock, Texas, are also launching plans to sell machines configured for high-speed Internet access.

Dell plans to custom-build computers with the appropriate high-speed modem and circuit cards already configured for the type of broadband Internet access available in a customer's neighborhood, said David Hood, vice president and general manager for Dell's home systems unit.

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Wichita Online
825 E. Douglas
Wichita, Kan. 67202
316.268.6614

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N.M. House Panel Approves Electric Deregulation Legislation
Dow Jones - 03/10/99
By Pat Maio

LOS ANGELES -- A key New Mexico state house panel unanimously approved proposed electric deregulation legislation Wednesday. The legislation removed a controvesial charge to fund-renewable power projects, according to sources familiar with the bill.

The bill was approved by a vote of 11-0 by the House Business and Industry Committee and next goes to the House Finance Committee for consideration, the sources said.

The state's senate passed the legislation last month.

The New Mexico legislature adjourns in 10 days. With the Senate passing the electric deregulation plan last month - with the renewable power charge intact - the House is likely to move quickly to pass its version.

The original legislation, which was offered by State Senator Michael S. Sanchez, a Democrat from Valencia, N.M., proposed the collection of $4 million annually over the next five years for renewable power projects.

Under the Senate-passed version of the bill, all utilities in the state would have collected from their customers a "systems benefit charge" that would help fund the projects.

Renewable energy projects are those which generate electricity from solar, wind, biomass or hydroelectric sources.

Sanchez said Wednesday he would consider separate legislation to deal with the renewable power issue just to get the electric deregulation bill passed.

The legislation lays out the groundwork for a transition to a competitive market beginning Jan. 1, 2001, for residential and small business customers. Larger industrial and commercial customers would get the option to choose their own electricity supplier beginning Jan. 1, 2002.

The bill, S.B. 428, also would allow stranded cost recovery over five years instead of the original four years that Sanchez had proposed when he introduced the bill Feb. 5.

The state's biggest investor-owned utility, Public Service Co. of New Mexico (PNM), says it has roughly $600 million to $650 million in stranded debt. Stranded debt are those investments in transmission or power plant assets that could become unrecoverable in a deregulated market.

HOUSE UTILITIES
DATE: 3-15-99
ATTACHMENT 2

Ark. Gov May Call Special Legislative Session On Power Dereg
Dow Jones - 03/03/99
By Eileen O'Grady

Arkansas Gov. Mike Huckabee said he would be willing to call a special legislative session this year to give legislators enough time to study electric industry restructuring.

A state Senate committee Tuesday launched hearings on a pair of competing proposals to launch retail electric competition in the state as early as Jan. 1, 2002.

The Insurance and Commerce committee will discuss the bills again Thursday morning.

One of the two bills has the support of a coalition, including investor-owned utilities, and large industrial power users and the second has the backing of the state's electric cooperatives.

"If there's no consensus, the governor is not averse to calling a special session," Huckabee spokesman Rex Nelson told Dow Jones Newswires Wednesday.

Representatives of the state's investor-owned utilities, municipal utilities, industrial users, and electric cooperatives met for months before the legislative session began in January to try to fashion a single restructuring bill to present to lawmakers.

The talks broke down over stranded cost recovery and transmission access issues, however, and two bills were filed in the Arkansas Senate last week.

Stranded costs are utility investments in generation facilities that may not be recovered in a competitive market.

A third bill, calling for further study until the next legislative session in 2001, also has been filed in the Arkansas House of Representatives,

Industry and legislative sources have said it is unlikely that Arkansas lawmakers will pass any bill that does not have the support of all electric industry participants.

While the Arkansas Legislature's 60-day session may be extended, it willlikely end in April, sources said.

That may not give lawmakers enough time to evaluate the coalition and co-op bills.

"The governor's position is that we may get a deregulation bill passed during this session, but if not, he would not hesitate to (call a special session) in the summer or later," said Nelson.

HOUSE UTILITIES
DATE: 3-15-99
ATTACHMENT 3

KS 98/99

State of Kansas Universal Service Fund
1998/1999 Carrier Remittance Worksheet

B. Submission Date: 2/11/99

C. Revenue Data Month: January

A. Company Code: KS - 001411

D. _X__ Original ____ Revision

Please read complete instructions before completing

Section 1 - Carrier Identification

1. Company Name:	United Telephone of Kansas (Consolidated)
Complete Mailing Address:	4220 Shawnee Mission Pkwy Westwood, KS 66205
Telephone:	(913) 624-1232

2. Primary Communications Business
_X_ LEC ___IXC ___CAP ___ALEC ___Wireless ___OSP ___RES ___Other(Explain__________

3. Parent Company:	Sprint Corp.
Complete Mailing Address:	2330 Shawnee Mission Parkway Westwood, KS 66205
Telephone:	(913) 624-3700

Section 2 - Monthly Intrastate Retail Revenue Data

4. LOCAL EXCHANGE SERVICE	4.	$2,447,988
5. LOCAL PRIVATE LINE	5.	$33,418
6. WIRELESS/PCS/MOBILE MONTHLY CHARGES	6.	$0
7. WIRELESS/PCS/MOBILE USAGE CHARGES	7.	$0
8. INTRASTATE SWITCHED TOLL	8.	$0
9. TOLL PRIVATE LINE	9.	$0
10. ALTERNATIVE ACCESS & DIRECTORY	10.	$32,882
11. PAY TELEPHONE	11.	$20,366
12. MISCELLANEOUS CHARGES	12.	$141,325
13. KUSF ASSESSMENTS (FLOW THROUGH REVENUES)	13.	$187,951
14. TOTAL INTRASTATE RETAIL REVENUES (SUM LINES 4 THROUGH 13)	14.	$2,863,930

Section 3 - Remittance Calculation

15. 1998/1999 KUSF CONTRIBUTION RATE	15.	0.0683
16. GROSS KUSF ASSESSMENT (Actual receipts from line 12) ACCESS LINES= 136,962	16.	$187,951
17. a. KUSF SUPPORT PAYABLE	17a.	$1,195,833
b. LIFELINE DISCOUNT: 59 NUMBER OF LINES X $3.00 DISCOUNT PER LINE	17b.	$177
18. NET KUSF REMITTANCE (LINE 16 - LINE 17a - LINE 17b) (Negative amount means KUSF payout)	18.	($1,008,059)
19. GROSS KUSF ASSESSMNENT (**DUE FROM KS001412**)	19.	$3,486
20. NET KUSF REMITTANCE (LINE 18-LINE19)....(Negative amount means KUSF payout)	20.	($1,004,573)

Remittance due to NECA on the 15th day of the current month and support payments sent by NECA on the first day of the following month.
Remittance received after the 15th day of the month are subject to one percent (1%) late payment fee (12% APR) cumulatively.

Section 4 - Change In Company Status

19. Date: ____________ New Carrier Name: ____________

20. If business has been discontinued in Kansas: ________ Business Sold or ________ Business Merged or ________ Business Discontinued
(date) (date) (date)

20a. Company sold to or merged with: ____________

Section 5 - Certification

Under penalties as provided by law, I certify that I have examined this report and to the best of my knowledge and belief it is true, correct and complete. I further acknowledge NECA's authority to request additional supporting information as may be necessary.

	Date	Officer Name	Officer Signature	Officer Title
21.	2/11/99	W.D. Whinery		Assistant Vice President Revenue Analysis and Reporting

	Date	Contact Name	Contact Phone	Contact Title
22.	2/11/99	Richard L. Hamilton	(913) 624-1232	Manager - Cost Systems

23. Complete Contact Mailing Address: 2330 Shawnee Mission Pkwy Westwood, KS 66205 Mailstop: KSFRWB0201

Send worksheet with photocopy of your check to:
KUSF Administration
NECA
100 S. Jefferson Road
Whippany, NJ 07981
(973) 884-8011

Make check payable to "NECA KUSF" and send to:
NECA KUSF
P O. Box 1512
Topeka, KS 66601-1512

Do Not Send Payment with Remittance Worksheet

Payment Method:
Check ____ EFT _____ Auto Debit ____

Form revised 9/98

HOUSE UTILITIES
DATE: 3-15-99
ATTACHMENT 4

KS 98/99

State of Kansas Universal Service Fund
1998/1999 Carrier Remittance Worksheet

B. Submission Date: 2/11/99

C. Revenue Data Month: January

A. Company Code: KS - 001412

D. _X_ Original ____ Revision

Please read complete instructions before completing

*** Section 1 - Carrier Identification ***

1. Company Name:	United Telephone of Kansas (Consolidated)
Complete Mailing Address:	4220 Shawnee Mission Pkwy Westwood, KS 66205
Telephone:	(913) 624-1232

2. Primary Communications Business
_X_LEC ___IXC ___CAP ___ALEC ___Wireless ___OSP ___RES ___Other(Explain________

3. Parent Company:	Sprint Corp.
Complete Mailing Address:	2330 Shawnee Mission Parkway Westwood, KS 66205
Telephone:	(913) 624-3700

*** Section 2 - Monthly Intrastate Retail Revenue Data ***

4. LOCAL EXCHANGE SERVICE	4.	$0
5. LOCAL PRIVATE LINE	5.	$0
6. WIRELESS/PCS/MOBILE MONTHLY CHARGES	6.	$0
7. WIRELESS/PCS/MOBILE USAGE CHARGES	7.	$0
8. INTRASTATE SWITCHED TOLL	8.	$35,734
9. TOLL PRIVATE LINE	9.	$15,312
10. ALTERNATIVE ACCESS & DIRECTORY	10.	$0
11. PAY TELEPHONE	11.	$0
12. MISCELLANEOUS CHARGES	12.	$0
13. KUSF ASSESSMENTS (FLOW THROUGH REVENUES)	13.	$0
14. TOTAL INTRASTATE RETAIL REVENUES (SUM LINES 4 THROUGH 13)	14.	$51,046

*** Section 3 - Remittance Calculation ***

15. 1998/1999 KUSF CONTRIBUTION RATE	15.	0.0683
16. GROSS KUSF ASSESSMENT (Actual receipts from line 12) ACCESS LINES=	16.	$3,486
17. a. KUSF SUPPORT PAYABLE	17a.	$0
b. LIFELINE DISCOUNT: 0 NUMBER OF LINES X $3.00 DISCOUNT PER LINE	17b.	$0
18. NET KUSF REMITTANCE (LINE 16 - LINE 17a - LINE 17b) (Negative amount means KUSF payout)	18.	$3,486

Remittance due to NECA on the 15th day of the current month and support payments sent by NECA on the first day of the following month.
Remittance received after the 15th day of the month are subject to one percent (1%) late payment fee (12% APR) cumulatively.

*** Section 4 - Change In Company Status ***

19. Date: ________ New Carrier Name: ________

20. If business has been discontinued in Kansas: ______ Business Sold or ______ Business Merged or ______ Business Discontinued
(date) (date) (date)

20a. Company sold to or merged with: ________

*** Section 5 - Certification ***

Under penalties as provided by law, I certify that I have examined this report and to the best of my knowledge and belief it is true, correct and complete. I further acknowledge NECA's authority to request additional supporting information as may be necessary.

21.	2/11/99	W.D. Whinery		Assistant Vice President Revenue Analysis and Reporting
	Date	Officer Name	Officer Signature	Officer Title
22.	2/11/99	Richard L. Hamilton	(913) 624-1232	Manager - Cost Systems
	Date	Contact Name	Contact Phone	Contact Title

23. Complete Contact Mailing Address: 2330 Shawnee Mission Pkwy Westwood, KS 66205 Mailstop: KSFRWB0201

Send worksheet with photocopy of your check to:
KUSF Administration
NECA
100 S. Jefferson Road
Whippany, NJ 07981
(973) 884-8011

Do Not Send Payment with Remittance Worksheet

Payment Method:

Check ____ EFT ____ Auto Debit______

Make check payable to "NECA KUSF" and send to:
NECA KUSF
P O. Box 1512
Topeka, KS 66601-1512

form revised 9/98

4-2

KS 98/99 *

Company Code: KS - 001361

State of Kansas Universal Service Fund
1998/1999 Carrier Remittance Worksheet

Please read complete instructions before completing

B Submission Date: 2/23/

C Revenue Data Month: 1/99

D ☐ Original ☒ Revision

◆ SECTION 1 - CARRIER IDENTIFICATION ◆

Company Name: Southwestern Bell Telephone Company

Complete Mailing Address: 220 E 6th, Rm 545B Topeka, Kansas 66603

Telephone:

2 Primary Communications Business (Please "X" primary business and "√" other categories being reported)

☒ LEC ☐ IXC ☐ CAP ☐ CLEC ☐ Cellular ☐ PCS ☐ OSP ☐ RES ☐ PAY ☐ Other (Explain) ____________

3 Parent Company:

Complete Mailing Address:

Telephone:

◆ SECTION 2 - MONTHLY INTRASTATE RETAIL REVENUE DATA ◆

4	LOCAL EXCHANGE SERVICE	4.	$21,205,832.00
5.	LOCAL PRIVATE LINE	5.	$110,666.00
6	WIRELESS/PCS/MOBILE MONTHLY CHARGES	6.	
7	WIRELESS/PCS/MOBILE USAGE CHARGES	7.	
8	INTRASTATE SWITCHED TOLL	8.	
9.	TOLL PRIVATE LINE (Special Access to End Users)	9.	
10.	ALTERNATIVE ACCESS & DIRECTORY	10.	
11.	PAY TELEPHONE	11.	
12.	MISCELLANEOUS CHARGES	12.	$12,686,796.00
13.	KUSF ASSESSMENTS (FLOW THROUGH REVENUES)	13.	$2,482,832.00
14.	TOTAL INTRASTATE RETAIL REVENUES (SUM OF LINES 4 THROUGH 13)	14.	$36,486,126.00

◆ SECTION 3 - REMITTANCE CALCULATION ◆

15.	1998/1999 KUSF ASSESSMENT RATE	15.	.0683
16.	GROSS KUSF ASSESSMENT (LINE 14 x LINE 15, SEE INSTRUCTIONS)...Number Access Lines 1,259,058	16.	$2,505,525.03
17.	a. KUSF SUPPORT PAYABLE	17a.	$5,420,242.00
	b. LIFELINE DISCOUNT: 4047 NUMBER OF LINES x $3 DISCOUNT PER LINE	17b.	$12,141.00
18.	NET KUSF REMITTANCE (LINE 16-LINE 17a-LINE 17b) (Negative amount means KUSF payout)	18.	($2,926,857.97)
19.	GROSS KUSF ASSESSMENT (DUE FROM KS001360)	19.	$625,026.09
20.	NET KUSF REMITTANCE (LINE 18-LINE 19) (Negative amount means KUSF payout)	20.	($2,301,831.88)

Remittances due to NECA on the 15th day of the current month and support payments sent by NECA on the 1st day of the following month. Remittances received after the 15th day of the month are subject to a one percent (1%) late payment fee (12% APR) cumulatively.

◆ SECTION 4 - CHANGE IN COMPANY STATUS ◆

19. Date: ____________ New Carrier Name: ____________

20. If business has been discontinued in Kansas: ______ (date) Business Sold or ______ (date) Business Merged or ______ (date) Business Discontinued

20a. Company sold to or merged with: ____________ If business has recently started in Kansas, ______ (date) business began.

◆ SECTION 5 - CERTIFICATION ◆

Under penalties as provided by law, I certify that I have examined this report and to the best of my knowledge and belief it is true, correct and complete. I further acknowledge NECA's authority to request additional supporting information as may be necessary.

21. 2/15/99 | Shawn McKenzie | [signature] | President-Kansas

Date | Officer Name | Officer Signature | Officer Title

22. 2/15/99 | Cyndi Gallagher cdg | (785) 276-8938 | Area Mgr-Reg Analysis

Date | Contact Name | Contact Phone | Contact Title

23. Complete Contact Mailing Address: 220 E 6th, Room 545B Topeka, Kansas 66603

Send worksheet with a photocopy of your check to: ➜ KUSF Administration - NECA
100 S. Jefferson Road
Whippany, NJ 07981
(973) 884-8011

Make check payable to "NECA KUSF" and send to: ➜ NECA KUSF
PO Box 1512
Topeka, KS 66601-1512

Do Not Send Payment with Remittance Worksheet

HOUSE UTILITIES

DATE: 3-15-99

ATTACHMENT 5