

Approved: February 17, 1999
Date

MINUTES OF THE SENATE COMMERCE COMMITTEE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 16, 1999 in Room 123-S of the Capitol.

All members were present except:

Committee staff present:

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

Conferees appearing before the committee:

Anne Wickliffe, Chief Telecommunications Analyst for the Kansas Corporation Commission.
Mike Lura, Consultant, Citizens' Utility Ratepayer Board
Tom Morgan, Morgan Consulting Group, Ltd., Paola

Others attending: See attached list

SB 270 - Unemployment compensation eligibility for benefits and determination of contribution rates

The Chair appointed a subcommittee of Senators Donovan, Steineger and Brownlee to consider and report back to the Committee their recommendations on **SB 270**.

Anne Wickliffe, Chief Telecommunications Analyst, Kansas Corporation Commission (KCC), reviewed the Commission's Report and Recommendation on the Definitions of Universal Service and Enhanced Universal Service. Ms. Wickliffe stated the Report is in compliance with the requirements of the Telecommunications Act of 1996, and in response to the Kansas Universal Service Fund Working Committee's request to expedite its review of the definitions of basic universal service and enhanced universal service and advise the respective Legislative Committees by February 15, 1999. (Attachment 1)

The Commission recommended: 1) that the definition of universal services be modified to delete ~~and equal~~ and to add the words "and toll blocking or toll control"; 2) defined the services included in the proposed definition of universal service; 3) redefined enhanced universal service by striking specific technologies, and recommended an open-ended definition provided in the Federal Telecommunications Act for "advanced telecommunications capability." The Report reflects comments from various groups: MCI, Independent Telecommunications Group, Columbus, Southwestern Bell Telephone Company, Citizen's Utility Ratepayer Board and Sprint.

SB 290 - Telecommunication universal service fund access

Ms. Wickliffe, on behalf of the KCC, briefed the Committee on **SB 290**, stating the bill is the result of a request by members of this Committee specifically asking how the size of the Kansas Universal Service Fund could be reduced, how the size of the fund could be addressed quickly, how the revenue neutrality requirement affects the fund size, how to address deployment of enhanced universal services and the associated cost recovery, and whether revisions could be made to existing law that would enhance the KCC's ability to obtain the information needed to perform its statutory duties. (Attachment 2)

Ms. Wickliffe stated **SB 290** does make the requisite deletions and revisions to address the questions posed by Committee members at its meeting on January 26, 1999. The bill amends the

CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE, Room 123-S of the Statehouse, at 8:00 a.m. on February 16, 1999.

definitions universal service and enhanced universal service as recommended by the KCC; changes the enhanced deployment procedure; eliminates references to revenue neutrality; limits disbursements from the KUSF to price cap companies to \$36.88 per high cost access line; provides for maintenance of parity with interstate access rates and allows price cap companies to recover lost access revenues to the extent losses are supported by cost studies; revises the definition of basic universal service; eliminates the Hill City provisions; relieves the KCC of responsibility to revise statutory definitions; eliminates the slamming restriction section; conforms toll dialing parity with the federal act and federal communications commission rules and regulations; authorizes the KCC to conduct cost studies on its own motion; and permits the KCC to make its report to the legislature by posting the report on the agency's website.

Mike Lura, Consultant on behalf of the Citizens' Utility Ratepayer Board (CURB), testified in support of **SB 290** stating the bill eliminates language no longer necessary; redefines universal service and enhanced universal service more in line with federal definitions; removes certain technology specific requirements; and modifies the KUSF. **SB 290** provides that recovery by price cap companies for their universal service expenditures will now be based on costs and demonstrated need to receive funding, rather than on the present revenue neutral process. The bill establishes a benchmark rate of \$36.88 per year for every residential and single line business loop in high cost exchanges, defined as exchanges with 10,000 loops or less. **SB 290** provides that any price cap company that does not agree with the \$36.88 recovery can receive supplemental funding upon a showing to the KCC of what the proper amount should be based on cost documentation. Mr. Lura stated **SB 290** is a good balance between the interest of the consumer and the interests of the local exchange carriers. (Attachment 3)

Tom Morgan, Morgan Consulting Group, Ltd., testified in support of **SB 290**, stating his business has suffered due to problems experienced as a result of poor telephone service. Mr. Morgan testified that quality rural internet access may be the most important economic development issue facing Kansas. The information age/telecommunications revolution has generated tremendous economic potential for both small and large companies; however, Kansas is missing out due to its poor telecommunication infrastructure. Mr. Morgan stated it is very difficult for many rural areas to communicate via the internet. Need for affordable broadband internet access has grown and Kansas must meet these needs to be competitive in today's technological market. A restructuring of the size of the various rural phone exchanges is needed in order for the market to provide quality internet services. (Attachment 4)

Upon motion by Senator Steffes, seconded by Senator Brownlee, the Minutes of the February 15, 1999 Meeting were unanimously approved.

The meeting adjourned at 9:00 a.m.

The next meeting is scheduled for February 17, 1999.

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: February 14, 1999

NAME	REPRESENTING
Stephen Minnis	Sprint
Bill Roche	Sprint
Mike Munnery	Sprint
Richard Lawson	Sprint
Bob Cowdrey	Sprint
Mark Harper	Sprint
Angela Eggers	INT Dept. - FHSU
Susan Myers	self
Charles Club	SWBT
Tom Morgan	Morgan Consulting Group
WALKER HENDRIX	CURB
MIKE LURA	CURB
Annanned O'Leary	KCC
Dore D. Henmore	KCC
Glenda Carter	KCC
Denny Koch	SW Bell
Bill Speed	SW Bell
Brian Maloni	KCC
M. CAVELL	SW SW Bell

John Pinegar

SITA

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: Feb. 16, 1999

NAME	REPRESENTING
Tom Gleason	Independent Telecom. Group
Roger Bales	KCBR, Topeka
Mark Caplinger	SITA Topeka
Guy McDonald	KCC Staff
Austin Bechard	KINI
Chris Palazola	Intern / McClure
Doug Smith	SITA
Roger Franke	KGG
Doug Lawrence	SWBC
Ross Miller	KCC
David Brevitz	
Terry Leatherman	KCCI
Rob Hodges	KTIA
George Barbee	Barbee & Assoc's
DVD LORANT	KCCI
Ron GACHES	McGill, GACHES & ASSO.
HEINEMANN	KU
ELIZABETH CADY STANTON	SUFFRAGE, INC.

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

STATE CORPORATION COMMISSION

Before Commissioners: John Wine, Chair
 Cynthia L. Claus
 Brian J. Moline

FEB 12 1999

David J. Hinson Docket Room

In the Matter of a General Investigation Into) Docket No. 190,492-U
Competition Within the Telecommunications) 94-GIMT-478-GIT
Industry in the State of Kansas.))

**COMMISSION'S REPORT AND
RECOMMENDATION ON THE DEFINITIONS
OF UNIVERSAL SERVICE AND ENHANCED UNIVERSAL SERVICE**

The State Corporation Commission of the State of Kansas (Commission) submits to the Kansas Legislature this Report and Recommendation on the Definitions of Universal Service and Enhanced Universal Service.

1. The Kansas Telecommunications Act of 1996, requires the Commission to review, and if necessary, revise the definitions of universal service and enhanced universal service taking into account advances in telecommunications technology and services. K.S.A. 66-2002(k) (Supp. 1998).
2. In addition, the Kansas Universal Service Fund Working Committee asked the Commission to expedite its review of the definitions of basic universal service and enhanced universal service and advise the Senate Commerce Committee and House Utilities Committee of its findings and revisions by February 15, 1999. See Recommendations of the KUSF Working Committee to the 1999 Kansas Legislature, December 1998. The Commission submits this report pursuant to that request.
3. The Commission issued its September 29, 1998 Order requesting interested parties to file comments on the definitions of universal service and enhanced universal service found at K.S.A. 66-1,187 (p), (q) (Supp. 1998). Initial comments were filed on October 30, 1998, followed by reply comments on November 25, 1998. The purpose of the comments was to assist the Commission in fulfilling its statutory duty.

STATE CORPORATION COMMISSION
Senate Commerce Committee

Date 2-16-99

UT Attachment # 1-1 thru 1-8

6

4. Upon careful consideration of all the comments and reply comments, the Commission recommends that the definition of universal services be modified as follows:

(p) "Universal service" means telecommunications services and facilities which include: single party, two-way voice grade calling; stored program controlled switching with vertical service capability; E911 capability; tone dialing; access to operator services; access to directory assistance; ~~and equal~~ access to long distance services; *and toll blocking or toll control.*

5. The Commission recommends that "equal" be deleted from the phrase "equal access to long distance services." Incumbent local exchange carriers currently provide access to long distance services. They are not currently required to provide equal access, and such a requirement would eliminate many of these carriers from eligibility for Kansas Universal Service Fund (KUSF) support or cause a proliferation of requests for waiver of the requirement in an effort to maintain eligibility. Likewise, the equal access requirement would apply to wireless carriers. An equal access requirement on wireless carriers would eliminate most of them from eligibility for KUSF support. Further, deleting "equal" from the definition parallels the federal definition in *Report and Order, In the Matter of Federal-State Joint Board on Universal Service*, FCC 97-157, May 8, 1997, ¶ 61.

6. The Commission recommends adding "toll blocking or toll control" to the definition of universal services. The availability of either of these services will work to keep the networks available to customers by preventing the accumulation of large, unpaid charges. Requiring both toll blocking and toll control is not necessary, but providing one or the other is in keeping with the goals of universal service. "Toll blocking or toll control" is consistent with the Federal Communications Commission's (FCC's) definition. *See Fourth Order on Reconsideration*, FCC 96-420, December 30, 1997, ¶ 115.

7. The following definitions apply to the services included in the proposed definition of universal service:

Single Party: A telecommunications service that permits users to have exclusive use of a wireline subscriber loop or access line for each call placed, or, in the case of wireless telecommunications carriers, which use spectrum shared among users to provide service, a dedicated message path for the length of a user's particular transmission.

Two-way voice grade calling: A functionality that enables a user of telecommunications services to transmit voice communications, including signaling the network that the caller wishes to place a call, and to receive voice communications, including receiving a signal indicating there is an incoming call. For purposes of this part, voice grade access shall occur within the frequency range of between approximately 500 Hertz and 4,000 Hertz, for a bandwidth of approximately 3,500 Hertz.

Stored Program Control System (SPCS): An automatic switching system in which system operations are controlled by a stored program executed by one or more processors (computers). Operation of the system can be altered significantly by changing programs. With vertical service capability refers to those early Call Management services generally known as: Call Waiting, Call Forwarding, Three Way Calling and Speed Calling.

E911 capability: A service that permits a telecommunications user, by dialing the three-digit code "911," to call emergency services through a Public Service Access Point (PSAP) operated by the local government unit. "Enhanced 911" is defined as 911 service that includes the ability to provide automatic numbering information (ANI), which enables the PSAP to call back if the call is disconnected, and automatic location information (ALI), which permits emergency service providers to identify the geographic location of the calling party. "Access to emergency services (E911 capability)" includes access to 911 and enhanced 911 services to the extent the local government unit in an eligible carrier's service area has implemented 911 or enhanced 911 systems.

Tone dialing: Also know as, Dual tone Multi-Frequency (DTMF), is a method of signaling that facilitates the transportation of signaling through the network by use of distinct combinations of preassigned frequencies (tones).

Access to Operator Services: Access to any automatic or live assistance to a consumer to arrange for billing or completion, or both, of a telephone call.

Access to Directory Assistance: Access to a service that includes, but is not limited to, making available to customers, upon request, information contained in directory listings.

Access to Long Distance Services: Use of the loop, as well as that portion of the switch that is paid for by the end user, or the functional equivalent of these network elements in the case of a wireless carrier, necessary to access an interexchange carrier's network.

Toll Blocking or Toll Control: "Toll blocking" is a service provided by carriers that lets consumers elect not to allow the completion of outgoing toll calls from their telecommunications channel. "Toll control" is a service provided by carriers that allows consumers to specify a certain amount of toll usage that may be incurred on their telecommunications channel per month or per billing cycle.

8. The definitions of these terms, in the above paragraph, closely follow the federal definitions.

The definitions clarify the services the Commission included in the definition of universal service.

9. The Commission recommends that enhanced universal services be defined as follows:

(q) ~~“Enhanced universal service” means telecommunications services, in addition to those included in universal service, which shall include: Signaling system seven capability, with CLASS service capability, basic and primary rate ISDN capability, or the technological equivalent, full-fiber interconnectivity, or the technological equivalent, between central offices, and broadband capable facilities to: All schools accredited pursuant to K.S.A. 72-1101 et seq., and amendments thereto; hospitals as defined in K.S.A. 65-425, and amendments thereto; public libraries, and state and local government facilities which request broadband services.~~ *is defined, without regard to any transmission media or technology, as high-speed, switched, broadband telecommunications capability that enables users to originate and receive high-quality voice, data, graphics, and video telecommunications using any technology.*

10. The recommendation of this open-ended definition of enhanced universal service is a reflection of many of the comments received by the Commission. This is the definition provided in the Federal Telecommunications Act for “advanced telecommunications capability.” This open-ended definition will allow the competitive market to determine which technologies survive and which do not, while maintaining the requirement for high-speed telecommunications capability. Further, requiring providers to deploy specific enhanced services would potentially swell KUSF beyond its current funding structure.

11. These changes to the definitions of universal service and enhanced universal service recommended by the Commission reflect the consensus of the comments that the definitions should more closely reflect those definitions provided in the Federal Telecommunications Act of 1996. However, the Commission’s recommendations are at odds with some of the comments received. Several of the major differences follow:

a. MCI recommended no changes, but added that any changes that are made should more closely follow the definitions in the federal act.

b. The Independent Telecommunications Group, Columbus, et al.(Columbus), a group of rural telecommunications service providers, voiced its concern that frequent changes to the definitions of universal service and enhanced universal service could harm independent providers that may find it too hard to adjust to the changes. Columbus also argued that modifications to the definitions are the province of the legislature and not the Commission. Columbus stated that the itemized services in the current enhanced universal services definition have become basic, and the definition should be changed accordingly. Columbus did agree that a more general definition of enhanced services would be preferable to the current definition.

c. Southwestern Bell Telephone Company (SWBT) argued against adding any new services, including toll control, to the definition of universal services. SWBT argued that the requirement of equal access to long distance services should remain to prevent providers from simply providing access to a single long distance carrier. SWBT cautioned that changes should not be made in a way that would harm companies that have relied on existing definitions in making investment decisions.

d. The Citizen's Utility Ratepayer Board (CURB) issued comments which focused on the need to change the definitions in a way that emphasizes safety and economic issues. While the Commission's recommended changes do not adopt CURB's proposed definition, the changes do more closely follow the federal definitions which was a recommendation in CURB's comments.

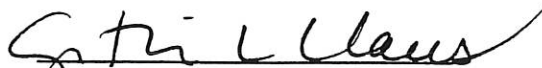
e. Sprint's comments were mainly focused on the need for uniformity with the definitions in the federal act. Sprint understood the definition of SPCS with vertical service capability to include customer local area signaling services (CLASS). As defined above, SPCS with vertical service capability does not include CLASS. The adoption of the recommended definition will alleviate Sprint's concern.

12. Although the Commission's recommended changes do not satisfy the conflicting requests of all parties, the definitions do move toward uniformity with the definitions in the federal act which was the request made in the majority of comments received by the Commission. The removal of specific technologies from the definition of enhanced universal service will keep the KUSF from having to subsidize outdated and unwanted technology. The open-ended definition of enhanced services will allow the competitive market to decide what technologies are used to provide enhanced services. The Commission believes it is in the public interest to amend the definitions as set out in this report.

13. The Commission issued a supplemental order on November 17, 1998, directing the parties to provide the Commission with estimates of the costs to implement the enhanced services as currently defined. The Commission also requested estimates of what the anticipated requirements from the KUSF would be to implement the enhanced services. All groups complied but Columbus had reservations about the reliability of its members' cost data. Staff believed the data was in line with the data submitted by other providers, but Staff did compile two separate summaries for the Commission. Attachment A uses all cost data while Attachment B excludes the cost data provided by Columbus.

Respectfully submitted,


John Wine, Chair


Cynthia Claus, Commissioner


Brian J. Morine, Commissioner

SUMMARY 1

**Estimates of Capital Costs and Support Required From the KUSF
for Enhanced Universal Services. (All companies)**

Total estimated capital costs for all enhanced services is **\$177 Million**.

Total estimated annual support required from the KUSF to help pay for the enhanced services is **\$11 Million**.

Some of the individual company data was designated as confidential. Staff agreed the information should be treated as confidential. Some of the data was gleaned from information furnished in February of 1998 for the infrastructure cost project, Docket No. 98-GIMT-030-GIT.

Council Grove, Tri-County Telephone, Gorham Telephone, LaHarpe Telephone, and all companies in the Columbus Group of 12 Local Exchange Carriers (LECs) used the same capital costs and KUSF support requirements that were submitted in February of 1998 for the infrastructure cost study. All other companies submitted fresh data. Most companies wished to reserve the right to ask for additional KUSF monies in the future, if circumstances warrant.

The cost data from the Columbus Group is included in this analysis in spite of the Columbus Group's assertion that the data is unreliable. In the aggregate, this group would experience \$79 Million in capital costs and require \$5.6 Million in support payments from the KUSF.

SUMMARY 2

**Estimates of Capital Costs and Support Required From the KUSF
for Enhanced Universal Services. (Excludes Columbus Group)**

Total estimated capital costs for all enhanced services is **\$97.7 Million**.

Total estimated annual support required from the KUSF to help pay for the enhanced services is **\$5.4 Million**. This amount (based on company estimates) is in addition to the revenue the companies expect to generate from provision of these services.

Some of the individual company was gleaned from information furnished in February of 1998 for the infrastructure cost project, Docket No. 98-GIMT-030-GIT and was designated as highly confidential. Staff agreed to continue to treat individual company data as highly confidential.

The cost data submitted by the Columbus Group has been excluded from this report because of Columbus Group's reservations about the reliability of the information.

**Before the Senate Commerce Committee
Comments by the
Staff of the Kansas Corporation Commission
February 16, 1999
Senate Bill 290**

Good morning, Madame Chair and Committee members. I am Anne Wickliffe, Chief Telecommunications Analyst for the Kansas Corporation Commission (KCC). I am speaking on behalf of the Staff of the Kansas Corporation Commission in regard to Senate Bill 290. This legislation was drafted in response to requests for input made by members of this Committee on January 26, 1999. Specifically, Committee members asked the Staff how the size of the Kansas Universal Service Fund could be reduced, asked how the problem of the size of the fund could be addressed quickly, asked how the revenue neutrality requirement affects the fund size, asked how to address deployment of enhanced universal services and the associated cost recovery, and asked whether revisions could be made to the existing legislation that would enhance the KCC's ability to obtain the information it needs to perform its statutory duties. KCC Staff members assisted in the drafting of Senate Bill 290 in an attempt to address these questions.

SB 290 would make a number of revisions to the existing legislation, some of which are of major import, and others which are more administrative in nature. I will describe the provisions affecting the KUSF first, and then discuss the other provisions. Where applicable I have also indicated the legislative objective.

A. Provisions Affecting the Size of the KUSF

1. **Changes in enhanced universal service definition:** SB 290 would eliminate all references to specific technologies such as ISDN or fiber optics and revise the definition to echo the

Federal Act's more open-ended definition. The Federal Act states that “‘advanced telecommunications capability’ is defined without regard to any transmission media or technology as high-speed, switched, broadband telecommunications capability that enables users to originate and receive high-quality voice, data, graphics, and video telecommunications using any technology”.
See 47 U.S.C. 706(c)(1).

Legislative objective: Advise the Committee on needed modifications to the definition; reduce the size of the KUSF.

Rationale: The purpose of this revised definition is to allow the competitive market to determine which technologies survive, rather than subsidizing specific technologies with public funds. The purpose of making high-speed data transmission available to rural exchanges in Kansas may be better served by permitting competition to develop new technologies and by subsidizing advanced services, where needed, on the basis of the service delivered rather than the means of delivery.

This provision would also, when coupled with the elimination of language referring to infrastructure plans, act to reduce potential demand on the KUSF. Current statutory language requires the deployment of, and KUSF support for, specific technologies. These revisions would permit companies to deploy more progressive and efficient technologies where available and make recovery of KUSF support subject to KCC review.

These revisions are not designed to deny funding to incumbent local exchange companies that have implemented specific technologies in compliance with the current statutory language. SB 290 specifically addresses recovery for such expenditures at 66-2005(a).

Kansas Corporation Commission’s Report and Recommendation on the

Definitions of Universal Service and Enhanced Universal Service: The KCC's Report and Recommendation filed on February 12, 1999, recommends the same modifications to this definition.

2. **Changes in enhanced services deployment procedure:** SB 290 would delete or revise the provisions of 66-2002(d), 66-2005(a), (b)(1), and (b)(2) regarding infrastructure plans. The required infrastructure plans and the review and approval procedure for deployment of enhanced universal services would be replaced with a more open-ended plan. The revised plan found at 66-2005(a) calls for the KCC to establish rules and regulations for access to enhanced telecommunications and information services with the goal of achieving reasonably comparable services between rural and urban areas. These services could be supported by KUSF funding upon review by the KCC of associated costs. Section 66-2005(a) includes a provision for supplemental KUSF funding for enhanced services deployment over and above high cost support.

Legislative objective: Advise the Committee on needed modifications to the definition; reduce the size of the KUSF.

Rationale: This change would make the plan for deployment of enhanced services more consistent with the revised definition of enhanced universal service. As revised, that definition does not identify specific technologies for deployment. This change is also consistent with other revisions that refer to cost study justification for disbursements from the KUSF. See, for example, 66-2005(c), (u), and 66-2008(d). The supplemental funding provision makes available support for services specifically deployed in order to comply with the current, technology-specific, Kansas Telecom Act.

3. **Elimination of references to revenue neutrality:** SB 290 would eliminate the references to revenue neutrality found at 66-2005(g) and (h).

Legislative objective: Reduce the size of the KUSF.

Rationale: The current size of the KUSF is a result of the revenue neutrality provision. Although the KCC has initiated a general investigatory docket¹ to move toward a cost-based fund, and the Kansas Supreme Court² has indicated that the fund must transition to a cost-based methodology, the size of the fund remains at approximately \$100,000,000 in the interim. Eliminating the revenue neutrality language from the act would permit rapid implementation of the interim solution described below of reducing disbursements to price cap companies.

4. **Price cap company disbursements from the fund:** SB 290 would revise 66-2008(d) to limit disbursements from the KUSF to price cap companies to \$36.88 per high cost access line³ which is the amount determined by the KCC to be the level of high cost support needed to ensure provision of universal service in rural Kansas exchanges. Any company that needed additional support could petition the KCC for supplemental funding within 60 days of having its KUSF funding reduced. Supplemental funding could be granted if the company's cost and revenue data showed a need for it, and the additional support would be awarded retroactive to the date of the filing of the petition. Section 66-2008(d) also includes a requirement that rate rebalancing be supported by cost studies.

The KCC has defined "rural" exchanges to be those with 10,000 access lines or fewer.⁴ In

¹Docket No. 99-GIMT-326-GIT, set for hearing June 14-25, 1999.

² *Citizens Utility Ratepayer Bd. v. Kansas Corporation Comm'n.*, 264 Kan. 363 (1998).

³ Should the KCC subsequently determine that a different level of support for high cost access lines is needed the price cap companies would be entitled to that revised level of support.

⁴ *In the Matter of a General Investigation Into Competition Within the Telecommunications Industry in the State of Kansas*, Docket No. 190,492-U, 94-GIMT-478-GIT, Order issued December 27, 1996, at ¶ 124.

the same order the KCC found that the appropriate level of support needed per high cost access line was \$36.88⁵. That figure was derived by examining the costs used for calculating federal universal service support levels, and deducting federal universal service support amounts to determine the cost of the local loop that remains unrecovered. The specifics of how this figure was calculated have been set out in an attachment to this testimony. The expected impact of implementing this change is described below:

	Impact on SWBT	Impact on Sprint
Current KUSF disbursements	\$65.0 million	\$14.2 million
KUSF disbursements at \$36.88/access line	\$ 7.8 million	\$ 3.7 million
Reduction in KUSF	\$57.2 million	\$10.5 million

Total Reduction in KUSF: \$67.7 million
 Total Fund Amount: \$33 million (\$29 million in high cost support, \$4 million for KRSI, Lifeline, and TAP programs)
 Resulting Assessment Rate: 3.13%
 Surcharge per line, SWBT customers: \$ 0.88

Legislative objective: Reduce the size of the KUSF; assist the KCC in obtaining needed cost and revenue data from companies receiving KUSF support.

Rationale: The stated objective is to reduce the size of the KUSF as quickly as possible. In order to accomplish that most equitably, SB 290 proposes a reduction to price cap company disbursements. The rates that price cap companies charge to end users are beyond the KCC's jurisdiction. However, the KCC does have jurisdiction over cost-based disbursements from the KUSF. The most effective means of investigating the need for funding of a price cap company prior

⁵*Id.* at ¶¶ 124, 125.

to resolution of the pending investigatory docket, 99-GIMT-326-GIT, is to create an incentive for those companies to voluntarily demonstrate their costs and associated revenues. In addition, the two price cap companies receive the largest disbursements from the KUSF.

This method of reducing the fund moves quickly to a more cost-based mechanism since the KCC made a finding, based upon record evidence, that \$36.88 would be adequate to support high cost access lines. The reduction will not prejudice any company because a company needing more funding may petition the KCC immediately for relief based upon a demonstration of costs and revenues. Finally, the affected companies have additional protection in 66-2008(e) which allows for supplemental funding for exogenous adjustments, such as changes in federal tax laws.

5. **Access rate reductions:** SB 290 would modify 66-2005(c)'s provisions for access rate reductions to permit additional reductions for price cap companies to maintain parity with interstate rates as those rates continue to change. This section would also permit recovery by price cap companies of future lost access revenues from the KUSF only to the extent the losses are supported by cost studies.

Additional language in 66-2008(a) would clarify that the initial revenue neutral-based amount of the KUSF applies only to the initial three-year phase-down of access rates.*

Legislative objective: Reduce the size of the KUSF.

Rationale: Continued reductions of access charges will move access charges closer to cost, thus removing implicit subsidies which is necessary to have a level playing field for competitors.

B. Other Provisions

1. **Revision of basic universal service definition:** SB 290 would make two changes

to the definition of universal service found at 66-1,187(p):

a. it would eliminate the words “and equal” from the phrase “and equal access to long distance services”; the surviving definition would require that a company provide “access to long distance services” in order to satisfy the universal service definition.

Rationale: Not all local exchange carriers in Kansas are providing equal access⁶ to intraLATA long distance services. The recent Supreme Court decision⁷ places the authority to order this type of equal access with the FCC. In addition, wireless carriers are not yet required by the FCC to provide equal access. Retaining this reference in the definition of universal service could exclude all wireless carriers from the possibility of receiving KUSF support, and bring about numerous requests for waivers of the requirement by incumbent local exchange companies.

b. it would add “toll blocking or toll control” to the definition of universal service. Both of these services are designed to assist end users in avoiding excessive long distance charges for which the user is unable to pay. Toll blocking is a feature that prevents any long distance calls from a particular telephone number other than toll-free calls such as 800-number calls. Toll control is a feature that prevents any long distance calls from a particular telephone number once a certain dollar value has been reached. Because toll control requires real time monitoring some carriers do not currently have the technical capability to provide this service.

Rationale: Adding this requirement would make the Kansas definition conform to the FCC’s definition of universal service. Comments submitted by parties to Docket No.

⁶ The terms “equal access” and “dialing parity” are used interchangeably in the Kansas Telecom Act and in this testimony.

⁷ *AT&T Corp. v. Iowa Utilities Bd.*, No. 97-826, 1999 WL 24568 (U.S. Jan. 1999).

94-GIMT-478-GIT regarding the definition of universal service indicate that some type of toll blocking or toll control is useful in keeping more end users connected to the public telephone network.

Kansas Corporation Commission's Report and Recommendation on the Definitions of Universal Service and Enhanced Universal Service: The KCC's Report and Recommendation filed on February 12, 1999, recommends the same modifications to this definition.

2. **Revisions to public policy section:** SB 290 would revise 66-2001(b) and (f) in accordance with the recommendations of the Kansas Universal Service Fund Working Committee and included in that committee's Report to the Legislature and in SB 84.

3. **Elimination of Hill City provisions:** SB 290 would delete the specific references to the treatment of the Hill City exchange.

Rationale: Since this exchange has been purchased by Rural Telephone Company and now receives service from Rural, there is no longer a need for special statutory treatment.

4. **Elimination of KCC responsibility to revise statutory definitions:** SB 290 would eliminate the direction to the KCC to review and modify the definitions of universal service and enhanced universal service found at 66-2002(h) .

Rationale: Since the legislature has defined these terms it would be inappropriate for the KCC to modify a statutory definition.

5. **Elimination of slamming restrictions section:** SB 290 would eliminate 2002(j) which requires the KCC to adopt standards and guidelines for enforcing slamming restrictions.

Rationale: The legislature gave the authority for enforcing slamming restriction to the Attorney General's office in 1998 by enacting House Substitute for Senate Bill 212 (now Chapter

138, 1998 Session Laws of Kansas).

6. **References to dialing parity:** Dialing parity in this context means the ability to dial a "1" plus a phone number and automatically have your call carried by your chosen interexchange carrier. Currently you have dialing parity in Kansas if you are making a call that goes outside your LATA⁸ (local access and transport area) but if your call stays within the LATA boundary it is automatically carried by the designated toll carrier. Southwestern Bell Telephone Company is the designated toll carrier for intraLATA traffic in Kansas. For example, if you were to make a long distance call from Topeka to Lawrence dialing "1" plus the number it would be automatically carried by Southwestern Bell and charged to you at Southwestern Bell's toll rate. In contrast, if you were to make a long distance call from Topeka to Wichita dialing "1" plus the number it would be routed to your presubscribed interexchange carrier and charged to you at that carrier's rate. SB 290 would make two changes in reference to dialing parity.

a. 66-2003(e) would be revised to state that toll dialing parity will be provided in conformance with the federal act and federal communication commission rules and regulations. The language referring to national standards and to economic and technical feasibility would be stricken.

b. 66-2003(f) which requires the commission to require intraLATA dialing parity "coincidentally with the provision of in-region interLATA toll services in the state by local exchange carriers with more than 150,000 access lines or their affiliates" would be stricken.

Rationale: The United States Supreme Court ruled on January 25, 1999, that the FCC has

⁸ LATA boundaries were established at the divestiture of AT&T in the mid-1980s as a means of defining the areas in which Bell operating companies could carry traffic. Kansas has three LATAs which currently correspond to area code assignments. However, as area code splits proliferate, area code assignments may not always match LATA boundaries. See attached map.

the authority to order implementation of intrastate dialing parity even though intrastate matters have traditionally been reserved for state utility commission regulation. The Court found that the Federal Act specifically entrusted implementation of the Federal Act to the FCC and reinstated the FCC's rules regarding implementation of dialing parity at the intrastate level.

7. **Audit provisions:** SB 290 would reemphasize the KCC's authority to conduct cost studies and review revenue information from all carriers, including price cap companies. part

a. Section 66-2005(b) would clarify that price cap companies are exempt from rate base, rate of return and earnings regulation "for the purpose of establishing rates." There is no exemption for any company from investigation of its earnings for purposes of determining its appropriate draw from the KUSF.

Legislative objective: Remove any statutory obstacles to the KCC's obtaining needed company information.

Rationale: There may be other reasons for reviewing a price cap company's revenues such as determining the effectiveness of the price cap plan as a regulatory method, or determining the need for high cost support from the KUSF. The purpose of this proposed revision is to clarify that the exemption is to limit the use of revenue information rather than its availability to the KCC and its Staff.

b. Section 66-2005(u) would be revised to clarify that the KCC has the authority to conduct audits and investigations, and to obtain cost and revenue information when it is necessary for carrying out the KCC's obligations under the state or federal telecommunications acts. part

Rationale: In order to determine the appropriate size of the KUSF fund, or to determine how much support an individual company is entitled to, the KCC must have access to all the relevant

information. Without revenue information it is impossible to determine whether, or to what extent, a need for KUSF support exists.

8. **Investigation of price floors:** S B 290 would add to 66-2003(s) the phrase “or on the commission’s own motion” to allow the KCC to initiate cost studies

Legislative objective: Remove any statutory obstacles to the KCC’s obtaining needed company information.

Rationale: The KCC is in a better position to monitor pricing issues than end users or competitors. The burden should be on the KCC to investigate, rather than on the customer or competitor to bring a complaint to the KCC’s attention.

9. **KCC Report to the Legislature:** SB 290 would permit the KCC to makes its report to the legislature available by posting the report on the agency’s website (66-2002(j)).

Thank you.

DERIVATION OF \$36.88/LOOP HIGH COST SUPPORT REQUIREMENT

For federal universal service fund purposes, the cost of the local loop is based on companies' reported costs which include embedded costs. When a company's loop costs are at the national average, the federal universal service fund supports 25% of the cost of the local loop, as 25% is considered to be the percentage of loop usage that is dedicated to interstate services, such as interstate long distance calls. The other 75% is considered to be used for providing intrastate services, and supported by intrastate rates.

All costs above 150% of the national average, i.e. between \$250.00 and \$375.00 per loop, are recovered through federal universal service.

Of the costs above 115% of the national average, i.e. \$287.50 per loop, but below 150% of the national average, 65% are recovered through federal universal service.

None of the costs between 100% of the national average, i.e. \$250 per loop, and 115% are recovered from federal universal service.

The \$36.88 high cost support amount was calculated as follows:

1. Determine the unrecovered amount between the 115% and 150% levels:

$$150\% \text{ of national average } (\$375/\text{loop}) - 115\% (\$287.50/\text{loop}) = \$ 87.50$$

Of that \$87.50, all but 10% is recovered from federal sources:

25% is allocated to the federal jurisdiction and recovered through interstate access, EUCL, and PICC charges;

65% is recovered through the federal universal service fund.

$$\$87.50 - \$21.87 (25\%) - \$56.88 (65\%) = \$8.75$$

\$8.75 remains to be recovered from the state fund.

2. Determine the unrecovered amount between the 115% and 100% levels:

Note: None of the costs between 100% and 115% are recovered through federal universal service.

$$115\% (287.50) - 100\% (\$250) = \$37.50$$

Of the \$37.50, 25% (\$9.38) is allocated to the federal jurisdiction and recovered through interstate access, EUCL (end user common line) and PICC (presubscribed interexchange carrier charge) charges, leaving \$28.12.

3. Add the two unrecovered portions: $\$8.75 + \$28.12 = \$36.87$ (actual figures round to \$36.88)

Derivation of \$36.88/Loop High Cost Support Requirement

2-13

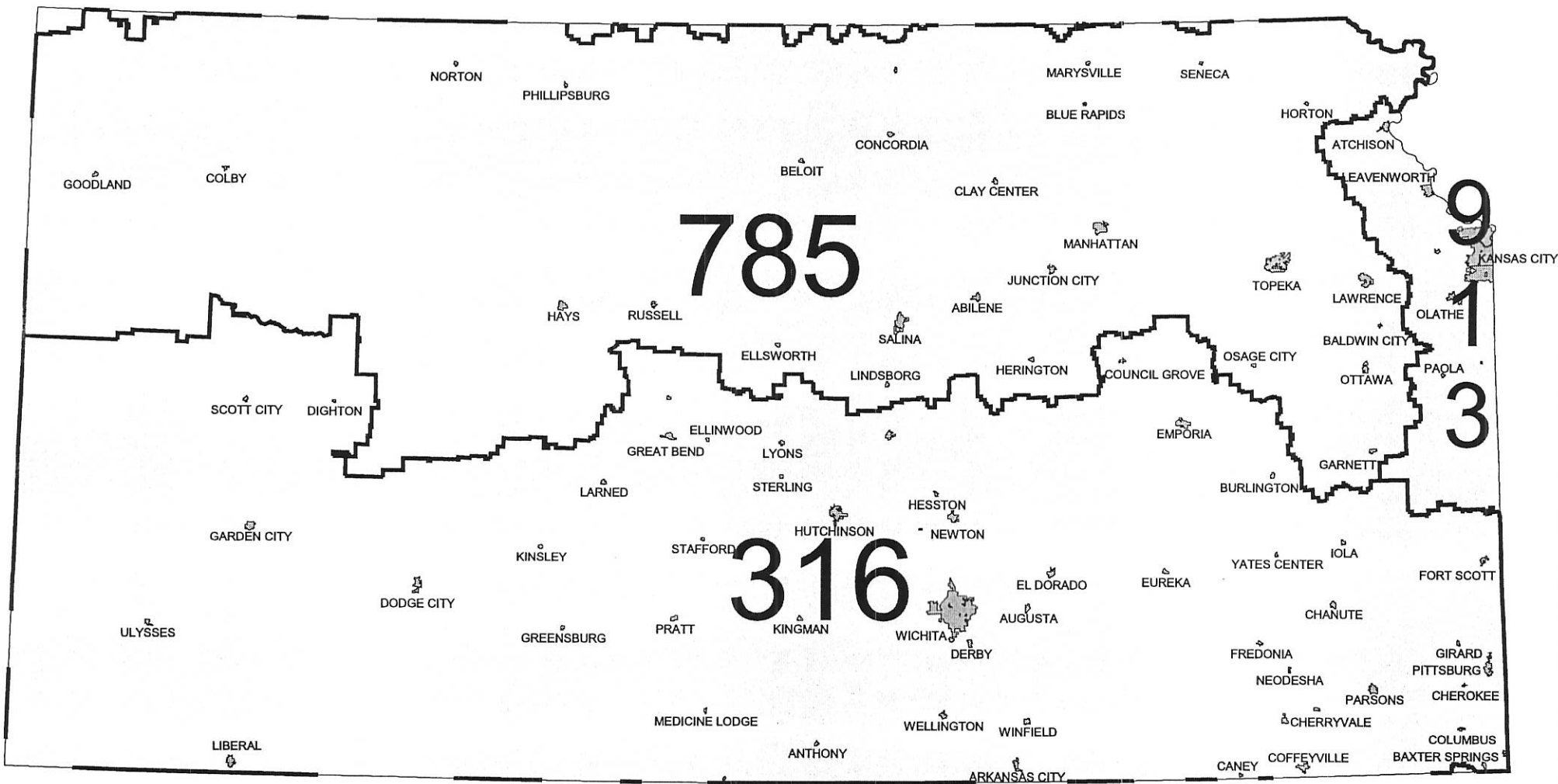
Recovered through interstate access, EUCL, PICC (June '98)	25% Allocated to Federal Jurisdiction	\$375/Loop		(No Cap)	
		Recovered via Federal Universal Service Fund	\$8.75	150% of National Average	
		\$287.50/Loop			
		\$28.12		115% of National Average	
		\$250/Loop		National Average Loop Cost	
		Recovered through Intrastate Rates			

Cost of Local Loop (Based on Embedded Costs)

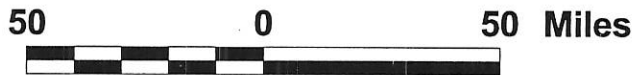
2-13

Telephone Area Code Boundaries

2-14



 **Cities**
 **Telephone**
 **Area Code Boundary**



Map by KCC
Utilities Division
February 1999

41-2

SB290
TESTIMONY OF MICHAEL D. LURA
ON BEHALF OF THE CITIZENS' UTILITY RATEPAYER BOARD
FEBRUARY 16, 1999

MADAM CHAIRMAN, MEMBERS OF THE COMMITTEE:

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

WITH THAT BACKGROUND I AM APPEARING TODAY IN SUPPORT OF SB290. THIS BILL BUILDS ON AND REFINES THE STATE ACT BASED ON ALMOST THREE YEARS OF EXPERIENCE SINCE THE INITIAL ACT WAS IMPLEMENTED. IN PARTICULAR THE BILL ELIMINATES LANGUAGE THAT IS NO LONGER NECESSARY, SUCH AS CERTAIN REFERENCES TO INFRASTRUCTURE PLANS AND THE HILL CITY EXCHANGE; IT REDEFINES UNIVERSAL SERVICE AND ENHANCED UNIVERSAL SERVICE TO BE MORE IN LINE WITH THE FEDERAL DEFINITIONS; IT REMOVES CERTAIN TECHNOLOGY SPECIFIC REQUIREMENTS THAT ARE OUTDATED OR WOULD HAVE BEEN VERY COSTLY TO IMPLEMENT OR THAT WERE NOT

Senate Commerce Committee

Date: 2-16-99

Attachment # 3.1 thru 3-14

COMPETITIVELY NEUTRAL; AND THE BILL MODIFIES THE KANSAS UNIVERSAL SERVICE FUND OR "KUSF."

WHILE CURB IS VERY INTERESTED IN MANY OF THE CHANGES CALLED FOR IN SB290, AND LOOKS FORWARD TO PARTICIPATING IN FORUMS HERE OR AT THE COMMISSION ADDRESSING THEM, THE FOCUS OF MY TESTIMONY TODAY IS ON THE CHANGES TO THE KUSF. THREE YEARS OF EXPERIENCE HAS SHOWN THAT THE CREATION OF A VERY LARGE UNIVERSAL SERVICE FUND CAN BE COUNTER PRODUCTIVE AND IN FACT HAS THE BIGGEST IMPACT ON THE VERY CONSUMERS IT WAS DESIGNED TO HELP. THE QUESTION ALMOST BECAME, "HOW HIGH MUST WE RAISE LOCAL RATES TO INSURE CONSUMERS CAN AFFORD LOCAL SERVICE?" MANY CONSUMERS SEEMED TO KNOW THE ANSWER TO THAT QUESTION AND WERE WILLING TO VOICE THEIR OPINIONS.

SB290 TAKES A NEW APPROACH TO THE FUNDING OF UNIVERSAL SERVICE. FOR PRICE CAP COMPANIES, RECOVERY WILL NOW BE BASED ON COSTS AND THE DEMONSTRATED NEED TO RECEIVE FUNDING RATHER THAN ON THE EXISTING "REVENUE NEUTRAL" PROCESS. THE BILL ACCOMPLISHES THIS BY ESTABLISHING WHAT I WILL CALL A BENCHMARK RATE OF \$36.88 PER YEAR FOR EVERY RESIDENTIAL AND SINGLE LINE BUSINESS LOOP IN HIGH COST EXCHANGES, DEFINED AS EXCHANGES WITH 10,000 LOOPS OR LESS. HOWEVER, AND THIS IS A KEY PART OF THE BILL, ANY PRICE CAP COMPANY THAT DOES NOT AGREE WITH THE \$36.88 RECOVERY CAN MAKE A SHOWING TO THE COMMISSION

OF WHAT THE PROPER AMOUNT SHOULD BE AND, UPON COMMISSION APPROVAL, RECEIVE THE ADDITIONAL SUPPORT REQUESTED.

THERE ARE SEVERAL ITEMS IN THIS BILL OPPONENTS MAY DISAGREE WITH. FIRST, THE \$36.88 MAY BE CALLED INADEQUATE OR ARBITRARY. HOWEVER, THE BILL CLEARLY PROVIDES THAT IF THAT IS THE CASE, A LOCAL EXCHANGE CARRIER NEEDS ONLY TO SHOW HOW MUCH THE SUPPORT SHOULD BE . IT SHOULD NOT BE TOO MUCH TO ASK THAT IF COMPANIES ARE TO RECEIVE SUPPORT FROM RATEPAYERS THAT THEY BE ASKED TO SHOW HOW MUCH SUPPORT THEY NEED. NO LOCAL EXCHANGE CARRIER, AND IN PARTICULAR PRICE CAP REGULATED LOCAL EXCHANGE CARRIERS, SHOULD EXPECT OR RECEIVE A BLANK CHECK.

SECOND, OPPONENTS MAY SAY THAT RECEIVING SUPPORT ONLY FOR EXCHANGES WITH 10,000 OR FEWER ACCESS LINES IS ARBITRARY OR INADEQUATE. BASED ON MY EXPERIENCE WITH THE COMMISSION, NOTHING PREVENTS A COMPANY FROM REQUESTING THAT THE COMMISSION REVISIT THAT PORTION OF THE ORDER IN DOCKET NO. 190,492-U THAT ESTABLISHED THE 10,000 LINE REQUIREMENT. AGAIN, IT SHOULD NOT BE CONSIDERED BURDENSOME FOR COMPANIES THAT ARE REQUESTING RATEPAYER SUPPORT, TO PROVIDE A SHOWING THAT THE SUPPORT IS NEEDED.

THIS BILL STRIKES A GOOD BALANCE BETWEEN THE INTERESTS OF THE CONSUMER AND THE INTERESTS OF THE LOCAL EXCHANGE CARRIERS. SHORT TERM IT PROVIDES THE OPPORTUNITY FOR

SIGNIFICANT REDUCTIONS IN KUSF CHARGES, AND LONG TERM IT PROVIDES A MECHANISM FOR ESTABLISHING COST BASED UNIVERSAL SERVICE RATES. IT INHERENTLY RECOGNIZES THE DIFFERENCES BETWEEN RURAL TELEPHONE COMPANIES AND THE LARGER LOCAL EXCHANGE CARRIERS AND CONSEQUENTLY TARGETS SUPPORT WHERE IT IS MOST NEEDED. AND MOST IMPORTANTLY, IT PROVIDES A MECHANISM FOR CONTINUED DEPLOYMENT OF UNIVERSAL SERVICES AND ENHANCED UNIVERSAL SERVICES AT PRICES THAT CONSUMERS CAN AFFORD.

I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Economic Comments on Rural Internet Service

Presented by
Thomas H. Morgan

February 16, 1999

Kansas Senate Commerce Committee
Hearings on Telecommunications

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Morgan Consulting Group, Ltd.

124 West Wea, P.O. Box 367

Paola, KS 66071

(913) 294-2920, Fax (913) 294-2923

morgan@morgan-consulting.com

<http://www.morgan-consulting.com>

Senate Commerce Committee

Date: *2-16-99*

Attachment # *4-1 thru 4-7*

1. Economic Potential of Rural Internet Access Was Foreseen

“The retail and service base could be bolstered, Morgan said, by assimilating a combination of new communication technology, the quality of life aspect, and a local resident inventory of little-known talents and abilities with a local and regional service needs assessment. That package could then be targeted to urban centers with a marketing message aimed at bringing those specialty retail or service businesses to this area.”

“Local Comparative Advantages Need Focus” **The Anderson Countian** Volume 124, Number 48. Thursday, September 23, 1993.

2. Barriers to Kansas Rural Communities Success Foreseen

“Tom Morgan, I live here in Garnett, Kansas. I’m president of Morgan Research Group. We have an international consulting firm. I have returned to this area after being gone for a couple of decades. We have had a little bit of trouble since we have been here. Our phones were misinstalled and we lost business the first wee we moved here and we are having problems with noisy lines. Butt what concerns me most is that phones are going to become like the railroads were at the turn of the century. At the turn of this century phones are going to be in the same position. Phone, satellite and cable TV are going to be the linkages to economic activity. Just as a business or town couldn’t survive without a railroad, we are not going to be able to survive without phones. I can’t believe these people are testifying that they actually have a party line today. That means they are disenfranchised from access to electronic bulletin boards, new[s] services, et cetera. For us our phones are absolutely essential. I can’t imagine being without a phone for a day. And if what these other testimonies are true, the phone service here, than we are in trouble. We have clients in Hong Kong, in the West Indies and across the U.S. And we can’t operate without phone service. They have millions of dollars on the line, and if they can’t get ahold of us or we can’t get ahold of Chicago in transacting business, we are in trouble. Phones are absolutely key. I don’t care if UT owns them, Southwestern Bell or MCI. All we want is good phone service. And I think it’s an absolute necessity. And since it is in a sense a small monopoly local phone service, it’s absolutely essential that everything is done to insure it because we don’t have a choice yet in local phone service. So it’s absolutely essential that everything is done to insure it. And I would call your attention to a new book that’s out by John Naisbitt. He wrote Megatrends, I’m sure many of you have red the book. The title of the book is Global Paradox: The Bigger the World Economy the More Powerful the Smallest Players. And this book outlines how small communities like the ones represented can become major players in the global marketplace. But we can’t do it without phone. Thank you.”

“Transcript of Public Hearing Before the State Corporation Commission of the State of Kansas” January 11, 1994, Garnett, Kansas.

3. Impact of Barriers on Rural Kansas Documented

The information age / telecommunications revolution has generated tremendous economic potential for both small and large companies.

However, most of Kansas is missing out. Kansas is a fourth class state in this economic boon. Less than 12 percent of Kansas households have access to the Internet [Internet World, February 1998]. At least 42 states have better statistics. Twenty states have almost twice as many households connected to Internet including the neighboring states of Colorado, Nebraska, and Iowa.

Why are Kansans behind in connecting to the Internet? Are Kansans less progressive? Less educated? No!!!

Kansas and Kansans are missing the greatest economic revolution because of a miserable telecommunications infrastructure.

My home county still had parties lines in 1997. The copper wiring in the county seat is so poor, it supposedly won't support 56K modems. A year ago, the Internet connection was so poor that days would pass before one could download his e-mail without it timing out. The situation was so poor that we moved our business and commute daily to another community.

This tragically poor telecommunication infrastructure has limited Kansans ability to participate in this new exciting economic potential. These telecommunication inadequacies has created technology haves and have nots. If you live or own a business in the Lawrence or Kansas City metropolitan area, for example, you have access to considerably better facilities than the majority of rural Kansas. If you live and work in rural Kansas, you are on the equivalent of a "low maintenance road" in an era where the "information super highway" is considered a necessity to be competitive.

But even the technology haves of Kansas are at a disadvantage in this global contest. According to the January 1998 Boardwatch magazine, the speed of access to websites based in the Kansas City area ranked 18th out of the 27 major cities tested.

This situation is costing Kansas billions of dollars in lost opportunities. It is sabotaging all previous attempts at rural economic development.

The responsibility for this economic catastrophe lies with Kansas state government. Telecommunications has been heavily regulated for decades by both the state and federal legislators and bureaucrats. The responsibility for Kansas' low ranking in this key component to future economic prosperity has to rest with the Kansas governor, state agencies, and the state house and senate. They have determined the course of telecommunications in this state.

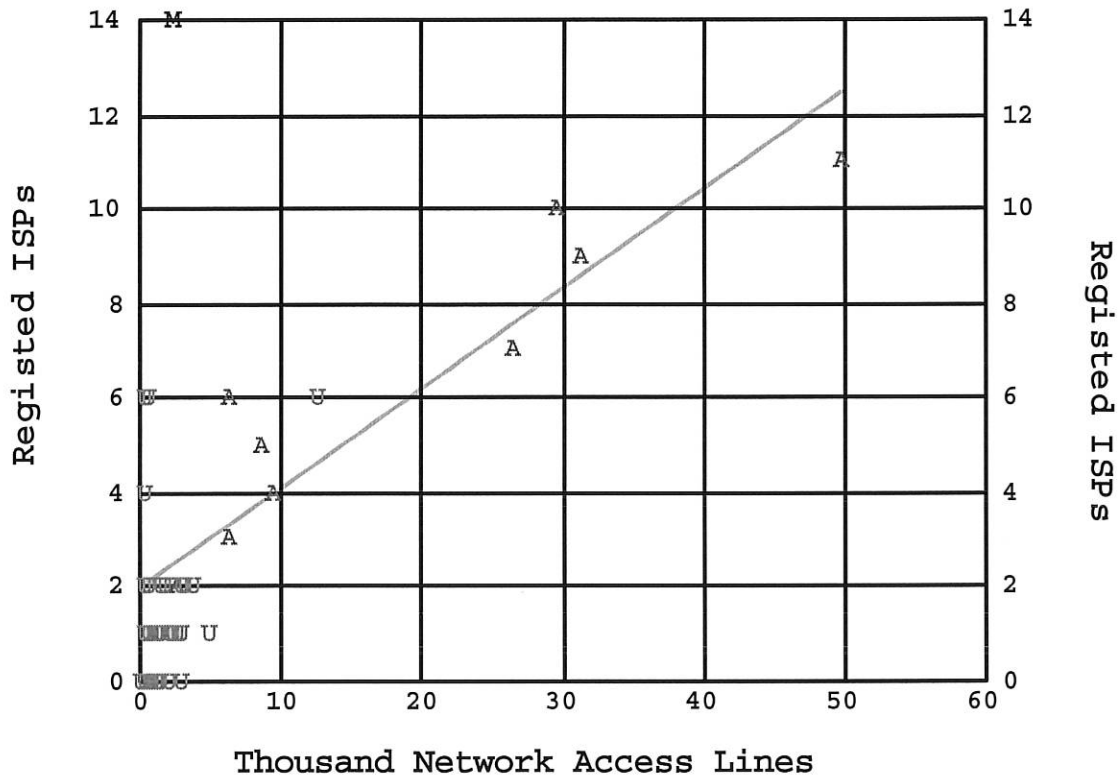
Kansas is far behind in the very fast race of the global information age. This spring Kansas will fall further behind in this global economic boon, while the governor and legislature greedily fight over how to best win votes with a one time tax windfall.

King Solomon, the wisest man to ever live, said that without vision a people perish. Kansas has no vision for the global information age, and rural communities continue to perish.

Thomas H. Morgan. "Kansas Rural Communities Continue to Perish in Global Economic Boon," Versions published in Farm Journal and Farm Dayta as well as numerous Kansas Newspapers. February 1998.

4. Several Recommendations Presented to Improve Rural Kansas Internet Access

Average and United Telephone



The above graphic shows the relationship between the number of Internet Service Providers servicing a market and the number of network access lines in the market (phone exchange or extended service area). Correlation of the data indicates that for each 5,000 additional network access lines another ISP enters the market. However, the average size of Sprint/United Telephone's exchanges is 905 network access lines, while those having only one ISP is 387 network access lines.

The size of these small markets is low to profitably provide quality rural internet service for any reasonable length of time. Consequently, a restructuring of the size of the various rural phone exchanges is needed in order for the market to provide quality internet services.

Internet Service Provider Competition: Preliminary Analysis of Market Size and Number of Internet Service Providers Servicing the Market

Presented by Thomas H. Morgan. October 16, 1998

During committee and subcommittee meetings the need for broadband access for rural IT businesses was presented.

Information Colonialism

“...information domination ... of rural areas by urban information centers. This domination has lead rural areas to be turned into ... 'information colonies.”

Dr. Jay E. Gillete

The Information Renaissance:

Toward an End to Rural Information Colonialism

Pacific Telecommunications Review

Information Interdependence

Interdependent communities of all areas will be characterized by *multipoint, bidirectional information networking.*

Dr. Jay E. Gillete

5. Importance of Rural Kansas Being a Leader in Internet Access

Change

In Today's world there are two kinds of companies . . .
the quick, and the Dead!

Diffusion of Innovation

2.5%	Innovators
13.5%	Early Adapters
34.0%	Early Majority
34.0%	Late Majority
16.0%	Laggards

Source: E.M. Rodgers

Diffusion of Innovation

(New York: Macmillan, 1962)

Order of Market Entry and Accounting Profit

Entry Order	Consumer Goods ROI (%)	Industrial Goods ROI (%)
Market Pioneers	25	24
Early Followers	19	19
Late Entrants	16	14

Source: *Market Entry Strategies: Pioneers Versus Late Arrivals, Strategies & Business*, Third Quarter 1998.

6. Rural Kansas Internet Access Is Not as Good as Some Say

“Too often, the greatest zealots of ecommerce use Internet industry market research numbers the way a drunk use a lamppost: for support rather than illumination. They already know what they believe, and they're just looking for official-surrounding support-like hiring an expert witness for a criminal trial.”

"Numerical Inferiority," **Business2.0**. James Daly, Editor-in-Chief, February 1999.

In the most recent issue (February 8, 1999) of "The Industry Standard" the quoted Steve Dougherty of Earthlink, a large Internet Service Provider as saying, "It's like with President Clinton. It depends on how you define 'access.'"

To a bureaucrat that is trying to justify the status quo, access means one thing to someone who depends on the internet for business and personal communication access means something else.

For KCC, access means that there is an ISP in your phone exchange or Extended Service Area. Therefore, he believes that 95 percent of Kansans have access to the internet. In addition, the other five percent have access through the \$15/\$30 flat rate programs like Sprint's Info Link.

However, the cost, the quality of service and the capacity these potential gateways to the internet affect access in the real world outside a Topeka bureaucracy. The following questions will illustrate some of these issues.

Do you have "access" if

- it costs five percent of your wages?
- you get a busy signal most of the time?
- line quality is so poor that you get disconnected?
- line quality is so poor that your file transfer programs disconnect so you can not update your website or download files?
- your needs have outgrown the local dial up capacity and no affordable upgrade is available?

These are the problems experienced daily in Kansas. I have either experienced these or have talked with people who experience these problems.

Following the legislative breakfast on Saturday, a friend stopped by the office to finish some work they had been doing for me. Since they no longer have regular access to the internet through my company they were using their landlord's connection, a mutual friend - Beth. Beth lives in the Richmond phone exchange. She has been using Kanza.net through Sprint Info Link.

Linda has set up a hotmail account so that she can access her e-mail where she can get access to the internet. The last week was the first time she has had to rely on Beth's internet connection. Linda tried numerous times during the week to access her e-mail through Beth's connection to Kanza.net. Most of the time it took over a half hour to gain access due to busy signals or modems not being available.

Her plight is not unusual.

This is not access in the real world no matter what others state.

Since Beth is using Sprint Info Link, I am recommending that she switch to Netspace as my brother has. She is unaware that she has those kind of options.

Beth also claims that she was told that the 24 hour version of Sprint Info Link would cost her \$50 per month. She may have just misunderstood, but Sprint told my brother that Netspace was not registered when they were. So I do not know who is at fault on this misunderstanding.

The poor connections and the misinformation occur too often to be considered exceptions.

Similar problems were experienced by Dan Morgan manager of H&M Angus Farms, Inc. (www.angusbulls.com).

7. Quality Rural Kansas Internet Access Maybe the Most Important Economic Development Issue Facing the Kansas

The majority of the benefits of the information age is being reaped by those in metropolitan areas. Do not be fooled by the occasional rural success story. These are the exception so far. For the benefits of the information age to fully impact rural areas a better infrastructure is needed.

The down turn in commodities prices further points to the need for greater use of the internet. We have found that the internet has improved the ability of farmers to brand their product and to reach a global audience. As a result of the internet we have been able to help farmers market hay and hay products to Australia and Mexico in the last year at premium prices.

However, these efforts are at risk due to inadequate telecommunications infrastructure. It is very difficult for many rural Kansans to communicate with us via the internet and our needs have grown to where we need affordable broadband internet access.

Change

In times of profound change, the learners inherit the earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists.”

Al Rogers

Global Paradox

The bigger the world economy the more powerful its smallest players.

John Naisbitt

The Essence of Survival

“Every morning in Africa, a Gazelle wakes up. It knows it must run faster than the fastest lion or it will be killed ...

Every morning a Lion wakes up. It knows it must outrun the slowest Gazelle or it will starve to death.

It doesn't matter whether you are a Lion or a Gazelle . . . when the sun comes up, you'd better be running.”