

## MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Senator Karin Brownlee at 8:30 a.m. on March 13, 2002 in Room 123-S of the Capitol.

All members were present except:

Committee staff present:

Sherman Parks, Revisor of Statutes  
Norman Furse, Revisor of Statutes  
April Holman, Legislative Research  
Debra Hollon, Legislative Research  
Lea Gerard, Committee Secretary

Conferees appearing before the committee:

Mark Tallman, Kansas Assoc. Of School Boards  
John Federico, representing Kansas Cable

Others attending:

See attached list.

**Hearings on SB 614—Funding for KAN-ED.**

Mark Tallman, Assistant Executive Director/Advocacy, Kansas Association of School Boards, testified in support of **SB 614** (Attachment 1). KASB has been supporters of the KAN-ED concepts since the idea was originated. KAN-ED would help districts better use the Internet and distance learning opportunities. KASB supports the use of funding KAN-ED from the Kansas Universal Service Fund (KUSF).

Mark Tallman responded to Senator Barone's question that if KAN-ED was funded from the General Fund would it be a priority. Mark Tallman stated the schools are potentially facing cuts in the base budget per pupil and funding KAN-ED would not be placed ahead of that. It's not that the KSAB objects funding KAN-ED from the General Fund, it's just apparent that there are not dollars to fund the project.

John Federico, on behalf of the Kansas Cable and Telecommunications Association, testified he submitted language for **SB 614** and would hope the committee would consider the amendment. The language speaks to the cable industry's concern of getting into a competitive bidding process where the competitor is potentially subsidized by KUSF funds. The Kansas Cable and Telecommunications customers do not pay into the KUSF fund, therefore, the companies are not eligible for any of the money.

Senator Barone asked John Federico if the cable industry would support a tax increase on customers to support KAN-ED. John Federico stated he would have to get a statement from the cable industry regarding their support of the KAN-ED via such a method.

There being no further conferees wishing to testify, the hearing on **SB 614** was closed.

Janet Buchanan, Kansas Corporation Commission, submitted information to committee members that Senator Barone had requested regarding how recipients of KUSF funds use that support (Attachment 2).

The substitute for **SB 614** requested by Chairperson Brownlee was not completed by the Revisors, therefore the meeting was adjourned at 9:05 a.m.

The next meeting is scheduled for Thursday, March 14, 2002 at 8:15 a.m.



KANSAS  
ASSOCIATION



OF  
SCHOOL  
BOARDS



1420 SW Arrowhead Road • Topeka, Kansas 66604-4024  
785-273-3600

Testimony on  
**SB 614 (Funding for KAN-ED)**  
Before the  
**Senate Committee on Commerce**

By  
Mark Tallman, Assistant Executive Director/Advocacy  
Kansas Association of School Boards

March 13, 2002

Madam Chair, Members of the Committee:

Thank you for the opportunity to testify in support of SB 614. I am also representing the Kansas National Education Association. The Kansas Association of School Boards has been a supporter of the KAN-ED educational technology network concept since the idea was originated several years ago. Technology has become an increasingly important element of school district operations, just as it has in the rest of society. KAN-ED is designed to help districts better use the Internet and distance learning opportunities. In addition, the benefits of KAN-ED are not limited to schools.

Given the state's extremely challenging financial situation, it appears that the Legislature will need to find revenue sources outside the state general fund if KAN-ED is to be funded and implemented as provided by last year's legislation.

SB 614 would use funding from the Kansas Universal Service Fund to implement KAN-ED. We would certainly support that approach, and appreciate this committee's efforts to find ways to fund this important program.

Thank you for your consideration.

Senate Commerce Committee  
March 13, 2002  
Attachment 1-1



---

## Kansas Corporation Commission

---

Bill Graves, Governor   John Wine, Chair   Cynthia L. Claus, Commissioner   Brian J. Moline, Commissioner

March 6, 2002

Senate Commerce Committee Members  
In care of Ms. Lea L. Gerard  
Capitol Building  
300 SW 10<sup>th</sup>, Room 136-N  
Topeka, KS 66612

Dear Ms. Gerard:

During a hearing on SB 614, the Committee requested information regarding how recipients of KUSF support have used the support. This letter serves as the Commission's response to the request.

Prior to the creation of the Kansas Telecommunications Act and the Federal Telecommunications Act, the Commission made a determination of the revenue required by a local company to cover its cost through traditional rate of return regulation. Revenue was either collected through local rates or through intrastate access charges. Any revenue that could not be recovered through local rates at the then determined reasonable level was recovered through intrastate access charges assessed against long distance carriers. Thus, access charges have served as a subsidy for local rates, keeping them lower than they would otherwise have been. The Kansas Telecommunications Act, at K.S.A. 66-2008(a), established the initial amount of the KUSF as the revenues lost by a local exchange carrier as a result of a reduction of intrastate access charges to interstate levels. The reductions in intrastate access charges, according to K.S.A. 66-2005(c) were to be made in a revenue neutral manner. Thus, as access reductions have been made, KUSF support has replaced access charges as the subsidy that serves to keep local rates low.

The Commission has begun its efforts to transition the KUSF to a cost based fund consistent with requirements of the Federal Telecommunications Act. During this transition, the Commission has found that several carriers have received support in excess of the cost. To the extent that excess support has been provided, carriers have been able to make upgrades to their networks to meet the definition of universal service. Nearly all Kansas customers are served by digital switches. In 1994, digital switches served only 73% of all access lines in the state. The Commission's most recent information (1998) suggests that only 1,039 customers are still served by electro-mechanical switches. Equal access to long distance service is now available to all customers in the state; an improvement over 1994 when only 91% of customers had equal access. Nearly all Kansans have access to basic 911 service and 1998 data reports that 96% of customers have access to E911 service. This is an improvement from 1994 when 94% of Kansans

Senate Commerce Committee  
March 13, 2002  
Attachment 2-1



had access to basic 911 and only 85% had access to E911 service. At least 99% of Kansans have access to customized local area signaling services such as automatic call back, caller identification, and selective call rejection. In comparison, only 66% of access lines had this capability in 1994. Nearly all Kansans now have single party lines. All carriers were required to implement System Signaling-7 by July 2001. This signaling is required in order to provide enhanced services. Local exchange carriers are also making investments to provide enhanced universal service (specifically, high speed data service) to their customers. According to information gathered from the 2000 Annual Reports filed by local exchange carriers, 31 of the 40 local exchange carriers have broadband capable facilities in place with the ability to serve the majority of the exchanges within their respective territories.

Attached are responses of companies to the Commission's request for information regarding the use of KUSF support. It is quite difficult to determine the actual flow of KUSF support into individual investments. Thus, the responses received are somewhat vague. Again, KUSF support has primarily served to keep local rates low. To the extent that additional support has been available, upgrades listed above have been made in addition to investments in new broadband technology.

The FCC and the Commission have struggled with the task of documenting that universal service support is used for its intended purpose. The FCC has determined that a company may self-certify that it uses federal support for its intended purpose through a letter. It does not require an accounting of investment. The Commission, through its efforts to move toward a cost-based KUSF, including audits of all local exchange carriers, is eliminating any excess support that may have been received through the revenue neutral replacement of revenue lost in access reductions. This will be an ongoing process requiring periodic reviews of all local exchange carriers receiving KUSF support.

Please call if you have additional questions regarding this issue. I can be reached at (785) 271-3293.

Sincerely,



Janet Buchanan  
Chief of Telecommunications

cc: John Wine, Chair  
Cynthia Claus, Commissioner  
Brian Moline, Commissioner  
Jeff Wagaman, Executive Director  
Joe White, Director of Utilities



Eduardo Rodriguez  
AVP-Regulatory  
External Affairs-Kansas

Southwestern Bell  
Telephone Company  
220 E 6th, Room 500  
Topeka, KS 66603

785.276.8761 Phone  
785.276.1713 Fax

March 1, 2002

Ms. Janet Buchanan  
Chief of Telecommunications  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, KS 66604-4027

STATE CORPORATION COMMISSION

MAR 04 2002

*Robby S. Wagoner* Docket Room

Dear Ms. Buchanan:

This letter is to respond to your e-mail of February 21, initiated by legislative inquires, asking each participant in the Kansas Universal Service Fund ("KUSF") to provide information about how it has invested funds received. As this letter explains, SBC Southwestern Bell ("SWBT") has used those funds, as intended, to subsidize the cost of telecommunications services for high cost areas.

The first piece of information you need to know is that SWBT does not have an accounting record for dollars received from the KUSF that is separate from the accounting of dollars received from any other source. Therefore, SWBT will be unable to provide any level of detail beyond the fact it is meeting its obligations associated with being a beneficiary of the KUSF system.

According to Section 66-2001(a) of the Kansas Act, the purpose of the KUSF is to support the concept of telecommunications services being made available universally to all Kansas regardless of economic challenges. KUSF support is provided to eligible telecommunications carriers (ETCs) that are serving eligible high cost access lines. The KCC set the cost benchmark for supportable lines as those lines in exchanges with costs 125% or greater than the state-wide average cost to provide service. SWBT receives KUSF high cost support as an ETC in 71 of those exchanges eligible for KUSF support.

No better evidence can be presented that the KUSF system is working as intended and that those funds are being utilized as intended, than the fact that SWBT continues to offer basic telephony service in those exchanges at a reasonable rate five years after establishment of the KUSF.

Sincerely,

*Eduardo Rodriguez*

STATE CORPORATION COMMISSION

MAR 5 2002

UTILITIES DIVISION

23



**John R. Idoux**  
Senior Manager

**External Affairs**  
5454 West 110th Street  
Overland Park, KS 66211  
KSOPKJ0502  
Voice 913 345 7814  
Fax 913 345 7754  
john.r.idoux@mail.sprint.com

March 1, 2002

Ms. Janet Buchanan  
Kansas Corporation Commission  
1500 S. W. Arrowhead  
Topeka, Kansas 66604

Dear Janet:

Sprint is providing the following response to your February 22, 2002 request regarding Sprint's investments in Kansas.

Sprint's local phone operations have spent nearly \$200 million in capital, network investments in Kansas over the past five years alone – that is approximately \$40 million in new infrastructure investment per year. That equates to approximately \$275 per customer, per year or nearly \$23 per customer, per month. This amount includes neither money spent to maintain existing facilities nor investments made in the state by Sprint corporate, Sprint long distance and Sprint PCS.

Of the \$200 million, approximately half was invested in such outside plant projects as fiber optic cable and related electronics, route diversity and expansion for growth. About 45 percent of the \$200 million was invested in such project as replacing analog switches with state-of-the-art digital switches, improving backup switching equipment, adding new calling features and deploying high-speed data services. The balance of the \$200 million was invested in such support assets as vehicles and heavy construction equipment.

Sprint's investments geographically closely matched the distribution of its customers. About 17 percent of the \$200 million was invested in the Kansas City metropolitan area where about 17 percent of Sprint's local telephone customers are located. Sprint invested about 37 percent of the \$200 million in northeastern Kansas where about 36 percent of Sprint's local telephone customers are located. About 24 percent of Sprint's local telephone customers are located in the southeastern part of the state where about 28 percent of the total investment was made. Sprint invested about 18 percent of the total in central Kansas where approximately 23 of Sprint's local customers are located.

STATE CORPORATION COMMISSION

MAR 1 2002

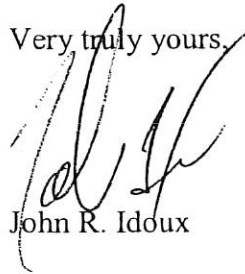
UTILITIES DIVISION

2-4

Ms. Janet Buchanan  
March 1, 2002  
Page 2

Sprint has also shared this information with Representative Carl Holmes as part of the discussions surrounding House Bill 2754. Please do not hesitate to contact me if you have any questions or need additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "John R. Idoux", written over the typed name below.

John R. Idoux

JRI:mkj



RECEIVED VIA E-MAIL  
NO SIGNATURE

March 4, 2002

Ms. Janet Buchanan  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, KS 66604

Dear Ms. Buchanan:

We offer the following information to assist you in providing the information requested.

We are in receipt of your February 21, 2002 e-mail message regarding questions from the Senate Commerce Committee.

First, we believe your point regarding the KUSF and it initially being based upon revenue neutral state access charge reductions is appropriate. We recommend that, if the Committee desires to determine consumer benefit from the KUSF, information as to the amount of savings (resulting from lower state access rates) Kansas' interexchange carriers have passed on to Kansas consumers in the form of lower basic long distance rates (as required by statute) is more appropriate. We do not possess this information.

However, if the Committee is looking for information regarding how KUSF support received by RLECs is being spent for customer's benefit, we have the following to offer.

1. As you know, Rural Independent Local Exchange Carriers make investment in plant utilizing a mix of equity and debt. The equity component for RLECs in Kansas is primarily generated from the earnings retained by the company. Thus, the net income (revenues less expenses) of the company contributes towards retained earnings, which is then used, along with debt received from lending institutions such as the RUS, to make investments in telecommunications plant. KUSF is but one portion of each RLEC's revenue stream, and therefore in theory becomes part of the RLEC's net income. As a result, the KUSF support received by the RLECs cannot be directly attributable to any specific plant investment, but instead KUSF support is a part of the revenues RLECs receive to support their overall operations - revenues that would otherwise have to come from the RLEC's customers, including IXC's and end users.

2. Since the signing of the Kansas Telecommunications Act of 1996, RLECs have been making investments in telecommunications plant to, among other things, comply with the Act's infrastructure requirements. These requirements include equal access, point-to-point broadband

facilities, full fiber interconnectivity, ISDN (or the technical equivalent), and ubiquitous availability of 19.2 kbps dial-up Internet access.

3. RLECs continually upgrade and replace plant in order to provide additional and improved services. These upgrades could include replacing outdated plant that maintains and improves customers' current services to building telecommunications plant in a Carrier Serving Area (CSA) design, which ensures no customer loops are longer than 18,000 feet, thereby allowing the provision of advanced services.

We believe the comparison of gross KUSF support receipts to plant investment is inappropriate and probably incapable of being determined, and that the above discussion better describes how KUSF support received by RLECs is ultimately utilized.

Sincerely,

Mark E. Caplinger, SIA  
Thomas E. Gleason, ITG