

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 25, 2002 in Room 123-S of the Capitol.

All members were present except: Senator Brungardt (Excused)
Senator Jordan (Excused)

Committee staff present: Sherman Parks, Revisor of Statutes
April Holman, Legislative Research
Debra Hollon, Legislative Research
Lea Gerard, Committee Secretary

Conferees appearing before the committee: Richard Veach, Pioneer Communications
Mike Murray, Sprint
Nelson Krueger, Western Wireless
Janet Buchanan, KCC
John Federico, Cable Industry

Others attending: See attached list

John Federico, representing the Cable Industry, briefed the Committee on deployment of Broadband by the Kansas Cable (Attachment 1). From 1996 through 2000, Kansas cable companies made capital investments totaling over \$250M. This is all private capital with no guaranteed rate of return and no subsidies. Cable is provided to about 64% of the available homes in Kansas with 10% of the 64% subscribing to high-speed internet.

HB 2754—Telecommunications; affordable rates; quality of services; standards.

Mary Torrence, Legislative Research, briefed the committee on **HB 2754** stating that on Page 2 intrastate access rates would be adjusted every two years to match interstate access rates and the reduction in the rural telephone companies revenue for intrastate rates will be recovered from KUSF. The bulk of amendments for the bill begin on Page 3 and relate to determination of what is an affordable rate for a rural telephone company. An affordable rate is used for the purposes of determining support that is available from KUSF money and if a company's costs are above what is determined to be an affordable rate then that company can receive KUSF money in order to subsidize the service so consumers can afford the service. The provisions provide for a residential rate that is based on current rate by exchange and is weighted by the number of access lines for the corresponding exchanges.

Richard Veach, General Manager, Pioneer Communications, testified in support of **HB 2754** (Attachment 2).

The Committee asked Richard Veach what is the benefit of maintaining parity with regard to interstate/intrastate switched access rates for the consumer. Richard Veach stated that in the original act it was requested by the interexchange carriers that the access charges they pay in the interstate jurisdiction be the same as they are in the intrastate jurisdiction so that long distance pricing would be the same.

Mike Murraray, Director of Governmental Affairs, Sprint, testified in support of **HB 2754** (Attachment 3).

Nelson Krueger, representing Western Wireless, testified in support of **HB 2754** (Attachment 4).

Janet Buchanan, Kansas Corporation Commission, testified that the commission wanted to acknowledge the cooperation the rural companies offered in reaching a settlement of a docket that was related to this legislation. The KCC does not oppose **HB 2754**.

Chairperson Brownlee asked Janet Buchanan if the KCC supports the bill. Janet Buchanan stated there is some hesitation to codify something that was agreed to in a stipulation and agreement. The KCC has approved the stipulation and agreement and does not have any opposition to the bill. The KCC believes they will maintain, even with this bill, the flexibility they need to regulate rural telephone companies.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE at on March 25, 2002 in Room 123-S of the Capitol.

Senator Barone stated **HB 2754** tends to codify a stipulation and if the bill passes, then how would that codification be changed in the future. Janet Buchanan stated there is still some flexibility for the KCC in the future to determine affordable rates should this bill in the future be viewed as not a reasonable way to determine affordable rates. There is still some flexibility in the language that would allow the Commission to look at it again. This is a reasonable way to move rural rates toward those that are in the rural areas for Sprint or Southwestern Bell.

Senator Barone requested Janet Buchanan to provide a chart with rates across the state.

There being no further conferees wishing to testify on **HB 2754**, the hearing was closed.

Meeting adjourned.

Next meeting is scheduled for Tuesday, March 26, 2002 at 8:30 a.m.



Quick Facts On Broadband

Presented By: John J. Federico
Kansas Cable Telecommunications Association

Senate Commerce Committee

Monday, March 25, 2002

1. From 1996-2000, Kansas cable companies made capital investments totaling over **\$250,000,000**.
2. Kansas cable companies pay over **\$7,000,000** in franchise fees **annually**.
3. We provide free cable service to over **1,000** K-12 schools in Kansas.
4. Cable provides free high-speed internet service to over **300** schools in Kansas.
5. **64%** of available homes subscribe to cable.
6. **10%** (of the 64%) subscribe to our high-speed internet. This mirrors the national average.
7. The feds are focusing on “unserved” versus “underserved.”

Blue Home phone Company

Bluestem Telephone Company
Dodge City

Columbus Telephone Company

Council Grove Telephone Company

Craw-Kan Telephone Coop., Inc.
Girard

Cunningham Telephone Company, Inc.
Glen Elder

Elkhart Telephone Company, Inc.

Golden Belt Telephone Assn., Inc.
Rush Center

Gorham Telephone Company

H&B Communications, Inc.
Holyrood

Haviland Telephone Company, Inc.

Home Telephone Company, Inc.
Galva

JBN Telephone Company, Inc.
Wetmore

KanOkla Telephone Assn., Inc.
Caldwell

LaHarpe Telephone Company, Inc.

Madison Telephone Company, Inc.

MoKan Dial, Inc.
Louisburg

Moundridge Telephone Company, Inc.

Mutual Telephone Company
Little River

Peoples Mutual Telephone Company
LaCygne

Pioneer Telephone Assn., Inc.
Ulysses

Rainbow Telephone Coop. Assn., Inc.
Everest

Rural Telephone Service Company, Inc.
Lenora

S & A Telephone Company, Inc.
Allen

S & T Telephone Coop. Assn.
Brewster

South Central Telephone Assn., Inc.
Medicine Lodge

Southern Kansas Telephone Co., Inc.
Clearwater

Sunflower Telephone Company, Inc.
Dodge City

Totah Telephone Company, Inc.
Ochelata, OK

Tri-County Telephone Assn., Inc.
Council Grove

Twin Valley Telephone, Inc.
Miltonvale

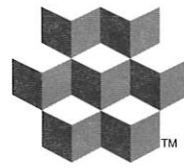
United Telephone Association, Inc.
Dodge City

Wamego Telephone Company, Inc.

The Wheat State Telephone Co., Inc.
Udall

Wilson Telephone Company, Inc.

Zenda Telephone Company, Inc.



KANSAS
RURAL INDEPENDENT
Telephone Companies

Investment that works for all Kansans

Testimony of Richard Veach General Manager, Pioneer Communications On Behalf of the Thirty-Six Kansas Rural Independent Telephone Companies

In support of Substitute for House Bill No. 2754
Senate Commerce Committee • March 25, 2002

Madame Chair and members of the committee:

I am Richard Veach, General Manager of Pioneer Communications, a local exchange rural telephone company that is headquartered in Ulysses, Kansas. I am appearing today, on behalf of the thirty-six rural local exchange telephone companies of Kansas, in support of Substitute for House Bill 2754.

The thirty-six rural independent local exchange carriers in Kansas serve more than half of the land area in the state. The 130,000 telephone access lines contained in this large geographic area represent only approximately ten percent of the lines in the state. We provide service in the low population density areas of the state that are the most expensive to serve.

The legislation that this committee is considering today has undergone a number of changes since it was first introduced in the House. These changes are a result of compromises made as a result of the cooperation of all parties involved; the rural independent telephone companies, the wireless providers, KCC Staff and CURB.

Substitute for House Bill 2754 will reduce the size of the Kansas Universal Service Fund by seven million dollars per year by the year 2005. The bill establishes a formula for determining an affordable rate for basic local service for rural telephone subscribers. Rural customers will see modest local rate increases phased in over a period of several years. The Kansas Universal Service Fund will decrease by the amount of these local rate increases. There will be continuing reductions in access charges that ought to translate into decreases in long distance rates.

The bill provides for the regulation of rural telephone companies in a manner that is consistent with federal rules. Until at least the year 2006 when the Federal Communications Commission may re-examine this question, companies that operate under the traditional rate-of-return regulation will recover their costs based on actual investments, not a theoretical economic model.

The level of service that is provided by Kansas rural independent telephone companies is second to none. Substitute for House Bill 2754 can assist in assuring that remains the case in the future.

I thank you for the opportunity to testify in support of this bill and would be happy to answer any questions.

Senate Commerce Committee
March 25, 2002
Attachment 2-1

Blue Home Telephone Company

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Columbus Telephone Company

Council Grove Telephone Company

Craw-Kan Telephone Coop., Inc.
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What Sub for HB 2754 Is and Does

Sub for HB 2754 is a compromise among the rural telephone companies of Kansas, the Kansas Corporation Commission staff, CURB, and other interested parties. The substitute bill contains these effects and provisions:

- Reduces the size of the Kansas Universal Service Fund (KUSF). The size of the KUSF will be reduced by some \$7 million per year by 2005, with additional reductions to follow.
- Establishes a formula for determining an affordable local rate for rural telephone company subscribers. Rural customers will see modest rate increases phased in over a period of years, with the rural telephone company KUSF support reduced by the amount of the local rate increases.
- Continuing reductions in access charges, and consequently in basic long distance rates.
- Agreement on regulation of rural telephone company costs and revenues, consistent with federal rules. Companies under traditional rate of return regulation will recover costs based on actual investment, not a theoretical economic model, until at least 2006 when the Federal Communications Commission may re-examine this question.



Before the Senate Commerce Committee
Michael R. Murray, Director of Governmental Affairs
Substitute for HB 2754
March 25, 2002

Thank you for the opportunity to comment on Substitute for HB 2754.

As introduced, Sprint opposed the original HB 2754 for two reasons.

First, the bill virtually ensured that wireless technology would never become a viable alternative to ~~wireless~~ ^{wireline} service in rural, high-cost areas of Kansas.

Second, we feared the proposal would increase the size of the Kansas Universal Service Fund and the related surcharges on the bills of local, long distance and wireless customers in the state.

Both of those concerns have been addressed in this Substitute for HB 2754, and as a result, Sprint does not oppose the bill.

I'd be happy to respond to questions.

Senate Commerce Committee
March 25, 2002
Attachment 3.1

**TESTIMONY OF WESTERN WIRELESS CORPORATION BEFORE
THE COMMERCE COMMITTEE OF THE KANSAS STATE
SENATE**

March 25, 2002

Substitute for House Bill 2754—regarding telecommunications services

Ms. Chairman, Members of the Committee:

My name is Nelson Krueger, a registered lobbyist of Western Wireless Corporation, a Bellevue, Washington company with over 4,000 employees nationwide.

Western Wireless is a cellular carrier specializing in providing high-quality, affordable, and reliable wireless services to subscribers in rural, high-cost areas. Western Wireless currently provides service to more than 1,000,000 subscribers under licenses in Kansas and 18 other states. Western Wireless provides cellular service in Kansas under the Cellular One brand name.

Western Wireless has significant experience providing high-quality wireless telecommunications services in high-cost areas across the U.S. over both wireless local loops and conventional mobile cellular technologies. In five states, Western Wireless provides basic local telephone service to residential consumers using wireless local loops.

Following negotiations with stakeholders in this issue, Western Wireless has withdrawn its opposition to 2754 and is in a position to support in its current form.

Senate Commerce Committee
MARCH 25, 2002
Attachment 4.1