Approved: March 17, 2008
Date

MINUTES OF THE HOUSE ENERGY AND UTILITIES COMMITTEE

The meeting was called to order by Chairman Carl Holmes at 9:15 A.M. on January 24, 2008 in Room 783 of the Docking State Office Building.

All members were present except:
Dan Johnson- excused

Committee staff present:
Mary Galligan, Kansas Legislative Research
Carol Toland, Kansas Legislative Research
Mary Torrence, Revisor's Office
Melissa Doeblin, Revisor's Office
Renae Hansen, Committee Administrative Assistant

Conferees appearing before the committee:
Dan Jacobson, at&t
Colleen Jennison, Cox Communications
Mike Murray, Embarq
Steve Rarrick, CURB
Patrick Fucik, Sprint
Pete Sywenki, Sprint

Others attending:
Thirty- seven including the attached list.

RepresentativeRob Olson moved to introduce legislation: 1. Equalizing electric rates across Kansas, and 2. Repealing KSA 48-1604 changing laws and regulations with nuclear development, seconded by Representative Vern Swanson. Motion carried.

Hearing on:

HB 2637- Telecommunications; pricing flexibility; lifeline service program.

Proponents:

Dan Jacobson, AT&T, (Attachment 1), presented testimony in support of **HB 2637** which will affect the way the state's telecom infrastructure is developed for the foreseeable future. Mr. Jacobson noted that AT&T tried to work with the other cable companies to find an amicable solution to potential differences. He also brought forth two maps (Attachment 2 and 3) to explain where the areas were that would be affected.

Questions were asked by and comments made by Representatives: Tom Hawk, Forrest Knox, Cindy Neighbor, Tom Sloan, Oletha Faust-Goudeau, Terry McLachlan, Carl Holmes, Tom Moxley, and Carl Holmes.

It was noted that in greater Kansas City alone, AT&T has lost 100,000 land lines to other suppliers of communication. Additionally, when asked, AT&T noted that this new rate fund would procduce an estimated $6,000,000 increase billed to customers per year.

Colleen Jennison, Cox Communications, director of Government Affairs, (Attachment 4), presented testimony in support of **HB 2637**, noting that the bill would expand low income customers' choice of service providers who provide discounts for Lifeline service, ultimately allowing the low income consumer to save money on their telephone service.

Questions were asked and comments made by Representative: Tom Sloan.

Mike Murray, Embarq, director of Government Affairs(Attachment 5), presented testimony in support of **HB 2637** as the bill is currently written.

MINUTES OF THE House Energy and Utilities Committee at 9:15 A.M. on January 24, 2008 in Room 783 of the Docking State Office Building.

Opponents:

Steve Rarrick, CURB, attorney, (Attachment 6), presented testimony in opposition to **HB 2637** noting page 8, line 28 as the main contention they have to the bill, as it removes the cap for the basic telephone service (POTS=plain old telephone service). They believe overall prices will go higher due to the pricing caps being lifted for POTS.

Questions were asked and comments made by Representatives: Oletha Faust-Goudeau, Tom Sloan, Tom Moxley, and Cindy Neighbor.

Patrick Fucik, director of state government affairs for Sprint, gave an introduction to the testimony noting that Sprint has no problems with the lifeline portion of the bill, but to the pricing flexibility.

Pete Sywenki, Sprint, (Attachment 7), presented testimony in opposition to **HB 2637**, noting that **HB 2637** would remove the last remaining regulatory protection for those services and customers which are least susceptible to competition.
Questions were asked and comments made by Representatives: Forrest Knox, Rob Olson, Tom Sloan, and Tom Moxley.

Janet Buchanon, KCC, gave the staffs opinion on how the lifeline would be priced according to the way **HB 2637** is written.

Hearing on **HB 2637** was closed.

The next meeting is scheduled for January 25, 2008.

The meeting was adjourned at 10:47 a.m.

HOUSE ENERGY AND UTILITIES COMMITTEE
GUEST LIST

DATE: January 24, 2008

NAME	REPRESENTING
Shirley Allen	SITA
Judi Yohon	RTS
Lindsey Douglas	Hein Law Firm
Dan Jacobsen	AT&T
Deb Vignatelli	AT&T
Cyndi Gallagher	AT&T
Jeff Lewis	AT&T
SHAWN ATKINS	NEX-TECH, INC.
Linda Langston	Cox
Coleen Jennison	Cox
Scott Schneider	Cox
JANET BUCHANAN	KCC
TOM DAY	KCC
NELSON KRUEGER	EVEREST
Diane Browning	Sprint
Patrick Fucik	Sprint
Pete Sywenki	Sprint
Mike Murray	Embarq
Sam Foreman	Embarq

HOUSE ENERGY AND UTILITIES COMMITTEE
GUEST LIST

DATE: January 24, 2008

NAME	REPRESENTING
Kimberly Gencur	ITC Great Plains
Jim Gartner	AT&T

Dan Jacobsen
President-Kansas

AT&T Kansas
220 SE 6th Street
Suite 500
Topeka, KS 66603

785.276.8201 Phone

Testimony of Dan Jacobsen, President – AT&T Kansas
In support of HB2637 – Pricing Flexibility/Lifeline Service Program
Before the House Energy & Utilities Committee
January 24, 2008

Mr. Chairman and Members of the Committee,

My name is Dan Jacobsen. I am the President of AT&T Kansas. I appreciate this opportunity to speak with you regarding an important issue that will affect the way our state's telecom infrastructure is developed for the foreseeable future. Communications is an exciting business. Technology is changing very rapidly. In a period of less than twenty years, telecommunications has evolved from the exclusive use of traditional landline telephone sets to powerful wireless devices such as iPhones that have the ability to do far more in less time. While the differences in handsets are easy to spot, changes in the actual telecom marketplace are also compelling. A decade ago, wireless calls were 47 cents a minute – today those same calls can be made for less than ten cents a minute. DSL Internet service topped $50 a month eight years ago – today it can be purchased for less than $20. Customers now routinely use cable and internet connections to make phone calls; instead of using incumbent landlines. While significant customer loss is not welcomed, what makes this situation very difficult for incumbent telephone companies such as AT&T, is that we still do not have same pricing flexibility that our competitors enjoy.

BACKGROUND

In 2006 the Kansas legislature adopted a framework (SB350) for regulating telecommunications based on a principle –

> In areas where customers have competitive alternatives,
> customers will benefit if all providers, including the incumbents, have pricing flexibility -- as long as there are safeguards

The corollary also applies –

> In areas where customers don't have sufficient competitive alternatives,
> customers are safeguarded through traditional price regulation

The 2006 framework included safeguards – to assure that customers who have competitive alternatives benefit from competitive pricing:

ENERGY AND HOUSE UTILITIES
DATE: 1/24/08
ATTACHMENT 1-1

- The KCC decides which areas of the state are competitive
- The KCC retains jurisdiction to resolve complaints
- Telephone service remains tariffed
- If competition disappears, price regulation is reinstituted
- Prices cannot be set below cost
- Prices must be consistent across each exchange
- The KCC will monitor the relationship between telecom prices and inflation and report the findings to the Legislature annually
- The KCC will recommend changes to the Legislature if necessary

PROPOSAL

AT&T is not asking to change the framework adopted in 2006. We are simply seeking marketplace parity in areas where customers have alternatives. Under current law, incumbents never get pricing flexibility on primary residential lines or the first four business lines, even when customers have competitive alternatives. Two years have passed since 2006. Markets have continually developed and competition is intense in many areas of the state. It is now clear that customers in competitive areas have access to viable competitive alternatives from cable, wireless and internet-based services. The law should be changed to allow incumbents the same pricing flexibility as competitors on these lines in competitive areas. Customers will benefit when incumbents have the same flexibility as other providers.

LIFELINE AUTOMATIC ENROLLMENT

The bill also implements a process to benefit low income customers. All incumbents and many other providers offer discounted basic telephone service for low income customers. AT&T's Kansas Lifeline service offers local calling for $4.70 compared to our normal price of $22 per month. This discount is funded partly by the federal universal service fund and partly by the Kansas universal service fund. Under current rules, to qualify for Lifeline service, customers must contact telephone companies and demonstrate that they participate in an eligible program or their income falls below 150% of the federal poverty guidelines. Across Kansas only about 3% of our lines are currently receiving this Lifeline discount.

HB2637 will implement an automatic enrollment process to help qualifying low income customers receive the lifeline discount. AT&T has worked with SRS to develop the following plan: Twice a year SRS will generate a list of customers that are eligible for the lifeline discount based on their participation in various low income assistance programs such as:

1. Temporary Assistance to Families
2. Food Stamps
3. General Assistance
4. Supplemental Security Income (SSI)
5. National School Lunch Program's free lunch

The list will include customer name, telephone number and address. The list will not provide other information such as customer income or any details whatsoever on SRS program participation. This list will be provided to telephone companies for the sole purpose of allowing those companies to compare this list with their customer records to identify existing customers that are eligible for lifeline but currently paying standard prices for local service. Important privacy safeguards are built into the legislation—SRS will only share the list after (1) the customers have consented to the sharing of this information for lifeline eligibility purposes; and (2) the participating telephone company has entered into a confidentiality agreement with SRS ensuring that the information is only used for eligibility purposes. AT&T will send letters to those consenting customers who have been auto-enrolled in the Lifeline program.

Under the terms of the bill, telephone companies can only use SRS information to convert their existing customers to discounted Lifeline service. As mentioned, telephone companies will not be allowed to use this information for other marketing purposes. To do so will be illegal.

Not only will this process help low income customers get on the Lifeline program, it will help them remain on the discount as long as they remain eligible. Under current rules, low-income customers must verify each year that they participate in an eligible program or their income remains under 150% of the federal poverty guideline, e.g. they must provide a copy of an earnings statement to the telephone company. Under the proposed auto-enrollment process, Lifeline customers would remain eligible for the discount as long as their names appears on the most recent SRS list. This will greatly simplify the eligibility process for these customers.

Implementation of this auto-enrollment process will be mandatory for telephone companies that have pricing flexibility. It will be optional for other companies to implement the process. AT&T has committed to incur the administrative cost to implement and support the auto-enrollment process in all of our Kansas service areas.

Other companies will have the option of determining whether this process makes sense for their customers and company.

AT&T will implement this process in all areas that we serve, not just those areas that the KCC has declared competitive. We expect our lifeline volumes to at least double in Kansas as a result of the auto-enrollment process. SRS has worked closely with AT&T to design a workable program for Kansas. We appreciate their cooperation.

ELIGIBLE TELECOMMUNICATIONS CARRIER CHANGES

Finally, the bill includes a modification to the process the KCC uses to determine which carriers are eligible to receive federal subsidies to fund lifeline discounts. Current rules could be interpreted to require competitive local exchange providers to build out their facilities to the incumbent service area in order to be eligible to receive federal subsidies to fund lifeline discounts. The bill includes wording to clarify that the KCC can grant "lifeline-only" eligibility for carriers that want to provide discounted lifeline service but are not in a position to serve the same area that incumbents serve. This clarification will help companies like Cox Communications offer lifeline service with discounts that are based on both state and federal USF subsidies, giving low income customers more choice of telephone providers

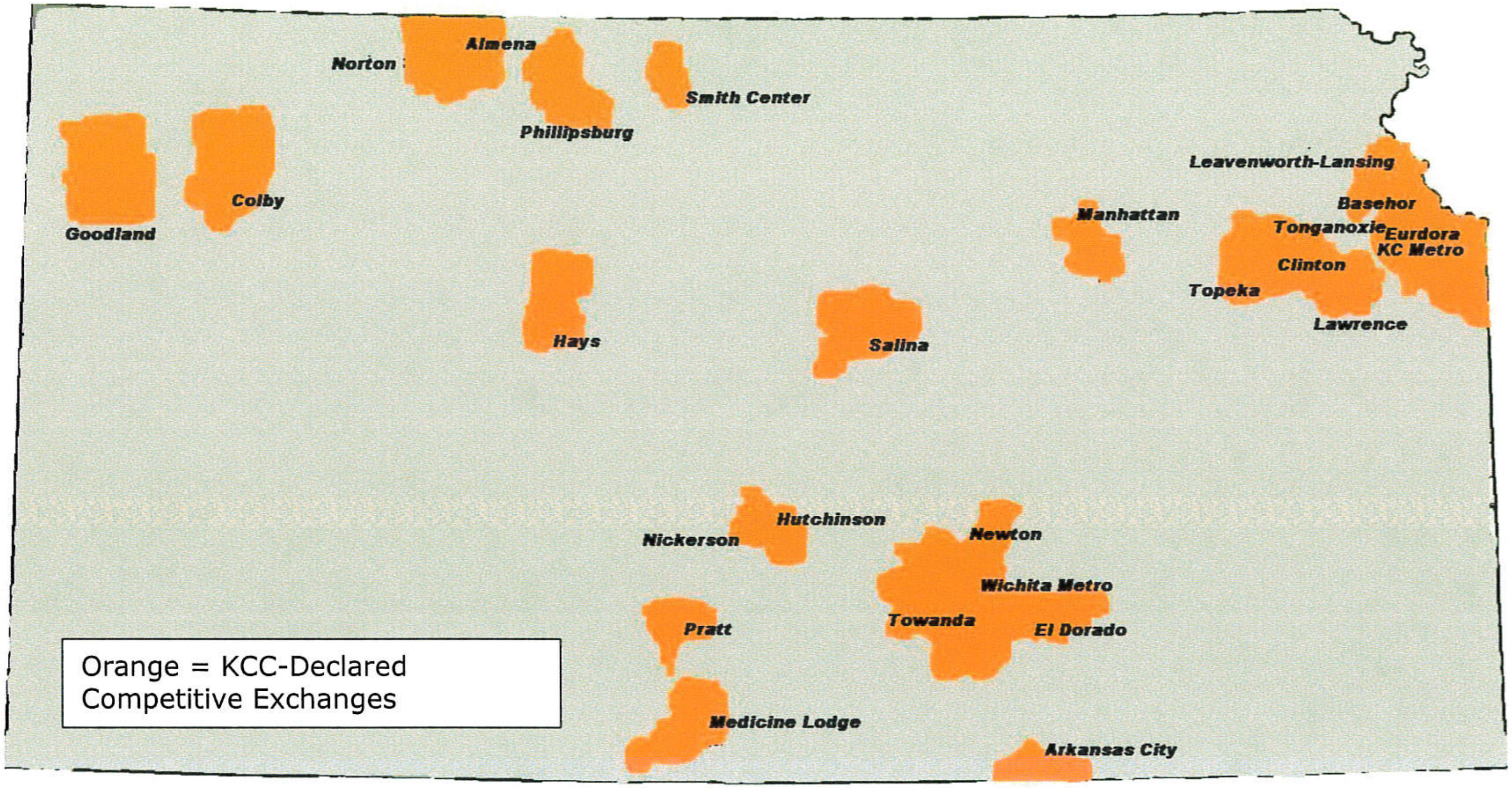
SUMMARY

This bill embodies several ideas that make up the next logical step for Kansas telecommunications. Customers will benefit from increased competition in the market. More low income customers will receive a $17 monthly discount on local service. Passage of this bill sends the message that competitive markets are important to Kansas. This message will be heard loud and clear, ensuring that Kansas remains a viable option for significant future technology investments. I urge your support for this important legislation. I am available for any concerns or questions you may have.

Thank you very much for your consideration.

HB 2637 Provides Pricing Parity and Protects Consumers

ENERGY AND HOUSE UTILITIES
DATE: 1/24/2008
ATTACHMENT 2

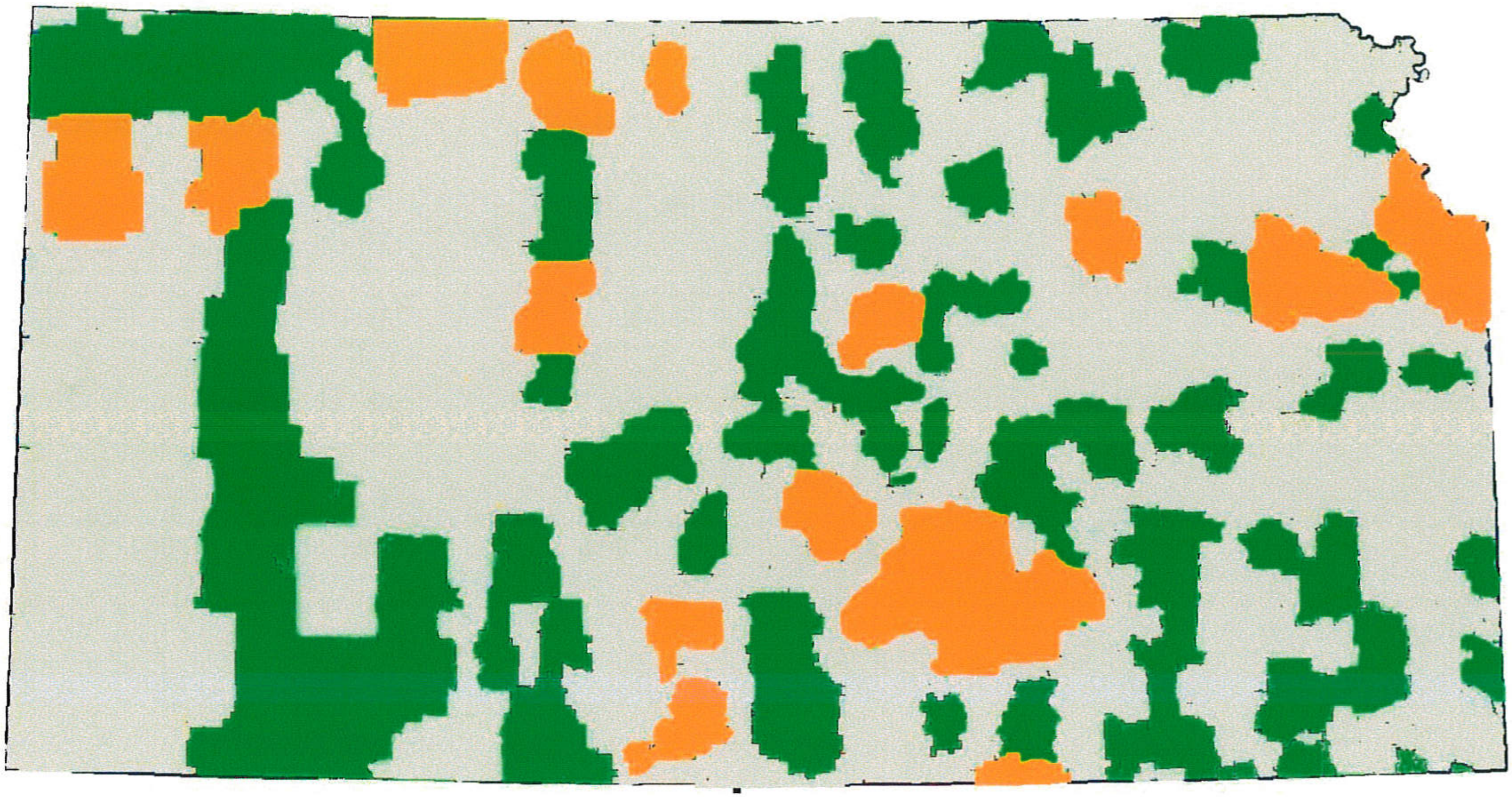


Current law protects consumers in several ways:

*The KCC determines which areas are competitive. (requires at least three providers)
*Prices remain regulated in non-competitive (gray on this map) areas.
*KCC can regulate prices if service quality declines or if competition declines.
*Below-cost pricing is prohibited. KCC can hear complaints from competitors.

ENERGY AND HOUSE UTILITIES
DATE: 1/24/2008
ATTACHMENT 3

Lifeline Auto-Enrollment Will Benefit a Large Number of Kansans



Green area: Remain regulated by KCC
Orange area: KCC-declared competitive exchanges
(All orange and green areas will receive Lifeline auto-enrollment from AT&T with bill passage)

931 SW Henderson Rd.
Topeka, KS 66615
(785) 215-6700

House Bill 2637 Testimony
House Utilities Committee
Coleen Jennison, Cox Communications
January 24, 2008

Chairman Holmes and members of the committee, I am Coleen Jennison, Director of Government Affairs for Cox Communications. Thank you for the opportunity to make a statement regarding House Bill 2637. Cox Communications stands in support of the bill.

Our focus is on the Lifeline Service Program portion of the proposed legislation.

HB 2637 will expand low income customers' choice of service providers who provide all available discounts for Lifeline service, ultimately allowing the low income consumer to save money on their telephone service.

With a few exceptions, currently Cox only offers the state discount, because under current rules, we are not eligible for the federal reimbursements. The language in Section 2, 4(c) on page 13 of the bill would ensure fair and equal treatment for Incumbent Local Exchange Carriers (ILECs) and Competitive Local Exchange Carriers (CLECs) alike. This language allows for the ILEC and facilities based CLECs to compete on equal footing for low income customers. Each company has access to the same reimbursements and the same list of customers.

Cox recognizes that this change would obligate us to meet all requirements for Eligible Telecommunications Carriers (ETCs) including the provision of universal service and all that it entails, as well as advertising the availability of Lifeline and other services.

High cost funds are not involved, so it does not disadvantage the ILEC. Additionally, this will make CLEC's, who are writing off the federal subsidy, whole and also allow facilities based CLEC's to offer a lower price to low income customers.

Additional distributions from the Kansas Universal Service Fund (KUSF) will be minimal and will occur only from an increase in Lifeline subscribers due to the automatic signup provision offered in the language. Cox is already eligible for the state portion of the funds.

Again, the designation set forth in the legislation is not applicable to areas designated as rural study areas, and therefore high cost funds are not involved.

Cox believes the Lifeline Service Program is good for consumers. In allowing fair and equal treatment, customers can take advantage of the full discounts available to them.

Thank you again for the opportunity to address the committee. I would be happy to answer any questions.

ENERGY AND HOUSE UTILITIES
DATE: 1/24/2008
ATTACHMENT 4

Before the House Energy and Utilities Committee
January 24, 2008
HB 2637
Michael R. Murray, Director of Governmental Affairs,
Embarq Corporation

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to comment on HB 2637 relating to pricing flexibility and automatic enrollment in the lifeline program.

Embarq supports HB 2637 as written.

Allowing pricing flexibility for the initial residential local exchange access line and up to four business local exchange access lines at one location will allow Embarq to be more immediately responsive to other providers in an increasingly competitive local exchange market place.

Further, Embarq agrees with the provisions allowing automatic enrollment in the Kansas Lifeline Service Program of persons eligible to receive that service.

And, Embarq supports that section of the bill allowing eligible telecommunications carrier status for non-CMRS wireline facilities-based telephone service provider for the purpose of receiving low-income federal universal service fund support for participation in the lifeline service program.

We respectfully urge you to send HB 2637 to the Floor favorable for passage.

EMBARQ™

ENERGY AND HOUSE UTILITIES
DATE: 1/24/2008
ATTACHMENT 5

Citizens' Utility Ratepayer Board

State of Kansas
Kathleen Sebelius, Governor

David Springe, Consumer Counsel
1500 S.W. Arrowhead Road
Topeka, Kansas 66604-4027
Phone: (785) 271-3200
Fax: (785) 271-3116
http://curb.kcc.state.ks.us

Testimony on Behalf of the Citizens' Utility Ratepayer Board
By Steve Rarrick, Staff Attorney
Before the House Energy and Utilities Committee
Re: House Bill 2637
January 24, 2008

Chairman Holmes and Members of the Committee:

Thank you for the opportunity to appear before you this morning on behalf of the Citizens' Utility Ratepayer Board (CURB). My name is Steve Rarrick and I am an attorney with CURB.

The primary objective of House Bill 2637 (page 8, line 28) is to remove the price cap protections for the basic residential line and up to four business lines (basic local service). CURB opposes the removal of price cap protection for basic local service for the same reasons we urged the legislature to include this continued protection when price deregulation was passed in 2006.

CURB has asked AT&T for information on how many subscribers it has with only a basic residential line and long distance and/or ala carte vertical services, but has been advised that AT&T considers this information confidential. However, information gathered during the price deregulation application by AT&T in 2005 indicated the following:

- Competitors' share of the stand-alone residential market was 2% compared to SBC's near monopoly 98% share.[1]
- 25.06%, 23.20%, and 23.3% of SBC's Kansas City, Wichita, and Topeka subscribers, respectively, subscribed to basic residential access line service only.[2]
- A significant number of residential consumers purchased only one vertical service and the competitors offering vertical service did so only in bundles rather than on a stand-along basis.[3]
- 12.65% of Kansans were elderly, 14.75% were disabled, and 12.1% were impoverished.[4]

---

[1] June 27, 2005 Order, at ¶ 101.
[2] June 27, 2005 Order, at ¶ 186.
[3] June 27, 2005 Order, at ¶ 102.
[4] June 27, 2005 Order, at ¶ 186.

ENERGY AND HOUSE UTILITIES
DATE: 1/24/2008
ATTACHMENT 6-1

As noted by the Kansas Corporation Commission (KCC) in 2005, the relatively vulnerable positions of the elderly, disabled, and impoverished should be considered to ensure they have access to universal service at an affordable price as required by K.S.A. 66-2001(a).[5]

Under the price deregulation amendments to K.S.A. 66-2005 passed in 2006, bundled telephone services are price deregulated statewide, and nearly all services in exchanges with more than 75,000 lines (Kansas City, Topeka, and Wichita) have been price deregulated. For all other exchanges, AT&T and Embarq are able to obtain price deregulation by merely demonstrating there are 2 unaffiliated carriers, one of which is facilities-based, providing service to more than one customer in the exchange. This test is easily met, as some of the "competitors" identified by AT&T in the 20-plus exchanges price deregulated under this statute only narrowly passed the requirement that they provide service to more than one customer. In one of the price deregulated exchanges, one of the required "competitors" publicly admitted to KCC Staff that its wireless coverage in the community was, in its own words, "poor at best." Despite this admission, the exchange was price deregulated because it met the statutory minimum of two unaffiliated providers providing service to more than one customer.

The reality is that AT&T has achieved price deregulation of most of its services. However, the 2006 legislature wisely chose to continue to protect residential and small business basic local service with price cap protection. CURB urges this Committee to continue price cap protection for basic local service that the poor, the disabled, and the elderly use for contacting doctors, schools, and friends and family, and that small businesses use for conducting business. Basic local service is the primary service in the definition of universal service in K.S.A. 66-1,187 (p), and is a service that should not be price deregulated to ensure that "every Kansan will have access to a first class telecommunications infrastructure that provides excellent services at an affordable price." K.S.A. 66-2001(a).

Passage of this bill will result in higher prices for residential and small businesses who subscribe to basic local service. Consumers and small businesses with less than four lines subscribing to basic local service do not offer the lucrative opportunities to competitive companies that result in real competition. Those consumers and small businesses will lose the protections of price cap regulation under this bill, and will pay higher prices as a result.

In the event the Committee decides to approve AT&T's request to eliminate price cap protections for basic local service for consumers and small businesses, CURB is concerned the proposed sunset language at page 8, line 28, could be interpreted as applying not only to sub-paragraph (F), but also the exchange-wide uniform pricing protections contained in sub-paragraph (G). As a result, if the Committee decides to eliminate the price cap protections contained in sub-paragraph (F), CURB urges the Committee to simply strike subsection (F) to make it clear the exchange-wide uniform pricing protections contained in sub-section (G) remain in place. It is my understanding that AT&T did not intend to eliminate sub-section (G) with this proposal, and therefore does not oppose CURB's alternative proposal.

[5] June 27, 2005 Order, at ¶ 186.

If the Committee decides to approve AT&T's request to eliminate price cap protections for basic local service, CURB also urges the Committee to amend the bill to detariff all price deregulated services and specify that price deregulated services no longer have the protections of the filed rate doctrine or any limitations of liability that may have been approved in tariffed services. The immunity of the filed rate doctrine and the limitations of liability that are approved in tariffed services should not apply to carriers who are no longer price regulated.

CURB supports the provisions at pages 12-13 of House Bill 2637, which would amend K.S.A. 66-2006 to allow automatic enrollment in the Kansas Lifeline Service Program for persons designated by the Department of Social and Rehabilitation Services (SRS) as participating in qualifying programs under the Lifeline Program. This should increase enrollment in the Lifeline program in Kansas. Lifeline enrollment in Kansas is woefully low in relation to the number of Kansans who qualify for the program. The automatic enrollment proposed by this bill is long overdue, and should not be tied to AT&T's request to price deregulate basic local service.

It is important to note, however, that there is a segment of Kansans who qualify for Lifeline but will not appear on any SRS list. Many Kansans do not participate in any qualifying programs even though they may qualify for them. We need to find a way to reach these Kansans through public service announcements and/or carrier advertising to obtain greater Lifeline participation by those who qualify.

CURB does not oppose the provisions at page 13, lines 32-42, which would require the KCC to approve a limited Lifeline Eligible Telecommunications Carrier (ETC) designation. However, as a matter of policy, CURB doesn't understand why this limited Lifeline ETC designation should be limited to wireline facilities-based carriers and not available for all carriers (including wireless carriers) that can "meet all other ETC eligibility requirements." If the policy goal is to promote Lifeline participation and to level the playing field for all carriers, the Committee should strike the words, "wireline (CMRS)," at page 13, lines 34-35.

On behalf of CURB, I urge you to vote against the provisions of House Bill 2637 that remove price cap protections for the basic residential line and up to four business lines (page 8, line 28). Kansans deserve price cap protection for basic local service. If you decide to eliminate this last line of price cap protection, CURB urges the Committee to detariff price deregulated services and remove the protections of the filed rate doctrine and any limitations of liability that apply to tariffed and price regulated telephone services.

CURB urges you to pass the provisions of the bill related to automatic Lifeline enrollment. Finally, if the Committee believes a limited Lifeline ETC designation is appropriate, CURB urges the Committee to adopt CURB's suggested amendment to level the playing field for all carriers.

Sprint
Together with NEXTEL

Sprint Nextel
6450 Sprint Parkway
Overland Park, KS 66251
Mailstop: KSOPHN212-2A203

Pete Sywenki
Director, Policy
Government Affairs
913-315-9264

Sprint Opposes HB 2637 - Price Deregulation Legislation Without Additional Changes

Thank you for giving me the opportunity to present Sprint's views on House Bill 2637 (HB 2637) on behalf of Sprint Nextel, it's employees, it's customers, and as a citizen of Kansas. The purpose of the legislation is to lift the remaining constraints on the prices that the big incumbent telephone companies charge Kansas residential and small business customers for basic local telephone service. After having obtained massive deregulation from the Kansas legislature just two sessions ago, HB 2637l would eliminate the remaining regulatory protection for those services and customers which are least susceptible to competition. Sprint Nextel strongly supports minimizing regulation in markets that are fully competitive. However, Sprint Nextel objects when deregulation is not coupled with safeguards necessary to protect consumers and promote further competition. For this reason, Sprint Nextel has proposed sensible amendments to HB 2637 to ensure public interest benefits for the citizens and businesses of Kansas.

Under current Kansas law and the regulations of the Kansas Corporation Commission, the price of basic local service for residential and small businesses is maintained by three important mechanisms. First, the statute caps the price that price cap telephone companies may assess. Second, the Kansas USF provides subsidies to keep these rates low. Third, inflated carrier access rates imposed by the local telephone companies which inflate the cost of in-state long distance calls are used to subsidize the price of basic local service. These three mechanisms have always been considered together when determining the price of basic local service. Unfortunately, HB 2637 seeks to do away with the statutory price cap to permit the local telephone companies to raise basic local service prices, but does not make necessary adjustments to the other mechanisms. Sprint Nextel has therefore proposed straightforward amendments to adjust the KS USF and carrier access charges which ensure lower cost telephone service for all of the citizens of Kansas.

First, in areas where the telephone company has obtained pricing flexibility for residential and small business basic local rates, Sprint Nextel proposes a reduction in KS USF distributions for that area. This is very simple, where the price for basic local phone service is no longer capped, the telephone company can recover its cost of providing these basic local services and no longer requires the USF subsidy. By reducing the KS USF, the burden placed on all Kansas citizens through KS USF surcharges will be reduced, resulting in a corresponding reduction on every consumer's bill in what they pay into the KS USF. Second, when the telephone company has obtained retail pricing freedom under K.S.A. 66-2005 Sprint Nextel proposes that the inflated carrier access rates the telephone company imposes on other carriers for in-state long distance calls be reduced to the level that the telephone company imposes on other carriers for handling interstate long distance calls. Again, this is a simple measure to fully implement a sensible policy that is already supported in the Kansas statute in K.S.A. Section 66-2005(c). By reducing inflated carrier access rates to a more reasonable level, you can ensure Kansas citizens will benefit from lower prices for in-state toll calls. These reduced toll-prices are guaranteed by K.S.A. Section 66-2005(w). Together, these amendments provide a critically needed balance to offset the removal of price caps on basic local services and to ensure a public interest benefit for the citizens of Kansas. Sprint Nextel vigorously opposes passage of HB 2637 unless these amendments are adopted. Thank you for you allowing me this time to address this important matter and I would be happy to answer any questions.

1/24/08

ENERGY AND HOUSE UTILITIES
DATE: 1/24/2008
ATTACHMENT 7-1

SUMMARY OF
SPRINT NEXTEL PROPOSED REVISIONS
TO HB 2637

- Sprint Nextel strongly supports minimizing regulation in markets that are fully competitive. However, Sprint Nextel objects when deregulation is not coupled with necessary safeguards to protect consumers and promote further competition. For this reason, Sprint Nextel has proposed sensible amendments to HB 2637 to ensure public interest benefits for the citizens and businesses of Kansas.

- Sprint Nextel's first proposed revision would remove the Kansas Universal Service Fund (KUSF) subsidy in areas that are price deregulated. When the price for basic local phone service is no longer capped, the telephone company can recover its cost of providing service through charges to its customers and no longer requires the KUSF subsidy, thus reducing the overall size of the KUSF. Reducing the size of the KUSF means consumers directly benefit from lower KUSF carrier surcharges on every bill.

- Sprint Nextel's second proposed revision would require telephone companies seeking price deregulation to reduce the inflated carrier access rates they impose on other carriers for in-state long distance calls to the level that they charge for handling interstate long distance calls. This is a simple measure to fully implement a sensible policy that is already supported in KSA 66-2005(c). By reducing inflated carrier access rates to a more reasonable level, Kansas consumers will benefit from lower prices for in-state toll calls. These reduced toll prices are guaranteed by KSA 66-2005(w).

- Together, these revisions provide a critically needed balance to offset the removal of price caps on basic local services and to ensure a public benefit for the citizens of Kansas. Sprint Nextel vigorously opposed passage of HB 2637 unless these proposed revisions are included.

66-2005:

(q) (1) Beginning July 1, 2006, price regulation of telecommunications services in the residential and single-line business service basket and the miscellaneous services basket for local exchange carriers subject to price cap regulation shall be as follows:
(A) Packages or bundles of services shall be price deregulated statewide, however the individual telecommunication service components of such packages or bundles shall remain available for purchase on an individual basis at prices subject to price cap regulation in any exchange in which the standards in subsection (q)(1)(B), (C) or (D) have not been met. If standards in subsection (q)(1)(B), (C) or (D) have been met, the individual telecommunication service components of such packages or bundles shall remain available for purchase on an individual basis and prices for packages or bundles shall not exceed the sum of the highest prices of the ala carte components of the package or bundle;
(B) in any exchange in which there are 75,000 or more local exchange access lines served by all providers, rates for all telecommunications services shall be price deregulated; provided, however, that to be eligible for price deregulation under this subparagraph (q)(1)(B), a local exchange carrier must reduce its intrastate access rates and rate elements to the same levels as its interstate access rates and rate elements. In any exchange in which a local exchange carrier has received price deregulation under this subparagraph (q)(1)(B), such local exchange carrier is not eligible to receive disbursements from the Kansas Universal Service Fund under K.S.A. 66-2008 *et seq.*;
(C) in any exchange in which there are fewer than 75,000 local exchange access lines served by all providers, the commission shall price deregulate all business telecommunication services upon a demonstration by the requesting local telecommunications carrier that there are two or more nonaffiliated telecommunications carriers or other entities, that are nonaffiliated with the local exchange carrier, providing local telecommunications service to business customers, regardless of whether the entity provides local service in conjunction with other services in that exchange area. One of such nonaffiliated carriers or entities shall be required to be a facilities-based carrier or entity and not more than one of such nonaffiliated carriers or entities shall be a provider of commercial mobile radio services in that exchange. To be eligible for price deregulation under this subparagraph (q)(1)(C), a local exchange carrier must reduce its intrastate access rates and rate elements to the same levels as its interstate access rates and rate elements. In any exchange in which a local exchange carrier has received price deregulation under this subparagraph (q)(1)(C), such local exchange carrier is not eligible to receive disbursements from the Kansas Universal Service Fund under K.S.A. 66-2008 *et seq.*;
(D) in any exchange in which there are fewer than 75,000 local exchange access lines served by all providers, the commission shall price deregulate all residential telecommunication services upon a demonstra-

tion by the requesting local telecommunications carrier that there are two or more nonaffiliated telecommunications carriers or other entities, that are nonaffiliated with the local exchange carrier, providing local telecommunications service to residential customers, regardless of whether the entity provides local service in conjunction with other services in that exchange area. One of such nonaffiliated carriers or entities shall be required to be a facilities-based carrier or entity and not more than one of such nonaffiliated carriers or entities shall be a provider of commercial mobile radio services in that exchange. To be eligible for price deregulation under this subparagraph (q)(1)(D), a local exchange carrier must reduce its intrastate access rates and rate elements to the same levels as its interstate access rates and rate elements. In any exchange in which a local exchange carrier has received price deregulation under this subparagraph (q)(1)(D), such local exchange carrier is not eligible to receive disbursements from the Kansas Universal Service Fund under K.S.A. 66-2008 *et seq.*;

(E) rates for lifeline services shall remain subject to price cap regulation;

(F) *up to and continuing until July 1, 2008,* rates for the initial residential local exchange access line and up to four business local exchange access lines at one location shall remain subject to price cap regulation. Such rates shall not be affected by purchase of one or more of the following: Call management services, intraLATA long distance service or interLATA long distance service. To be eligible for price deregulation under this subparagraph (q)(1)(F), a local exchange carrier must reduce its intrastate access rates and rate elements to the same levels as its interstate access rates and rate elements. In any exchange in which a local exchange carrier has received price deregulation under this subparagraph (q)(1)(F), such local exchange carrier is not eligible to receive disbursements from the Kansas Universal Service Fund under K.S.A. 66-2008 *et seq.*; and

(G) local exchange carriers shall offer a uniform price throughout each such exchange for services subject to price deregulation, under this subsection, including packages or bundles of services, except as provided in subsection (1) or as otherwise approved by the commission.

(2) For the purposes of this subsection:

(A) Any entity providing voice service shall be considered as a local telecommunications service provider regardless of whether such entity is subject to regulation by the commission;

(B) a provider of local telecommunications service that requires the use of a third party, unaffiliated broadband network or dial-up internet network for the origination of local voice service shall not be considered a local telecommunications service provider;

(C) telecommunications carriers offering only prepaid telecommunications service shall not be considered entities providing local telecommunications service.

(3) If the services of a local exchange carrier are classified as price deregulated under this subsection, the carrier may thereafter adjust its

rates for such price deregulated services upward or downward as it determines appropriate in its competitive environment, with tariffs for such services deemed effective upon filing with the commission. Price deregulated services shall be subject to the price floor in subsection (k), and shall not be unreasonably discriminatory or unduly preferential within an exchange.

(4) The commission shall act upon a petition filed pursuant to subsection (q)(1)(C) or (D) within 21 days, subject to an extension period of an additional 30 days, and upon a good cause showing of the commission in the extension order, or within such shorter time as the commission shall approve. The commission shall issue a final order within the 21-day period or within a 51-day period if an extension order has been issued.

(5) The commission may resume price cap regulation of a local exchange carrier, deregulated under this subsection upon finding, after a hearing, that such carrier has: Violated minimum quality of service standards pursuant to subsection (1) of K.S.A. 66-2002, and amendments thereto; been given reasonable notice and an opportunity to correct the violation; and failed to do so.

(6) The commission on July 1, 2006, and on each date that any service is deregulated, shall record the rates of each service which has been price deregulated in each exchange.

(7) Prior to January 1, 2007, the commission shall determine the weighted, statewide average rate of nonwireless basic local telecommunications service as of July 1, 2006. Prior to January 1, 2007, and annually thereafter, the commission shall determine the weighted, average rate of nonwireless basic local telecommunications services in exchanges that have been price deregulated pursuant to subsection (q)(1)(B), (C) or (D). The commission shall report its findings on or before February 1, 2007, and annually thereafter to the governor, the legislature and each member of the standing committees of the house of representatives and the senate which are assigned telecommunications issues. The commission shall also provide in such annual report any additional information it deems useful in determining the impact of price deregulation on consumers and the competitive environment, including, but not limited to, the rates recorded under paragraph (6) of this subsection, the current rates for services in price deregulated exchanges, changes in service offerings available in