

Blue Valley Tele-Communications, Inc.
Hame

Blue-stein Telephone Company
Dodge City

Columbus Telephone Company

Craw-Kan Telephone Coop., Inc.
Curtis

Cunningham Telephone Co., Inc.
Clen Elder

Elkhart Telephone Co., Inc.

Golden Belt Telephone Assn., Inc.
Rush Center

Gorham Telephone Company

Haviland Telephone Company, Inc.

Home Telephone Company, Inc.
Cuba

JBN Telephone Company, Inc.
Holton

KanOkla Networks
Caldwell

LalHarpe Telephone Company, Inc.

Madison Telephone, LLC

MoKan Dial, Inc.
Lansburg

Moundridge Telephone Co., Inc.

Mutual Telephone Company
Little River

Peoples Telecommunications, LLC
LaCage

Pioneer Communications
Chase

Rainbow Telecommunications, Assn.
Leetot

Rural Telephone Service Company,
Inc.
Leona

S & A Telephone Company
Allen

S & T Telephone Coop. Assn.
Brewster

South Central Telephone Assn., Inc.
Albany Lodge

Southern Kansas Telephone Co., Inc.
Clearwater

Sunflower Telephone Company, Inc.
Dodge City

Totah Telephone Company, Inc.
Ochelata, OK

Tri-County Telephone Assn., Inc.
Conant Grove

Twin Valley Telephone, Inc.
Albionak

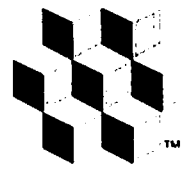
United Telephone Association, Inc.
Dodge City

Wamego Telecommunications Co.,
Inc.

Wheat State Telephone, Inc.
Udell

Wilson Telephone Company, Inc.

Zenda Telephone Company, Inc.



KANSAS
RURAL INDEPENDENT
Telephone Companies

Investment that works for all Kansans

Senate Utilities Committee

Ben Foster, President Twin Valley Telephone

March 12, 2013

Thank you Mr. Chairman and members of the committee; I am Ben Foster, President of Twin Valley Telephone. I am here today to speak on behalf of thirty-four Kansas Rural Independent Telephone Companies (Rural Companies) asking for your support of HB 2201.

The Rural Companies collectively serve fifty percent of the geographic area of Kansas, but less than ten percent of the regulated wire line access lines in Kansas. For more than one hundred years we have been serving rural areas of Kansas. Starting as telephone companies, we are all telecommunication companies providing an evolving array of basic and advanced telecom products and services to the rural Kansans we serve. We are community partners and leaders in rural Kansas, working with our communities to bolster economic development projects in a challenging time for rural Kansas. We employ rural Kansans. In many of our small towns we are the largest employer. We currently employ more than 1000 Kansans. We work daily with our communities to help rural Kansas, not only survive, but thrive. Governor Brownback's roadmap to a vital Kansas economy is exciting to us. We plan to continue partnering with the Governor and Legislature to assure that Kansas will compete and win in an ever changing global economy. All Kansans having access to basic and advanced telecommunication services, at affordable prices, are the key element in assuring our success.

Twin Valley is a 3rd & 4th generation, family-owned company serving north central Kansas for over 60 years. We provide regulated voice and data products to approximately 6,000 customers in 37 communities across 16 counties. We count almost 4,000 broadband customers in a service area that covers about 2,400 square miles. Twin Valley employs 45. I started my career at, what is now, AT&T in 1997 with various management roles until 2004. Then I started working for Twin Valley and was appointed to my current position in 2011.

The cost to serve these rural areas is much higher than the cost to serve urban areas. In some rural areas there will be several miles of network that connect only a customer or two, making the deployment and maintenance of a network an expensive proposition.

In addition to providing services to sparsely populated parts of the state, each rural company is designated as a Carrier of Last Resort (COLRs). COLR obligations were established by the Kansas Legislature to ensure service to low population areas because competition by itself does not ensure access to basic and advanced telecommunication services. In return, COLRs receive high cost support through the

Kansas Universal Service Fund (KUSF). The link between COLR obligation and KUSF high cost support must remain.

The Rural Companies concluded late last summer that there would be telecom legislation in the 2013 session, and because this would open the entire Kansas Telecommunication Act to amendment, we were going to be involved. We decided to open discussions with AT&T and CenturyLink, the other two regulated Local Exchange Carriers in Kansas, to explore the possibility of working together to ensure that any legislative changes take into account the diverse nature of the Kansas telecommunications marketplace. To guide us through our discussions with AT&T and CenturyLink, we identified three key areas to focus on:

- The Rural Companies must continue to operate as the Carrier of Last Resort under traditional Rate of Return regulation in the regulated areas we serve.
- The Rural Companies must continue to receive sufficient and predictable KUSF support while issues relative to Federal Universal Service Fund (FUSF) and Intercarrier Compensation reform at the federal level are resolved at the Federal Communications Commission (FCC) and in federal courts.
- The Rural Companies must continue to operate with affordable local rates for our customers.

Each of these areas of focus is currently supported in the Kansas Telecommunications Act. With these guidelines in place, we worked with AT&T and CenturyLink to craft the language in HB 2201.

HB 2201 accomplishes the following:

- Reduces the KUSF, thus lowering customer fees.
- Brings needed stability to all communications companies.
- Encourages investment and promotes economic growth.
- Modernizes existing Regulation
- Creates a legislative study committee to make recommendations to the 2017 Kansas Legislature

The crafting of HB 2201 was a very complicated process. Legislative staff has explained the various parts of the bill. AT&T and CenturyLink have concentrated on the sections that directly impact their respective companies in their testimony. The following outlines the sections of the bill which impact the Rural Companies.

Page 1, Lines 9-36, Page 2, Lines 1-27, *New Section 1.* This section establishes the Telecommunications Study Committee. This thirteen member committee will meet over a three year period and study telecommunications issues to ensure that Kansas public policy relative to advancing statewide telecommunications infrastructure is being met. We believe this process will be an important educational tool for the legislature as it considers Kansas telecommunications policy in light of federal reform of Universal Service Funding and Intercarrier Compensation as we move into a broadband centric world. As Kansas Corporation Commission (KCC) Chairman Sievers stated earlier this session in front of this committee, "It is the role of the Kansas Legislature to set public policy for the state. The KCC is here to administer that public policy."

Page 27, Lines 18 – 35, *K.S.A. 66-2008(f).* This section ensures that Rate of Return regulated rural companies continue to have their support determined pursuant to Rate of Return regulation principles. It also allows the commission to continue currently ongoing proceedings to review how federal universal service and intercarrier compensation reform may impact telecommunications policy in the state of Kansas and allows the commission to make findings and recommendations to the telecommunications study committee established in New Section 1.

Page 27, Lines 36 - 43, page 28, line 1, K.S.A. 66-2008(g). This section directs the KCC to act within 240 days on a Rural Company's request for supplemental KUSF support or an audit of a Rural Company's KUSF support. The 240 days is the traditional rate case interval currently existing in Kansas statute and applicable to all Rate of Return regulated public utilities, including the state's largest gas and electric utility companies. The Rural Companies believe this change is important to reasonably streamline the KCC regulatory process as it relates to the determination of KUSF high cost support.

Page 9, Lines 37-39, K.S.A. 66-2005(c)(1). This section corrects a typographical error from when the statute was printed. In 1996, relating to access, the word in the bill passed by the legislature was "intrastate," but when the bill was printed, the word became "interstate." In a currently open docket, we informed the KCC that this section of the act includes this typographical error, and that the legislative intent was to mandate recovery of *intrastate* access revenue reductions from the KUSF. This change corrects the statutory language to address a state issue. The language in bold in lines 38 – 39 was crafted to ensure that there would be no duplicate recovery of support from the federal and state funds.

One additional change, crafted jointly by the Rural Companies, AT&T, and CenturyLink, relating to Competitive Eligible Telecommunications Carrier (CETC) KUSF support, should be explained:

Page 25, Line 43, Page 26, Lines 1-17, K.S.A. 66-2008 (c)(4). This section directs the KCC to reduce CETC KUSF support to zero over a four year period beginning March 1, 2014, and ending March 1, 2018. Accomplished in equal annual increments, this process is similar to the one being used by the FCC to eliminate identical support for CETCs at the federal level. Several Rural Companies have affiliates that are affected by this amendment. The Rural Companies believe this amendment offers a measured and responsible move over a reasonable length of time to phase out CETC KUSF support and reduce the size of the KUSF.

Some conferees would have you believe that the FCC has ordered the elimination of FUSF high cost support, and that immediate action should be taken in Kansas to mirror the FCC's actions. This is not true. In reality, the FCC has issued only the first of several orders that will address reform of FUSF and Intercarrier Compensation. And in this first order, virtually all affected parties have filed petitions for reconsideration by the FCC that are in progress, and have already begun the process of litigating to overturn the order. That massive lawsuit has been assigned to the 10th Circuit Federal Appeals Court in Denver. Oral arguments have been scheduled for mid November of 2013. It is not certain when the court will rule. We are far from a position of certainty in Washington.

Our business plans have been developed and carried out under existing federal and state statute. Rate of Return regulation is the purest form of regulation, and the only methodology that has proven to be workable in high cost areas served by rural companies. Any recovery from the FUSF and KUSF is only determined and ordered after the investment has already been made, always tied back to an authorized Rate of Return determined by the regulators. The Rural Companies have made hundreds of millions of dollars of good faith investment under current statute in rural Kansas that is not yet fully recovered. Much of this investment has been made with loans from the federal government through RUS, cooperative lenders such as CoBank and RTFC, and local Kansas banks. It would be unwise for the legislature or the KCC to significantly alter the present system while things remain so unsettled at the federal level. Premature action could cause unintended consequences far beyond just the telecommunications industry. The prudent approach is to carefully monitor the ultimate outcome at the federal level, and then act responsively in Kansas.

Some conferees would have you believe that the world is going completely wireless in the near term, and thus, there is no longer the need for a wireline network. A rational analysis of the situation reveals that this is simply not true. A wireless network that is evolving over time into a voice, data, and video platform requires tremendous bandwidth. It also requires a vibrant wireline network underlying it to connect successfully to the rest of the world and ease its own bandwidth constraints. While there is an element of competition between the two networks, they are much more complementary than competitive. What you will actually see happen is a convergence of wireless and wireline technology to provide a customer driven suite of products and services. Both AT&T and Verizon are actively seeking RFPs from the Rural Companies for fiber connectivity to their towers spread across Kansas. Wireline providers, wireless providers, and policymakers must work together to assure that we build a seamless, ubiquitous, and affordably priced telecommunication network that benefits all Kansans, regardless of their location.

Some conferees may point out that Kansas has one of the highest state support funds in the nation. This is true, but statistics are often used to mislead. What they are not telling you is that Kansas also has some of the lowest intrastate access rates in the nation, and because reductions have been required by statute to be flowed through to Kansas customers, Kansas has some of the lowest intrastate long distance rates in the nation. Prior to the passage of the Kansas Telecommunications Act in 1996, it cost Kansas customers significantly more to call Pittsburg, Kansas than it did to call Pittsburgh, Pennsylvania. This is still the case in states that have not brought their intrastate and interstate access charges into parity, as Kansas has done. Prior to 1996, intrastate access charges for the rural companies were cost based, regulated by the KCC. At implementation of the Kansas Act, the intrastate access charges of all the regulated telephone companies of Kansas were reduced to parity with their respective interstate access charges with a dollar for dollar revenue neutral shift of the reductions into the KUSF. No rural company made one dollar more after this change than they were making before. In addition, the KCC was directed by statute to assure that the KUSF remained cost based for the rural companies. This directive has led to audits of all the rural companies. The immediate beneficiaries of the reduction in intrastate access charges, the long distance companies, were required by statute to reduce their intrastate long distance charges to their customers on a revenue neutral basis. Thus, the ultimate beneficiary over the last 16 years has been Kansas business and residential consumers across the state, who collectively have saved hundreds of millions of dollars through reduced long distance rates. This was a benefit to rural and urban Kansans. States that have not made the forward looking move that the Kansas legislature made in 1996 are now facing a situation where some long distance providers are refusing to allow their customers to call rural areas, an issue that will have to be dealt with by legislators, regulators, and ultimately, the courts.

In conclusion, as stated in the preamble to 1996 Telecommunications Act the public policy of the state is to ensure that every Kansan will have access to a first class telecommunications infrastructure that provides excellent services at an affordable price, all Kansans must have access to basic and advanced telecommunications services at affordable costs. HB 2201 represents good public policy, and we stand with AT&T and CenturyLink in urging you to pass it as presented favorably to the full Senate

Thank you. I would be pleased to stand for questions.