

Approved: 3/10/94
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 9, 1994 in Room 123-S of the Capitol.

Members present: Senators Burke, Downey, Feleciano, Gooch, Harris, Kerr, Petty, Ranson, Reynolds, Salisbury, Steffes and Vidricksen

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee: Susan Fox, President, Kansas Division, Southwestern Bell Telephone
Jerry Fear, City Administrator, Oberlin
Frank Caro, Attorney at Law, Polsinelli, White, Vardeman and Shalton
John Wiebe, Chief Executive Officer, Clay County Hospital
Suzie Ahlstrand, Director-Marketing, Wichita/Sedgwick County Partnership for Growth
Sandie Cox, Communications Workers of America
Dr. Ed Hammond, President, Ft. Hays State University

Others attending: See attached list

Hearing on SB 591-Limited deregulation of telecommunication industry

Susan Fox, President, Kansas Division, Southwestern Bell Telephone, testified Southwestern Bell has added significant amendatory language to the originally filed bill for the purpose of clarifying that the intent of this proposed legislation is not an attempt to deregulate Southwestern Bell, nor to remove it from regulatory oversight by the Kansas Corporation Commission. The proposed legislation is a logical extension of the progressive regulatory plan called TeleKansas. In exchange for Southwestern Bell's commitment to cap, not freeze, local residential and single-line business rates and to provide approximately \$138 million over the next five years in infrastructure improvements over and above normal construction spending, Southwestern Bell will be freed from rate-base, rate of return regulation. Under TeleKansas II and SB 591, the areas of additional infrastructure investment include distance learning, telemedicine and economic development, see attachment 1.

Jerry Fear, City Administrator, City of Oberlin, Kansas, testified the proposed amended SB 591 is not a deregulation bill. It is an incentive regulation bill. He stated the other phone companies should support this concept and develop their own approach to incentive regulation that will provide needed capital for their own modernization, and state legislatures should authorize their regulatory commissions to use incentive regulations as an alternative to traditional rate-of-return regulation, see attachment 2.

Frank Caro, Attorney at Law, Polsinelli, White, Vardeman and Shalton, and General Counsel for the Kansas Corporation Commission from 1987-1991, informed the Committee that SB 591 proposes to do no more than codify, through legislation, the basic tenets of TeleKansas. SB 591 allows a telecommunications public utility that agrees to cap its rates for basic local business and residential service, the ability to flexibly price competitive and discretionary services based on price and not earnings, see attachment 3.

John Wiebe, Chief Executive Officer, Clay County Hospital, testified in support of SB 591. He stated TeleKansas II promises to provide fiber optic transmitted video pictures in the near future. Fiber optic technology will allow his hospital to send useable video pictures of patients and radiology film. In this manner rural Kansas can maintain "state of the art" medical care, see attachment 4.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m. on February 9, 1994.

Suzie Ahlstrand, Director-Marketing, Wichita/Sedgwick County Partnership for Growth, testified Wi/Se is the unified economic development agency for Wichita and Sedgwick County. She stated Wichita and Sedgwick County recognize the need for infrastructure improvements. Southwestern Bell's proposed TeleKansas II means an investment in another type of infrastructure. Rather than investing in concrete and asphalt highways, they are discussing information highways. She urged serious consideration of SB 591, see attachment 5.

Sandie Cox, Communications Workers of America, testified Communications Workers of America (CWA) represents 2,759 men and women who work for Southwestern Bell Telephone Company. Under TeleKansas II, the KU economists predict an average economic benefit of more than \$16 million annually in additional household income spread throughout the Kansas economy over the five-year period and an average of 450 jobs created in each year of the plan, with a low of 341 jobs in 1996 and a high of 653 created jobs in 1997, see attachment 6.

Dr. Ed Hammond, President, Ft. Hays State University, testified there are two main issues evident in the bill as currently drafted. The first is a vision to deploy new technology and a way to do it through public utility investment. The second main issue concerns changes in regulations to encourage this investment and to shield the public utility from uncertainties in regulation beyond basic service provisions as traditionally defined. He sees a third issue and urged that the bill be amended to include training and education components so technologies can actually be used in visionary ways. He stated his overall concern that the goals contained in the proposal have been established by Southwestern Bell and not derived from a larger strategic plan for the state of Kansas. There ought to be a link between the achievement of state and local telecommunications policy goals and the requests contained in the proposal. He referred the Committee to the "Advantage Kansas" report, issued by the Governor's Task Force on telecommunications. Specific observations about SB 591 were submitted to the Committee in written testimony, see attachment 7.

Senator Gooch moved and Senator Steffes seconded to adopt the minutes of February 8, 1994. The motion carried by voice vote.

The Chairman adjourned the meeting at 9:00 a.m.

The next meeting is scheduled for February 10, 1994.

GUEST LIST

COMMITTEE: SENATE COMMERCE COMMITTEE

DATE: 2/9/94

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Denny Koch	Topeka	SWB
Alan Steppat	Topeka	PETE McMillan Assoc.
RICHARD SCHARFENBERG	ST. LOUIS	SWB
Roger Trautw	Topeka	Ks Gov't Consulting
JERRY J. FEAR	Oberlin	City of Oberlin
Dana Bradburn	Topeka	KCC
Eric Milstead	Topeka	Citizens' Utility Ratepayer Board
Randy Schauf	Topeka	Ks Dept of Admin
F. L. Worley	Empire	Retiree
Alice Amstoss	Topeka	Southwestern Bell
Denise Moore	Topeka	KSB
Randy Debenham	Topeka	KCC
MIKE LURA	KANSAS CITY	AT&T
Pres Sheppard	Austin TX	AT&T
Mike Rees	Topeka	AT&T
Jim Caplin	Topeka	SITA
Rich Marshall	Lawrence	Mid-America Univ. TV
RALPH STARRS	Topeka	KCATV/Chan
Randall Hrabe	Hill City, KS	Northwest Kansas Planning & Development
John A. Shomburg	Oberlin	Decatur County Area Chamber of Commerce
Ben Sciortino	Wichita	MULTIMEDIA
BRIAN LIPPOLD	WICHITA	MULTIMEDIA HYPERION TELECOMMUNICATIONS
El Hammam	Hays	Fall Kays State Univ.
Yvonne Potter	Topeka	Medicine & Energy
Martina L Cooper	Topeka	KCC

GUEST LIST

COMMITTEE: SENATE COMMERCE COMMITTEE

DATE: _____

[illegible]

MADAME CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS SUSAN FOX. I AM EMPLOYED BY SOUTHWESTERN BELL TELEPHONE. I'M HERE TODAY TO SPEAK ON BEHALF OF OVER 3,000 EMPLOYEES OF SOUTHWESTERN BELL TELEPHONE IN KANSAS, AND TO URGE THE PASSAGE OF THE AMENDED S. B. 591. I HAVE FILED MORE EXTENSIVE TESTIMONY IN WRITTEN FORM. MY COMMENTS HERE WILL SUMMARIZE THE FILED TESTIMONY.

SOUTHWESTERN BELL HAS ADDED SIGNIFICANT AMENDATORY LANGUAGE TO THE ORIGINALLY FILED BILL FOR THE PURPOSE OF CLARIFYING THAT OUR INTENT IN THIS PROPOSED LEGISLATION IS NOT, AS SOME HAVE CLAIMED, AN ATTEMPT TO DEREGULATE SOUTHWESTERN BELL, NOR TO REMOVE US FROM REGULATORY OVERSIGHT BY THE KANSAS CORPORATION COMMISSION.

OUR INTENT WAS AND IS THE MODIFICATION OF STATUTORY LANGUAGE TO DIRECT A FORM OF REGULATION THAT SIMULTANEOUSLY PROTECTS THE LOCAL EXCHANGE RATEPAYER FROM INCREASES IN LOCAL RATES, AND RECOGNIZES THE DRAMATIC CHANGES THAT HAVE OCCURRED AND ARE CONTINUING TO OCCUR AT AN EVER MORE RAPID PACE IN THE TELECOMMUNICATIONS INDUSTRY.

2/9/94
Commerce

Attachment 1-1

THIS PROPOSED LEGISLATION IS A LOGICAL EXTENSION OF THE PROGRESSIVE REGULATORY PLAN CALLED TELEKANSAS. IT IS CONSISTENT WITH THE PURPOSE OF THE ORIGINAL TELEKANSAS PLAN THAT WAS APPROVED BY THE KANSAS CORPORATION COMMISSION IN 1990 AND WITH THE TELEKANSAS II PLAN THAT WE FILED WITH THE KCC ON JAN. 3 OF THIS YEAR. I WOULD LIKE TO GIVE YOU AN OVERVIEW OF THE BILL AS WE SEE IT NOW, DEALING FIRST WITH HOW RATES ARE TO BE HANDLED AND THEN WITH OTHER PROVISIONS OF THE BILL.

THE FIRST PARAGRAPH OF THIS LEGISLATION, SUB-SECTION 1(A), LAYS OUT THE ESSENTIAL PLAN. IN EXCHANGE FOR SOUTHWESTERN BELL'S COMMITMENT TO CAP, NOT FREEZE, LOCAL RESIDENTIAL AND SINGLE-LINE BUSINESS RATES AND TO PROVIDE APPROXIMATELY \$138 MILLION DOLLARS OVER THE NEXT FIVE YEARS IN INFRASTRUCTURE IMPROVEMENTS OVER AND ABOVE NORMAL CONSTRUCTION SPENDING, SOUTHWESTERN BELL WILL BE FREED FROM RATE-BASE, RATE OF RETURN REGULATION.

THE PENALTY FOR SOUTHWESTERN BELL FAILING TO KEEP ITS COMMITMENT IS WRITTEN DIRECTLY INTO THE LEGISLATION. THAT IS, IF WE FAIL TO COMPLY, RATE-OF-RETURN REGULATION CAN BE IMMEDIATELY IMPOSED UPON US AGAIN, WITH ALL OF ITS ATTENDANT BURDENS AND EXPENSES FROM WHICH WE SEEK RELIEF.

THE PLAN IS SIMILAR IN STRUCTURE TO THE ORIGINAL TELEKANSAS PLAN, WHEREIN SOUTHWESTERN BELL FROZE BASIC LOCAL RATE LEVELS AND COMMITTED TO A SIMILAR INCREMENTAL CAPITAL SPENDING PROGRAM, WHICH IS NOW AHEAD OF THE ORIGINAL TIMETABLE.

IN EXCHANGE, SOUTHWESTERN BELL WAS TO BE FREE FROM RATE-OF-RETURN REGULATION FOR THE DURATION OF THE PLAN. IN FACT, SPECIFIC LANGUAGE EXISTS IN THE ORIGINAL KCC ORDER (SEE APPENDIX A.) THAT REFLECTED THAT NEITHER PARTY INTENDS TO "MERELY RETURN TO RATE BASE REGULATION AT THE END OF FIVE YEARS".

THE SECOND TELEKANSAS PLAN, FILED WITH THE KCC LAST MONTH, MODIFIES THE ORIGINAL IN THE SAME WAY AS DOES THIS LEGISLATION -- THAT IS THAT SOUTHWESTERN BELL COMMITS TO A CAP ON LOCAL BASIC RATES, AND EXTENDS \$138 MILLION IN INCREMENTAL CAPITAL SPENDING AS IT DID IN THE FIRST PLAN. UNDER TELEKANSAS II AND S. B. 591, THE AREAS OF ADDITIONAL INFRASTRUCTURE INVESTMENT INCLUDE DISTANCE LEARNING, TELEMEDICINE, AND ECONOMIC DEVELOPMENT.

NOW I WOULD LIKE TO SKIP AHEAD IN THE BILL TO PARAGRAPH 1(C). WHEREAS PARAGRAPH 1(A) DEALS ONLY WITH BASIC LOCAL RATES, RATES OTHER THAN BASIC LOCAL RATES ARE DEALT WITH IN THIS PARAGRAPH OF THE LEGISLATION, AND AGAIN, ARE HANDLED IN A MANNER CONSISTENT WITH BELL'S TELEKANSAS PLAN.

IN THE FIRST TELEKANSAS PLAN, "FLEXIBLY PRICED" SERVICES WERE APPROVED BY THE COMMISSION WITHIN 20 DAYS. THIS LEGISLATION EXTENDS FLEXIBLE PRICING TO ALL RATES OTHER THAN LOCAL, AND ASKS THAT THE TIME LIMIT BE REDUCED TO 15 RATHER THAN 20 DAYS.

AT&T HAS ALREADY BEEN GRANTED THE ABILITY TO MODIFY ITS RATES WITHIN 7 DAYS OF NOTICE TO THE COMMISSION. WHAT WE ARE TRYING TO ACCOMPLISH IN THIS PARAGRAPH IS TO "SPEED-UP" THE REGULATORY PROCESS, RECOGNIZING OUR NEED TO QUICKLY MODIFY OUR RATES IN RESPONSE TO COMPETITIVE PRESSURES.

LANGUAGE HAS BEEN ADDED IN SUBSECTION 1(C) THAT CLARIFIES THAT PRICE REGULATION -- AS OPPOSED TO RATE-OF-RETURN REGULATION -- BE THE BASIS FOR COMMISSION APPROVAL OR REJECTION.

OUR PROPOSED RATE CHANGES WOULD BE SUBJECT TO COMMISSION SUSPENSION WITHIN THE 15-DAY TIME FRAME IF ANYONE FEELS THAT FURTHER REVIEW IS NECESSARY AND THE COMMISSION SO ORDERS.

MOVING BACK TO THE SECOND PARAGRAPH OF THE BILL, SUBSECTION 1(B) HAS BEEN CLARIFIED TO MORE ACCURATELY REFLECT ITS INTENT TO DEAL WITH COMMISSION-INITIATED ACTIONS OTHER THAN RATE ACTIONS. THIS PARAGRAPH'S CONCEPTUAL BASIS IS THE "EXOGENOUS" LANGUAGE INCLUDED IN THE TELEKANSAS PLANS.

ESSENTIALLY, THIS PARAGRAPH IS DESIGNED TO PROVIDE SOME RECOURSE TO THE COMPANY IF THE COMMISSION WERE TO TAKE SOME ACTION OTHER THAN RATE MODIFICATIONS THAT NEGATIVELY AFFECTS THE COMPANY'S REVENUE STREAM. THE BEST EXAMPLE THAT I CAN GIVE YOU IS THE POSSIBLE SUSPENSION OF A SERVICE THAT'S ALREADY BEING OFFERED BY THE COMPANY.

FINALLY, OTHER THAN SOME DEFINITIONS IN SUBSECTION 2, THE PROPOSED BILL SPECIFICALLY DIRECTS IN SECTION 3 THAT THE COMMISSION DECIDE WHEN AND IF A SERVICE IS ACTUALLY SUBJECT TO COMPETITION. OUR INTENT IS THAT IF A DETERMINATION IS MADE BY THE COMMISSION THAT COMPETITION EXISTS FOR A PARTICULAR SERVICE, THEN SUCH A DETERMINATION WOULD RESULT IN THAT SERVICE BEING EXEMPT FROM REGULATION.

THIS PROVISION REFLECTS THE INCREASING COMPETITION IN THE INDUSTRY AND THE FACT THAT REGULATION IS DESIGNED AS A SUBSTITUTE FOR COMPETITION. THEREFORE, IF COMPETITION IS FOUND TO EXIST, THE SERVICE -- NOT THE COMPANY PROVIDING THE SERVICE -- IS REMOVED FROM REGULATION.

I UNDERSTAND THERE HAS BEEN SOME QUESTION RAISED AS TO THE MEANING OF THE "GEOGRAPHIC AREA" LANGUAGE IN THIS SECTION.

ALTHOUGH THE LEGISLATION IS SILENT ON THE ISSUE, IT IS OUR INTENT THAT THE COMMISSION WILL MAKE THAT DETERMINATION. IN ITS RULES AND REGULATIONS, THE COMMISSION NOW HAS MULTIPLE REFERENCES TO "GEOGRAPHIC AREAS". THEY MAY BE AS SMALL AS A LOCAL EXCHANGE OR AS LARGE AS A WHOLE STATE. IT IS POSSIBLE, WE BELIEVE, THAT THE COMMISSION COULD DETERMINE THAT COMPETITION EXISTS FOR A PARTICULAR SERVICE WITHIN ONE METROPOLITAN AREA, BUT DOES NOT EXIST IN THE REST OF THE FRANCHISE AREA. THIS LEGISLATION ALLOWS THE COMMISSION TO ✓ MAKE THAT DETERMINATION. WE JUST ASK THAT THEY DO IT WITHIN FOUR MONTHS.

WE BELIEVE THAT ALL OF THE PROVISIONS OF THIS LEGISLATION ARE CONSISTENT WITH THE GOAL OF PROVIDING A REASONABLE FORM OF REGULATION IN LIGHT OF INCREASING COMPETITION. THE PRIMARY DIFFERENCE BETWEEN THE FORM OF REGULATION THAT THIS LEGISLATION ENABLES AND RATE-OF-RETURN REGULATION IS THE SHIFT TOWARD PRICE REGULATION RATHER THAN PROFIT REGULATION.

COMPANIES SUBJECT TO ONLY FREE MARKET COMPETITION MUST FOCUS ON THE PRICES THEY CHARGE THEIR CUSTOMERS, BASED ON MARKET CONDITIONS. THEY MUST BE AS EFFICIENT AS POSSIBLE TO MAKE A REASONABLE RETURN ON THEIR INVESTMENT. THIS LEGISLATION SEEKS TO MOVE OUR REGULATION TOWARD THAT COMPETITIVE MODEL. THE COMMISSION IS ASKED TO REGULATE OUR PRICES AS THE FREE MARKET DOES IN UNREGULATED INDUSTRIES.

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ONE OF THE PRIMARY RESULTS OF THIS LEGISLATION AS WE SEE IT IS TO HELP THE STATE OF KANSAS GROW SO THAT ALL PARTS OF THE STATE -- URBAN AND RURAL -- CAN KEEP PACE WITH ALL OTHER PARTS OF THE COUNTRY IN THE AREA OF TELECOMMUNICATIONS. FOR THAT REASON, THE INFRASTRUCTURE COMMITMENT THAT WE MAKE AS PART OF THIS LEGISLATION IS DESIGNED TO PROVIDE ALL KANSANS WE SERVE -- INCLUDING THOSE IN RURAL AREAS -- WITH A TELECOMMUNICATIONS INFRASTRUCTURE SECOND TO NONE IN THE COUNTRY.

RURAL KANSAS NEEDS THIS KIND OF ECONOMIC DEVELOPMENT JUMP-START. ACCORDING THE THE 1990 CENSUS, THE POPULATION OF KANSAS GREW AT ONLY HALF THE NATIONAL RATE BETWEEN 1980 AND 1990. EVEN MORE ALARMING, THE TREND OVER THE LAST DECADE OF SLOWER THAN AVERAGE GROWTH MERELY EXTENDS THE PATTERN THAT HAS OCCURED FOR 40 YEARS.

TELEKANSAS INVOLVES HIGH-RISK CAPITAL SPENDING. BUT IT IS THE KIND OF INCENTIVE THAT KANSAS CAN GIVE THE PRIVATE SECTOR TO HELP REVERSE THE DECLINE IN RURAL KANSAS.

EIGHTY-FIVE PERCENT OF THE INCREMENTAL CAPITAL INVESTMENT IN THE ORIGINAL TELEKANSAS WAS SPENT ON MODERNIZING RURAL KANSAS. IN THE TELEKANSAS II PROPOSAL, AS EMBODIED IN S.B. 591, 80 PERCENT OF THE ADDITIONAL INVESTMENT WILL BE SPENT IN RURAL KANSAS.

ALL THE PROVISIONS OF THE PROPOSED TELEKANSAS INFRASTRUCTURE IMPROVEMENTS ARE INCLUDED AS PART OF MY FILED TESTIMONY. (SEE APPENDIX B.) TO SUMMARIZE: DISTANCE LEARNING CAPABILITIES -- MAKING INTERACTIVE VIDEO ACCESSIBLE TO EDUCATIONAL INSTITUTIONS -- ARE EXTENDED THROUGHOUT KANSAS, WHEREVER SOUTHWESTERN BELL SERVES.

LIKewise, TELEMEDICINE CAPABILITIES WILL BE EXTENDED THROUGHOUT OUR SERVICE TERRITORY, DESPITE THE HEAVY COSTS OF PROVIDING SUCH SERVICES. THIS CAPABILITY ALLOWS DIAGNOSTIC IMAGES TO BE TRANSPORTED FROM ANY HOSPITAL OR CLINIC TO ANY OTHER FOR IMMEDIATE CONSULTATION.

FINALLY, A BACK-UP FIBER NETWORK WILL BE PLACED BETWEEN ALL CITIES IN OUR SERVICE TERRITORY, SO THAT IF A CABLE CUT OCCURS BETWEEN TWO TOWNS OR CITIES ANYWHERE IN OUR SERVICE TERRITORY, THE BACK-UP NETWORK WILL AUTOMATICALLY KICK IN, MEANING NO TOWN WILL EVER AGAIN BE ISOLATED BY A CABLE CUT. THIS BACK-UP NETWORK HAS BEEN SHOWN TO BE EXTREMELY IMPORTANT IN ECONOMIC DEVELOPMENT, SINCE IT IS A CRITICAL FACTOR THAT MANY BUSINESSES SEEK WHEN LOOKING FOR A PLACE TO EXPAND OR RELOCATE.

So, WHEN KANSAS CITIES ARE COMPETING WITH CITIES IN OTHER STATES IN TRYING TO CONVINCE A BUSINESS TO LOCATE HERE, THEY WILL NEVER BE "OUT-BID" BY THE TELECOMMUNICATIONS INFRASTRUCTURE ELSEWHERE.

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WE BELIEVE --AND OUR CUSTOMERS HAVE TOLD US IN MARKET RESEARCH -- THAT THE ORIGINAL TELEKANSAS WAS A SUCCESS. WE BELIEVE THAT A CONTINUATION OF THE TELEKANSAS CONCEPT CAN BE BENEFICIAL TO ALL OF THE CITIZENS AND BUSINESSES IN THE STATE OF KANSAS.

WE HAVE MADE A CONCERTED EFFORT IN THE PAST WEEKS TO LISTEN TO THE POSITIONS OF THOSE WHO OPPOSE THIS LEGISLATION AS IT WAS ORIGINALLY FILED. WE HAVE MADE EVERY EFFORT TO OVERCOME REASONABLE OBJECTIONS THROUGH AMENDING THE BILL TO ITS CURRENT FORM. BUT THERE IS NO QUESTION THAT THIS BILL WILL BE OPPOSED BY OUR COMPETITORS. I DO NOT EVER EXPECT OUR COMPETITORS TO BE SATISFIED. OUR CUSTOMERS, HOWEVER, TELL US THEY WANT THE MODERNIZATION AND RATE STABILITY THAT ARE PROPOSED IN THIS BILL.

I URGE ITS PASSAGE. THANK YOU.

Excerpt from the
February 2, 1990
Kansas Corporation Commission
TeleKansas Order

REGULATION

25. SWBT's TeleKansas plan, as modified by staff's proposals, represents an alternative to rate base/rate of return regulation. Staff and SWBT are recommending that the Commission approve the plan as modified for five years, during which time neither Staff nor SWBT intends to or will file with the Commission, nor support any request to alter, in a general rate case/rate base proceeding, rates or earnings of SWBT. Both parties agree that the TeleKansas impact and prices will be monitored over the next five years. During this period, it is the intention of Staff and SWBT to explore and evaluate this and other alternative regulatory plans. Depending upon the results achieved during the period of the plan, staff and SWBT intend to recommend to the Commission by the end of 1993 this, or some other alternative regulatory plan to be put into effect at the end of the five years, including methodology or standards for future adjustments to local service rates. A five year period for TeleKansas should provide the Commission with sufficient historical data for determining what alternative telecommunications regulation to adopt in Kansas in the future. It is the intent of the parties not to merely return to rate base regulation at the end of five years.

26. This agreement, as entered into between SWBT and staff and set out herein, is proposed to the Commission as a whole. Each party reserves the right to withdraw from this stipulation should any part be modified or deleted by the Commission. Any

TELEKANSAS STATUS UPDATE AND PROPOSAL

INTRODUCTION

Pursuant to the TeleKansas Stipulation, paragraph 25, the Kansas Corporation Commission's (KCC) Staff and Southwestern Bell (SWBT) have been meeting to exchange opinions, observations, and evaluations of the TeleKansas results to date. While those meetings have been informative, SWBT and Staff have been unable to reach consensus on all aspects of the TeleKansas results and are, therefore, unable to propose a joint recommendation for extending the TeleKansas regulatory plan beyond 1995 at this time.

SWBT has presented a five year renewal proposal (TeleKansas II) to Staff, the particulars of which are included beginning at page 6. It is SWBT's proposal to the KCC that TeleKansas II become the basis for extending TeleKansas into the year 2000. SWBT would recommend that TeleKansas II become effective at the completion of TeleKansas in March, 1995.

TELEKANSAS SUMMARY OF RESULTS

The purpose of this Summary of Results is to advise the KCC of the current status of the TeleKansas undertaking and to share with the KCC the results achieved to date. TeleKansas provided network modernization throughout Kansas, offered rate stability for local service, brought pricing flexibility to the market, and provided efficiency incentives through elimination of traditional rate base regulation. Specifically, the results achieved to date are as follows:

- The TeleKansas network modernization program is ahead of schedule
- TeleKansas has provided rate stability
- Pricing flexibility has been successful
- Efficiency incentives have been successful
- Earnings have been reasonable
- All other TeleKansas objectives have been met

THE TELEKANSAS NETWORK MODERNIZATION PROGRAM IS AHEAD OF SCHEDULE

SWBT is achieving its commitment to modernize the telecommunications network. By the end of the TeleKansas period, SWBT will have replaced all of its remaining 131 electromechanical offices with digital switches, replaced over 1000 miles of interoffice analog N-Carrier facilities with digital facilities, and replaced 100% of party-lines with single line service. These projects are still underway and expected to be completed on or ahead of schedule. (Attachment A) These improvements would not have been undertaken and completed in this time frame without the alternative regulatory plan,

TeleKansas. Traditional rate base regulation is a disincentive to this type of new capital investment and improved efficiency.

TeleKansas brought investment in modern telecommunications services to customers in even the most remote Kansas locations. A partial list of services that TeleKansas brought to the market faster than traditional regulation would have allowed includes 911 Universal Emergency Number Service, Single-party service, Call Waiting, Call Forwarding, Equal Access, MaxiMizer 800^R, Plexar^R, and 900/700 Restriction.

The economic and customer benefits from this modernization effort have been significant. Customers report that the quality of service in rural areas is greatly improved. Rural communities have been able to attract industries that operate on an international level. Metro area hospitals, schools, and businesses are able to communicate effectively and efficiently with their rural patrons. Farmers are utilizing home computer networks to obtain information they had to travel miles to get before TeleKansas. Small town families are able to have the same modern telecommunications services that metro customers often take for granted. Attachment B provides direct customer testimony to the benefits of TeleKansas.

TELEKANSAS PROVIDED RATE STABILITY FOR KANSAS CUSTOMERS

The TeleKansas plan brought rate stability to all Kansas customers by capping local service rate schedules, toll, and interLATA access rates. During the TeleKansas plan period, when the Consumer Price Index increased 13.2%, local service rate schedules did not increase a penny. In fact, Kansas customers have enjoyed ten years of local rate stability, during which time the Consumer Price Index increased a total of 41.5%. In real dollars, after inflation, Kansas customers are paying 29% less today for telephone service than they did in 1984.

Price comparisons with national averages are also evidence of the reasonableness of local service rates in Kansas. Kansas is well below the national average for basic local service rates:

	<u>Residence</u>	<u>Business</u>
Kansas	\$11.13	\$22.19
National average	\$13.08	\$32.38

Most SWBT customers also agree local service rates are reasonable. In a recent survey commissioned by SWBT and conducted by Central Research Corporation, 86% of SWBT customers surveyed said basic monthly rates are reasonable, and 79% said basic local service is a good bargain.

By comparison, the national average rate for basic residential service has risen from \$12.28 in October, 1989, to \$13.08 in October, 1992, an increase of 6.5% in only three years. The rate stability provided by TeleKansas has been especially important to

customers on fixed incomes. The Telephone Assistance for Low-income Kansans (TALK) program, also made possible as part of TeleKansas, has provided funding to support low income families in over 12,000 instances. As a result, the percent of households with telephone service in Kansas has actually risen from 94.4% to 95.2% since the implementation of TeleKansas, well above the current national average of 93.8%.

Rate stability was achieved in spite of an increase in the cost of providing telecommunications service during the TeleKansas period. The trend in increased costs was experienced throughout the telecommunications industry in Kansas, as not only SWBT recognized increased costs, but eleven independent telephone companies filed for increases in intrastate access rates during the same period.

PRICING FLEXIBILITY HAS WORKED

TeleKansas has put in place pricing flexibility for discretionary and non-basic services, with streamlined filing and approval procedures for those services. Incremental costing methodology is used to determine the pricing floor and value of service pricing is used to determine the price ceiling. SWBT continued to offer promotions on a wide range of services, but with reduced filing requirements. Promotions allow discounts for certain charges to stimulate sales. With these procedures in place, SWBT was able to respond to the market place more quickly and be a more competitive provider.

With flexible pricing, SWBT is able to offer more cost effective telecommunications services alternatives to customers. Business customers have been particularly supportive of the Plexar^R product line and appreciative of SWBT's ability to offer competitive pricing. As a result of SWBT's ability to flexibly price Plexar-II and Plexar-Custom, SWBT has been able to more than double market share for these products and offer customers cost effective, state-of-the-art service. Flexible pricing allows for both upward and downward movement of rates. In several instances, downward pricing was used to stimulate the market. While it would be expected that rate increases would not be welcomed by customers at large, not one unsolicited complaint was received regarding flexible pricing rate changes.

EFFICIENCY INCENTIVES HAVE BEEN SUCCESSFUL

With TeleKansas, and the elimination of rate base regulation, SWBT was provided, and took advantage of, incentives to streamline its operations and pursue process improvement. Several strategies were adopted by SWBT to streamline operations. First, force reduction plans were offered by SWBT, significantly reducing the number of Kansas employees. Second, ongoing restructuring of the Company continues as SWBT works to address the best way to serve customers, utilize employees and equipment, and remain competitive in the rapidly changing telecommunications industry. One example of the restructuring is the market center approach that focuses attention and resources on the unique aspects of individual market areas.

Additional streamlining measures include numerous refinancings of outstanding debt to take advantage of lower interest rates. The TeleKansas plan encourages such long-term planning and efficiency by allowing the Company to incur up front expense increases for long-term efficiency, in the belief that at the point in time when such efficiencies are realized, the Company will be allowed to retain its earnings. Rate base regulation would have provided no such incentives, since the Company would expect any efficiencies to result in rates being lowered, thus providing no benefits to the shareowners who initially incurred the risks of lowered rates and increased construction costs.

Another direct benefit to customers has been a pioneering effort by SWBT to implement a quality program in Kansas. TeleKansas reaffirmed and encouraged the Company's focus on quality as a way of doing business. Because of TeleKansas, Kansas became the pilot state within SWBT for a process improvement program known as Excellence Through Quality (ETQ). ETQ provides methods to focus on customers to provide quality service in the most cost-effective manner. Under TeleKansas, SWBT has a renewed incentive to improve efficiency, because the intent was that the Company would be able to retain earnings generated from the increased efficiencies and absorb any losses associated with decreased efficiencies. Reduced clearing time for trouble reports, improved customer communications, and improved billing accuracy are just a few of the success stories of ETQ which directly benefit customers. ETQ is simply a reflection of the efficiency incentives brought about by TeleKansas.

A commitment to quality of service and customer satisfaction is also reflected in the continual decline in the number of complaints and inquiries to the Commission since the implementation of TeleKansas. In fact, in 1992, only about seven out of every 100,000 customers in Kansas (.007%) had a justified complaint against the Company, as determined by the Commission complaint staff.

EARNINGS HAVE BEEN REASONABLE UNDER THE PLAN

During the period of TeleKansas, SWBT was to be free of rate base/rate of return reviews with the stated intent of the parties "not to merely return to rate base regulation at the end of five years." The intent and purpose of TeleKansas was to move away from earnings-type analyses, focusing instead on price regulation and technology delivery.

Financial results are relevant in determining whether SWBT has incurred financial windfalls under TeleKansas or, conversely, whether TeleKansas has caused SWBT irreparable harm. Actual financial results of SWBT intrastate telephone operations during TeleKansas are as follows:

	<u>ROI</u>	<u>ROE</u>
1990	5.8%	6.1%
1991	7.0%	9.1%
1992	7.0%	9.4%
1993*	6.7%	9.0%
Plan avg.	6.8%	8.9%

*12 month ending 6/93

When Commission adjustments are included, and Yellow Pages revenues are imputed to telephone operations, results are as follows:

	<u>ROI</u>	<u>ROE</u>
1990	6.9%	8.5%
1991	8.3%	12.0%
1992	8.4%	12.5%
1993*	8.2%	12.2%
Plan avg.	8.2%	11.8%

*12 month ending 6/93

In light of these results, a fair review will find that SWBT's earnings have been modest under TeleKansas, i.e., there have been no financial windfalls during the plan period. Quite to the contrary, SWBT's telephone operations alone never covered the cost of capital identified during the negotiations for TeleKansas as appropriate for use in the access proceedings. Clearly the earnings of telephone operations are anything but excessive.

Within the last several months, other parties have focused on artificial rate base adjustments to these actual results in an effort to alter going forward conditions. Such reviews disregard events which actually occurred in the past three years. But facts are facts. And the facts here, i.e., actual earnings during TeleKansas, indicate TeleKansas has worked from a financial perspective.

TELEKANSAS OBJECTIVES HAVE BEEN MET

Unequivocally, the objectives of TeleKansas have been met. With TeleKansas, SWBT was able to bring a modern network to the state faster than would have been possible otherwise, successfully implemented flexible pricing procedures, capped over 70% of its revenue base, streamlined its operations, and improved universal service, while asking customers to assume none of the risk.

SWBT'S PROPOSAL FOR CONTINUANCE OF THE TELEKANSAS EXPERIENCE THROUGH THE YEAR 2000

SWBT also wishes to keep the KCC advised of the status of SWBT's obligation in paragraph 25 of the TeleKansas Stipulation. That paragraph obligated SWBT and Staff to, by the end of 1993, propose to the KCC a recommendation for the alternative regulatory plan for 1995 and beyond. Staff and SWBT have met, but at this point have yet to reach consensus on a joint recommendation. SWBT is therefore advising the KCC of the TeleKansas II plan which SWBT has put forward during discussions with Staff.

In light of the success of TeleKansas, SWBT proposes a continuance of TeleKansas which contains the following features:

- New investment in Kansas estimated at \$138 million
- Discounted video access rates for schools, hospitals, and counties
- Continued rate stability for basic local service
- Additional price flexibility
- Continuation of price regulation

A PLAN FOR CONTINUED MODERNIZATION FOR ALL KANSANS

SWBT proposes a five year commitment to a further network modernization program costing approximately \$138 million, with the following provisions:

Distance Learning and Telemedicine - SWBT will provide an infrastructure to support fiber based distance learning through education video clusters available to state high schools, community colleges, and universities in SWBT exchanges. Telemedicine applications are to be provided to hospitals in SWBT exchanges on a digital DS-3 basis. This includes 100% interoffice fiber availability.

Public Switched Video Service - SWBT will provide DS-1 connections to the public switched video network for educational video clusters, to schools and hospitals not requesting DS-3 connectivity, and to counties.

Network Reliability - SWBT will provide diverse routing on fiber to all SWBT exchanges, providing a back up for all SWBT central offices.

In addition, SWBT proposes discounted video access rates as follows:

- **Special** rates for educational video and telemedicine applications **which** cover some costs, excluding interoffice infrastructure facilities.
- **Special** public switched video access service connection and usage rates for schools, hospitals, and counties.
- **Special** public switched video and bandwidth on demand services to non-metropolitan locations at rates equal to those in metropolitan locations.

This new network modernization program will provide a platform for affordable digital services to health and education providers throughout Kansas. Educational video

can especially help rural schools combine their resources to provide better education opportunities more efficiently. Telemedicine can bring services now found only in metropolitan hospitals to the most remote locations. Counties can utilize public switched video service for economic development and teleconferencing at special lower rates. Rural businesses can benefit from public switched video service like their metropolitan counterparts, and at identical rates. These network investments will positively impact the welfare and economy of Kansans statewide.

The Staff, at this point, has seemed receptive to this proposed undertaking, but discussions are continuing.

CONTINUED RATE STABILITY

SWBT also proposes to continue to cap basic local service rate schedules for residential and single line business basic local service for an additional five years, or at least until the year 2000. This cap would not preclude exchange reclassifications. This would provide a total span of over 16 years of rate stability for residence and small business customers.

SWBT also proposes to continue to provide free basic 911 to all of its exchanges. In addition, SWBT would remove charges for all of its 911 network interoffice facilities to SWBT exchanges, making this critical service even more affordable to rural Kansans. SWBT would also eliminate charges for Group or Conference Alerting systems (also known as "fire phones") for municipalities with existing service. (Attachment C) It should be noted that the "backup" facilities provided with the network modernization plan proposed here would automatically provide interoffice diverse routing for 911 service at no additional charge to 911 customers.

SWBT proposes to continue to fund Dual Party Relay Service for the hearing impaired, and TALK, the assistance fund for low income households. SWBT will also continue to provide free service connection for individuals in certain nursing facilities per current tariff provisions. In addition, SWBT will recognize reduced revenues and increased expenses associated with MetroPlus, intraLATA 10XXX competition, and implementation of FAS106 without a change in basic local service rates.

ADDITIONAL FLEXIBILITY FOR PRICING OF SERVICES

SWBT proposes to continue the Flexible Pricing procedures currently in place, adding new discretionary services as they are introduced.

SWBT proposes to implement "target pricing" for services which face direct or indirect alternatives in the market place. 911 customer premises equipment and MicroLink[®] services would be examples of those eligible for target pricing. Target pricing would allow for a variety of pricing strategies similar to those used by SWBT's competitors. (Attachment D)

SWBT proposes to introduce Extended Area Service plans which meet customer needs yet would include revenue replacement mechanisms.

SWBT proposes to introduce price ranges with ceilings and floors for Long Distance Message Telecommunications Service, with the ability to raise or lower prices with 10 days notice to the Commission. This is similar to procedures recommended by Staff for interexchange carriers also providing intraLATA toll service.

SWBT proposes to have the flexibility to restructure and reprice existing directory assistance services and to offer new and innovative directory assistance services.

SWBT proposes flexibility to restructure prices for Multi-line and PBX business customers. Current tariff guidelines base rates for these business services on the type of customer premises equipment connected to the line. A new rate structure that separates the line from customer equipment and offers line treatment as an optional feature would be more fair to business customers. (Attachment E)

A CONTINUATION OF PRICE REGULATION WITH MODIFICATIONS

SWBT proposes to continue the current moratorium on rate base/rate of return regulation for at least the next five years. SWBT proposes to add specific exogenous language to the TeleKansas plan to allow relief for both the Commission and SWBT for a change in SWBT's cost structure that is at the direction and control of governmental authorities, such as tax rate, accounting, and separations changes. TeleKansas II would automatically renew annually without an earnings review at the end of the five year period, provided the Company commits to a continued cap on residential and single line business rate schedules. This would provide the incentive to SWBT to invest in infrastructure as well as innovative services, while keeping basic service affordable and stable.

SWBT proposes that should the Commission determine that the same or a similar service as that provided by SWBT is being offered by another provider in Kansas, that the SWBT service be subject to the same regulatory requirements as apply to such other competitive providers.

SWBT requests the flexibility to change depreciation rates to Federal Communications Commission (FCC) levels, and adopt depreciation ratemaking simplification processes as they are adopted by the FCC.

CONCLUSION

SWBT believes its proposal to be one of the most advanced and innovative in this nation. Customers have asked for continued network modernization so that Kansas can compete in the world market. A modern telecommunications network is seen as a critical

element in economic development throughout the state. In fact, 90% of SWBT's Kansas customers surveyed believe SWBT's network is a key component of future economic development in Kansas. Rural schools and hospitals need new technology to provide adequate service and, perhaps, even to survive. Rural customers expect to be offered the same telecommunications services as their metropolitan friends. Rates for those most at risk must remain affordable in order to preserve universal service. SWBT believes that price regulation as opposed to rate base regulation is the policy that makes the most sense in a changing telecommunications environment. SWBT asks the Commission to continue the leadership role it has taken in making TeleKansas a reality and to consider and approve TeleKansas II.

TELEKANSAS NETWORK MODERNIZATION UPDATE

PARTY-LINE ELIMINATION

TeleKansas provided for the elimination of 31,492 party-lines. As of December 1, 1993, the project is already 92.6% complete with a total of 29,175 party-lines eliminated. The project is on schedule to complete by the end of 1994.

CENTRAL OFFICE UPGRADES

130 of the 131 offices scheduled for upgrade will be completed by the end of 1993, bringing the project to 99% completion at that time. The final office will be converted in February, 1994, nearly a year ahead of schedule.

N-CARRIER ELIMINATION

By the end of 1993, the N-Carrier replacement project will be 98% complete, with 1160 of 1183 miles replaced. In fact, all N-Carrier serving SWBT locations is now replaced, bringing digital connectivity to all SWBT exchanges. The remaining N-Carrier serves independent company locations and replacement is being coordinated with those companies.

CUSTOMER COMMENTS ON TELEKANSAS

Following are a few excerpts from over twenty hours of video-taped interviews with customers regarding the benefits of TeleKansas. These comments were taken in July and August of 1993.

On party-line elimination:

Jeanne Miller, rural Emporia:

"We love it; just couldn't be happier. You can pick up the phone anytime and use it and you don't have to worry about the neighbors..."

On central office upgrades:

Donna Greenley, city clerk, Colby:

"The Plexar^R system makes us very efficient. It saves us close to \$200 a month on basic service. Before the city had a system and we had one separately. Now, we're all together...the library, the museum, the county offices, the city offices, our city shop, our wastewater plant--everything is now on one Plexar system."

Max Snodgrass, CPA and vice president of Iola Industries:

"...so we were able to get the new (switching) system in and it is greatly improved. The calls go through faster, you can have the equipment that you want and it's just a better system."

Mike Campbell, executive director of the Sherman County Agricultural Federalization Conservation Service, US Department of Agriculture, Goodland about InfoShare, a trial program in which farmers can access information via their personal computers or by an audio text system:

"It's very beneficial that we have in Sherman County the telephone system that is being provided by Southwestern Bell through the TeleKansas program. Without the fiber optics and new switching that's been made available in our community this would not be a (USDA trial) site. There's only two sites in the nation to have this program. We would not be able to provide this project and to be providing this new delivery system to the government."

Ted Zielke, a St. Francis farmer who utilizes the AFCS system via his home computer:

"(The AFCS system) has saved me time through the Plexar system with the easy access that we have now. It saves me 42 miles every time I need some information. So if you can access that information right here at home and make those determinations, then you don't go to the (AFCS) office and stand in line with all the other farmers, wait your

turn and maybe spend a morning or three-fourths of the day to find out in ten minutes what you can plant and get on with what you're doing."

On N-Carrier elimination (interoffice digital connectivity):

Jim Chan, Kansas Farm Bureau vice president-information systems, about network modernization that enabled the company's 105 field agents to be able to communicate via computers with the home office in Manhattan:

"The state of Kansas is a big place and most of it is in a rural setting and we have tried two different ways to make phone calls, transmit data using the old technology and it just wasn't reliable. I mean it wasn't reliable to the point that we needed it to be in order to use it everyday. Now the digital technology has stepped up to that level and we are able to rely on it and not worry about it--is it going to be there or isn't it going to be there."

On the economic impact of TeleKansas:

Steve Hulbert, vice president-field operations, ASI Market Research, Great Bend, a Los Angeles-based company whose clients are primarily major television networks and advertisers. The company chose Great Bend from a 25-city, five-state search. It now employs about 350 people, virtually all of them who were living in the Great Bend area:

"We knew when we came here that (a new digital switch) was going to happen. That was part of the commitment that we had from Southwestern Bell... they were willing to do a lot to make things work for us here."

Jerry Fear, Oberlin city administrator, on the effects of a new digital switch and modern telecommunications system on a small western Kansas town:

"People have a choice, they are not just going to come to a community, but they are going to come to a community that provides them with a lifestyle that they like to see... So we're looking at trying to attract people, who by virtue of telecommunications, can work from anywhere--information workers, lone eagles, whatever you want to call them--people who are not, no longer tied to a place for work."

Dave Emert, mayor of Sabetha, on the effects of a new digital switch on that town's industrial base:

"Our people go to Japan, Europe, all over the world. Mexico. A lot of these companies have businesses everywhere. So you can imagine the communication needs of businesses like that, for them to succeed in a town this remote, and I think that's exactly what this system has provided. They really needed this type of communication to compete in that kind of world market."

Blake Schreck, Overland Park Economic Development Council:

"We sell a sophisticated image and a sophisticated network that we feel is very important in letting people know in our New York or Los Angeles area markets that we can compete nationally or internationally in any business arena."

FREE EMERGENCY SERVICES

Southwestern Bell proposes to expand its support of emergency services in Kansas by providing free 911 facilities to SWBT exchanges. SWBT will also eliminate charges for Group/Conference Alerting to those municipalities with existing systems.

In the original TeleKansas plan, SWBT provided free basic 911 service to all of its exchanges. This eliminated the charge for basic facilities between the serving central office and the 911 answering point. TeleKansas II proposes to provide in addition, free interoffice facilities for 911 service to SWBT exchanges. Currently there are approximately 650 such facilities in service, serving 64 city and county 911 systems.

Nearly 96% of SWBT customers have 911 service and therefore could benefit from this proposal. This rate reduction could facilitate the expansion of 911 to the remaining SWBT customers or help make it possible for communities to upgrade their existing 911 service.

An added benefit to 911 customers is that through the network reliability portion of the modernization plan proposed, 911 customers will receive diverse routing for their interoffice facilities at no additional charge.

Group and Conference Alerting systems are mostly used by rural communities as "fire phones" to alert volunteer firemen. There are approximately 20 systems currently in service. SWBT proposes to provide this service free to municipalities with existing systems in use for emergency service.

TARGET PRICING

Target pricing is a pricing strategy for services which face direct or indirect alternatives in the market place. Target pricing allows more flexibility in packaging and discounting services so that SWBT can be an effective competitor and offer its customers more options for their telecommunications needs.

Some aspects of target pricing are:

a. Volume and term discounts

Customers would be offered discounts for services bought in large volumes or for extended periods of time. This would be accomplished by publishing a matrix of discounts offered. The discounts would apply to a single service or package of services. The discounts might also be determined on an individual case basis for very large customers who buy large quantities of services across several tariffs.

b. Zone discounts

Discounts might be offered to geographic areas, i.e., industrial parks or wire centers.

c. Only 10 day notice to the Commission would be required to change prices.

d. The price floor would be incremental cost and the price ceiling would be the market rate, however no cost studies would be provided with the filings.

e. Customer notification would not be required in advance of the service effective date. This is the same procedure recommended by Staff for interexchange carrier price changes.

Examples of services which would be candidates for target pricing are:

Billing and Collection Services, MicroLink I^R and MicroLink II^R, Frame Relay Digital Service, WATS, 911 Customer Premises Equipment, Call Forwarding, Selective Call Forwarding, Plexar^R-I, Plexar^R-II, and Plexar^R-Custom.

RESTRUCTURE OF MULTI-LINE AND PBX RATES

Currently, Multi-line and PBX rates are charged based upon the type of equipment the customer has on the line. For example, if the customer has key telephone equipment, the Multi-line rates apply. If the customer has equipment that allows for "pooling" or switching of lines, the PBX trunk rates are applied. The determination for the rate application is the FCC Part 68 registration number.

PBX trunk rates are higher than Multi-line rates. PBX trunks are specially designed to meet strict transmission guidelines and usually require additional conditioning equipment in the central office. With today's improved equipment available, customers and their vendors are requesting Multi-line service for their PBX's. They desire to save money and do not want the special conditioning of PBX trunks.

As a result, in order to enforce the tariff requirements, SWBT is put in a position of policing customer equipment. This has generated complaints both to SWBT directly and to the Commission.

SWBT proposes to combine Multi-line and PBX rates into one business classification. Going forward, conditioning would be sold as an optional feature for customers requiring it for their equipment. To determine the new business rate, the rate for providing line conditioning would be removed from the current PBX rate in each rate group. The resulting rates would be averaged with current Multi-line rates on a revenue neutral basis to determine the new rates.

CERTIFICATE OF SERVICE

I certify that a copy of the above and foregoing Response was mailed this
____ day of December, 1993 to:

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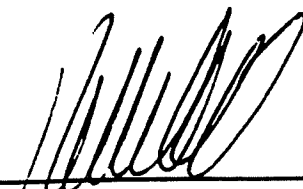
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Michael C. Cavell

Testimony

on behalf of Senate Bill 591

Jerry J. Fear, City Administrator

City of Oberlin, Kansas

I am here today to testify in favor of Senate Bill 591. I am testifying on behalf of residents of my community and other communities in the Southwestern Bell service area who will benefit from new infrastructure and services proposed in Telekansas II. And I speak as someone who's community has benefited by Telekansas I.

As some of you may know, Oberlin has invested a great deal of time, effort, and money in insuring that we have the most advanced communications capabilities as any urban area in the U.S. Our economic development effort has been geared to marketing that communication system to firms and individuals who can use that technology to locate away from urban areas. We have fiber to our community and a digital switch. Single party lines are available to any subscriber who wants one---all as a result of Telekansas I.

I have personally spent four years studying telecommunications issues and technologies so that I could understand what we needed to do to make this work. I have read every book that I have been able to find on telecommunications and economic development. I have a stack of magazine and newspaper articles over a foot high on the subject. I have been to dozens of meetings, conferences and trade shows throughout the United States as either a presenter or participant where telecommunications issues were discussed.

I have appeared before this legislature on technology issues. I am on the Kansas, Inc. Telecommunications Task Force, participated as a Stakeholder in the Regents Telecommunications Task Force, and was nominated by Governor Finney for consideration as a member of the National Information Infrastructure Advisory Committee.

I have cited all this to say, that in all those activities, I have never, never heard anyone seriously suggest that rate-of-return regulation was an effective method for regulating the telecommunications industry after divestiture. In fact, the evidence is that the Federal Commerce Commission and most states are moving away from this type of regulation. I cannot set by and see the State of Kansas take a step backward when we are poised on the edge of opportunity to become the leader in telecommunications of all fifty

2/9/94
Commerce
Attachment 2-1

states. The future of Kansas as a world player, and the hopes of rural Kansas will be determined, in large part, by the decisions we make about telecommunications policy.

The Aspen Institute financed a study of the impact and potential of telecommunications on rural economic development. The resulting book, published in 1988, called "Rural America in the Information Age," is the seminal work which began the creation of awareness of telecommunications policy issues. Focusing, as it did on the Federal role, it became the basic blueprint of what has become the National Information Infrastructure Initiative of the Clinton administration.

Subsequently, the Aspen Institute, commissioned another study, which focused on state, local and private issues. Published in 1992, it is called "Electronic Byways-State Policies for Rural Development Through Telecommunications." This book directly addresses the issues before you today. I realize you don't have the time or access to this study, so I am going to quote directly from it in my written testimony so that you can read it at your leisure. It says what I want to say and lends expert authenticity. All the quotes are in bold type.

A recurring criticism of rate-of-return regulation is that it is a form of cost-plus contracting in which the telephone carrier recovers from telephone ratepayers all of its costs, plus a percentage profit. In such regulation, there is little incentive (and sometimes a disincentive) to reduce or control costs, because companies using lower cost technology would have a lower base on which to calculate their percentage profit. Some critics have argued that this approach has led to too much "gold plating," or unnecessary investment, in telephone networks. Price caps and other incentive regulation schemes are intended to solve this problem by giving telephone carriers an incentive to lower costs--namely allowing them a higher percentage profit when costs are lower. (page 208)

Market conditions and technological advances have already wrought such sweeping changes in telecommunications that a return to the prior system (Monopoly) is unthinkable. In grappling with the quandaries raised by competition, the FCC has abandoned traditional rate-of-return regulation of large telephone carriers in favor of a new system of "price-cap" regulation that directly limits prices.

Regulators in many states have established or experimented with various "incentive regulation" programs in which they give carriers more pricing flexibility. (page 45).

The State of Kansas was among those progressive states, when the Kansas Corporation Commission and Southwestern Bell agreed to the original TeleKansas plan.

Some state incentive regulation proposals require that carriers spend a specified dollar amount on upgrading rural telephone switches or other network facilities (for example, "the Michigan plan" for Michigan Bell. (page 208)

Through TeleKansas the Southwestern service area has become digital, multi-party lines eliminated, and fiber trunks have been installed to many communities. Are we to turn backward in Kansas? I certainly hope not.

In metropolitan areas, vigorous competition, including the proliferation of dedicated private networks, is the engine for major service improvements. (page 45)

A fruitful new dialog between rural development advocates, the telephone industry, and telephone regulators is already under way. Unlike many political debates in which the gains of one group come at the expense of another, this dialog can lead to cooperative strategies that yield benefits to all parties. (page 46)

This dialog has been going on in Kansas. Much has been accomplished, but more remains to be done. The question for the state is whether we go forward or backward. Rate-of-return is not forward.

Just as the new services made possible by computer technology have contributed to a global competitive advantage for the U.S. economy, so the new telecommunications services can contribute to future economic advancement of both rural and urban regions of the country.

The regulatory questions: How can the initial investments in newer, lower-cost communications technology---which can do much to fuel economic development---be paid for? The initial capital is available from private investors and the profits generated by prior telephone company investments. This issue becomes one of devising regulatory incentives that can leverage private investment to achieve public economic development goals.

One obvious option for the regulators is simply to lower prices for existing telephone services. This reduction would divert telephone company profits to consumers and thereby reduce the funds available to invest in new telecommunications facilities, especially in rural areas. Alternately, regulators could provide incentives for investment in newer facilities that could stimulate both rural and urban economic development. This is a unique and unusual choice. Unlike the development of the transportation infrastructure, which requires a substantial investment of taxpayer dollars, major upgrades of the telecommunications infrastructure can be made *without* taxpayer dollars or raising telephone rates! The resulting productivity gains for industry and (given appropriate regulatory incentives) economic development gains for rural communities make this a rare "win-win" opportunity that development advocates should not miss. (page 47)

This is such an opportunity. Southwestern Bell has proposed investing \$138,000,000 in Kansas in the next five years. They have proposed capping basic residential and commercial telephone at today's (1984) rates. And the \$138,000,000 will be spent in Kansas for the benefit of Kansans, not some cable system in England.

Executives of publicly traded telephone companies, who have a duty to their shareholders as well as subscribers, may not approve the capital budgets for rural equipment modernization. They may conclude that modernization of equipment in rural communities will generate less return on investment (profit) than other investments, such as the purchase of foreign telephone companies or cable television systems. (page 211)

Under rate-of-return regulation, carriers passed on maintenance costs to telephone subscribers. Shareholders could be penalized when equipment was taken out of service before being fully depreciated. Therefore to achieve significant quality improvements, regulators should reassess the modernization incentives (or disincentives) implicit in current modes of regulation. (page 211)

Regulators can do much to dispel the perception (fostered by rate-of-return regulation) that regulation is a "zero-sum game," in which any gains by subscribers necessarily come at the expense of the telephone companies, and vice versa. Incentive regulation can help convert the situation into a "win-win" situation in which telephone companies can serve both their shareholders and their subscribers by offering better service at a reasonable price---the normal scenario in non-monopoly, competitive markets. (page 211)

This bill is not a deregulation bill. It is an incentive regulation bill. It affects only Southwestern Bell. The other phone companies should be here today supporting this concept and developing their own approach to incentive regulation that will provide needed capital for their own modernization. And we should be encouraging them to do so, thus benefiting all parts of the state and the state as a whole.

One final quote from the Aspen study, is the specific recommendation on this issue:

Recommendation 4:

State legislatures should authorize their regulatory commissions to use incentive regulations as an alternative to traditional rate-of-return regulations.

Since most of the telecommunications infrastructure for economic development will be built by regulated telecommunications carriers, appropriate regulatory incentives will be needed. Unfortunately, traditional rate-of-return regulation, designed to prevent monopoly abuses, is not likely to spur necessary investments and innovation. As explained in Chapter 2, incentive regulation holds

much greater promise for eliciting new investment in advanced telecommunications.
(page 189)

In concluding my remarks, I have attached a copy of all of the recommendations to state governments which are contained in the Aspen study. For those of you who are familiar with the Regents Telecommunications Task Force report on telecommunications, or who have read it in its entirety, will find that all of these recommendations are included in the recommendations in that report. Thank you very much for your time and interest.

CHAPTER 7

BUILDING ELECTRONIC BYWAYS: GOALS AND RECOMMENDATIONS

How can we ensure that the electronic byways are built, and that their full developmental benefits for rural America are realized? Chapter 7 discusses detailed sets of policy goals and recommendations for four different audiences: governors and legislators, state and local development agencies, state regulatory commissions, and the telecommunications industry. These goals and recommendations are listed below.

The infrastructure recommendations are cast in terms of services that should be available to users, not particular technologies. It is not necessary for regulators to micro-manage the carriers' technology choices to achieve service and quality goals. Rather, it is preferable to give carriers economic incentives to provide the needed variety and quality of services in the most efficient manner.

Many experts have compared the telecommunications infrastructure to an "electronic highway," an analogy that may lead some people to conclude that it will be too costly to provide access to modern electronic superhighways from every community. This assumption is incorrect. It is economically feasible to provide broadband service connecting every telephone exchange in the country, including those in small rural communities, and high quality narrowband access (for voice and data) for every household in the country. Broadband links for video and high-speed data can be provided wherever the business, educational or other applications require them.

Universal access to high quality telecommunications networks is not only affordable; it can be provided without tax dollars. Although large investments will be required, the anticipated profits should be sufficient to raise the necessary capital. Telephone subscribers, on the average, are unlikely to have higher telephone bills, except for increased usage. As the new investments lead to lower costs and increased usage, subscriber revenues will repay, over time, the costs of the new investments.

In order to harvest the many benefits of telecommunications technologies, the challenge is to craft incentives that will extend electronic highways and byways throughout rural America. Telecommunications providers and rural development advocates should both remember, however, that telecommunications alone is not enough. Putting a modern infrastructure in place is a necessary starting point. The continuing challenge is to develop the uses and applications of modern electronic byways that will contribute to economic development and improved quality of life for all rural Americans.

GOALS AND RECOMMENDATIONS

RECOMMENDATIONS FOR STATE GOVERNORS AND LEGISLATORS

1. State governors and legislatures should develop a comprehensive telecommunications plan with specific goals appropriate to the conditions of their states.
2. Each state should establish a full set of performance measures to monitor progress toward meeting state goals for its telecommunications infrastructure.
3. State legislatures should authorize their regulatory commissions to consider economic development potential as they regulate telecommunications.
4. State legislatures should authorize their regulatory commissions to use incentive regulation as an alternative to traditional rate-of-return regulation.
5. State economic development agencies should be authorized to become advocates for telecommunications policies that serve economic development goals.
6. State governments should establish a high level, centralized telecommunications authority within the state government. This body would coordinate, evaluate and set priorities for the state's own telecommunications and information technology efforts, including voice, data and image processing and transmission.
7. Planners of state government telecommunications services should design them to increase citizens' access to public information and services without regard to geographic location or income.

8. The state government process for procurement of telecommunications should be used to help develop a modernized public switched network throughout the state.
9. State governments should support pilot projects involving telecommunications applications that could benefit rural development.

GOALS AND RECOMMENDATIONS FOR DEVELOPMENT AGENCIES

1. *Increased Statewide Awareness of the Linkages Between Telecommunications and Development*
 - 1.1 Development agencies should sponsor regional workshops to share information about innovative uses of telecommunications and identify rural telecommunications needs.
 - 1.2 Development agencies should convene task forces to set goals for modernization of the state's telecommunications infrastructure and plans for its use to stimulate development.
2. *More Sophisticated Advocacy for Telecommunications Policies that Serve Development Goals*
 - 2.1 State development agencies should become credible advocates for rural development interests at the state regulatory commission.
3. *Better Understanding among Small Businesses and Rural Communities of the Many Valuable Uses of Telecommunications Services*
 - 3.1 State development agencies should build a telecommunications component into small business assistance and rural community development programs.
 - 3.2 Development agencies should sponsor training courses on telecommunications for community and economic development professionals.
4. *A Rural Workforce Trained to Meet the Telecommunications Needs of Rural Business*
 - 4.1 Development agencies should work with community colleges to establish telecommunications training courses.

- 4.2 State development agencies should encourage the establishment and expansion of distance learning programs for both student and adult education.
5. *Aggregation of Rural and Small Business Demand for Modern Telecommunications Services*
 - 5.1 Development agencies should work with rural communities and small businesses to help them to obtain collectively the telecommunications services they might not be able to obtain individually.

GOALS AND RECOMMENDATIONS FOR STATE REGULATORY COMMISSIONS

1. *Universal Single-party Touchtone Service*
 - 1.1 All state regulatory commissions should participate to the maximum extent allowed in the FCC's "lifeline" program, which reduces the monthly basic telephone service fee for eligible households by as much as \$7.00 below the normal charges.
 - 1.2 All state regulatory commissions should participate in the FCC's "Link-up America" program, which reduces the installation and deposit charges for telephone service for eligible poor households by \$30.00.
 - 1.3 State regulatory commissions should encourage "local service only" options for subscribers who would otherwise be denied access to both local and long-distance service.
 - 1.4 All state regulatory commissions should establish "relay services" that enable persons using teletype or other terminals for the speech- or hearing-impaired (or those with other disabilities) to communicate through the telephone network with people using ordinary telephones.
 - 1.5 State regulatory commissions should encourage competition for service to all locations where telephone carriers charge extraordinary installation fees.
 - 1.6 State regulatory commissions should solicit competitive bids for telephone service to locations outside telephone franchise boundaries. The commissions should then grant franchise authority (and corresponding service obligations) to qualified low bidders.

- 1.7 All state regulatory commissions should eliminate "suburban mileage charges" from basic single-party telephone service rates.
- 1.8 State regulatory commissions should redefine basic telephone service to include touchtone service.
- 1.9 State regulatory commissions adopting incentive regulation plans should include an incentive to encourage universal access to single-party touchtone service.
2. *Service Quality Sufficient for Voice, Fax and Data*
 - 2.1 State regulatory commissions should establish mandatory, audited telephone service quality standards and should include a service quality component in any incentive regulation program they adopt.
 - 2.2 State regulatory commissions should change regulatory policies that inhibit network modernization, including depreciation schedules and rules for amortization of costs of older equipment taken out of service.
3. *Extended Area Service (EAS) and Reduced Intrastate Long-distance Rates*
 - 3.1 State regulatory commissions should establish Extended Area Service policies that enable residents to reach their major communities of interest with "local" calls.
 - 3.2 State regulatory commissions should maintain geographic rate averaging for intrastate long-distance calls.
 - 3.3 State regulatory commissions should allow intrastate long-distance competition within each LATA established by the Modified Final Judgment of the AT&T Consent Decree.
 - 3.4 State regulatory commissions should encourage lower intrastate long distance rates.
4. *Universal Enhanced 911 (E911) Service*
 - 4.1 State regulatory commissions should work with local government agencies to make E911 services available from all telephones throughout the state.

5. *Widespread Access to Optional Information Services*

- 5.1 State regulatory commissions should encourage statewide local access to information services that are generally available in urban areas.

6. *Public Network Utilization for Distance Education*

- 6.1 State regulatory commissions should encourage flexible tariff structures for distance learning networks.

RECOMMENDATIONS FOR TELECOMMUNICATIONS PROVIDERS

1. Telephone carriers should upgrade their facilities to provide universal single-party touchtone service with quality levels suitable for reliable data and facsimile transmission. They also should upgrade facilities to meet demands for access to distance learning, other video and data applications, and a variety of enhanced services as they become available.
2. Telecommunications equipment and service providers should design and promote equipment and services to meet the needs of rural users.
3. Telecommunications providers should market their products and services effectively.
4. The telecommunications industry should offer telecommunications training for the present and future workforce.
5. Telephone carriers should provide local leadership for economic development programs in the communities they serve.
6. Telephone carriers should contribute trained staff to economic development programs in their service areas.
7. Telephone carriers should help local entrepreneurs and economic development projects obtain financing.
8. Telephone carriers should make direct investments in rural economic development.

February 9, 1994

Kansas Senate Commerce Committee
Kansas State Capitol
Topeka, Kansas

Re: Supporting the Adoption of Senate Bill 591

Senator Salisbury and Senate Members of the Commerce Committee:

My name is Frank A. Caro, Jr. I served as the General Counsel for the Kansas Corporation Commission from 1987-1991. Currently, I am a partner in the law firm of Polsinelli, White, Vardeman & Shalton and the bulk of my practice involves public utility regulation. I have intimate knowledge of the status of Southwestern Bell's regulatory matters as I was the General Counsel for the Kansas Corporation Commission ("Commission") when Southwestern Bell's first alternative regulatory plan ("TeleKansas") was proposed by Southwestern Bell in 1989 and later adopted by the Commission in 1990.

I am testifying before you this morning in support of Senate Bill 591. Senate Bill 591 does not deregulate Southwestern Bell, or any telephone company. It merely assures the same incentive regulation that Southwestern Bell has been operating under since 1990 under the TeleKansas plan.

I am working as a consultant to advise Southwestern Bell regarding the hurdles Southwestern Bell faces in its efforts to continue to operate and provide service in the future under a plan

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similar to the TeleKansas plan which is already in place. Before I discuss the need for Senate Bill 591, it is important to understand the background and importance of Southwestern Bell's TeleKansas plan to all Kansans.

Background of TeleKansas

In 1989, Southwestern Bell filed a petition with the Kansas Corporation Commission which generally provided for an accelerated network modernization of \$160 million, freezing local rates, and a flexible pricing system for competitive/discretionary services. In addition, the TeleKansas plan proposed a movement away from the restraints of traditional regulation of Southwestern Bell's earnings and toward regulation of the company's prices.

After a review of Southwestern Bell's plan, the Commission staff entered into a stipulation with Southwestern Bell, which provided Southwestern Bell incentives to make additional investments in the telecommunications network. Although some of the network improvements were uneconomic from a regulatory standpoint, these improvements would propel Southwestern Bell's customers into the next century with a modern, technologically advanced telecommunications network.

The Commission staff's and Southwestern Bell's stipulation provided for:

- Additional investment of approximately \$160 million by Southwestern Bell for accelerated network modernization, which included the elimination of all two-party and four-party line services and upgrading of central offices with electronic switches;
- A freeze on basic local residential and business rates for five (5) years;
- Established a mechanism to flexibly price certain non-basic, discretionary, competitive services;
- A reduction of certain rates and charges, primarily toll and access; and
- The TeleKansas Agreement provided an alternative to rate base/rate of return regulation.

In fact, the Agreement states . . . "It is the intent of the parties not to merely return to rate base regulation at the end of the five years."

I. TELEKANSAS SUMMARY OF RESULTS.

During the past four years, Southwestern Bell has been operating under the TeleKansas plan approved by the Kansas Commission and the results of TeleKansas indicate that the TeleKansas program has been operating the way Southwestern Bell and the Commission agreed. Southwestern Bell's president, Susan Fox, previously outlined all the results of TeleKansas and its benefits to Kansas citizens, Kansas business and industry, Kansas economic development and the future of rural Kansas communities. It appears that there is no dispute between any of the parties that the TeleKansas plan has been carried out by Southwestern Bell the way it had been proposed and in accordance with the Commission's order approving the TeleKansas stipulation. The results of TeleKansas are as follows:

- The TeleKansas network modernization program is ahead of schedule. Nearly all of the 131 mechanical switches have been replaced with new electronic switches;
- Nearly all multi-party service has been eliminated in the State of Kansas;
- Basic rate levels have not been raised at all during the TeleKansas plan; and

- Southwestern Bell has been able to quickly introduce various new services under the "flexible pricing procedure" for competitive or discretionary services.

Most of these benefits have been provided through efficiency incentives brought about through the elimination of traditional rate of return regulation. Southwestern Bell's \$160 million investment in the telecommunications network has resulted in the construction of improvements which far exceed those which are ordinarily legally required of a public utility. These investments allow Southwestern Bell's customers access to state of the art technology for computers and communication needs, which are essential elements in today's business environment.

Pursuant to K.S.A. 66-1,189, Southwestern Bell is only obligated to provide reasonably efficient and sufficient service to its customers. Under TeleKansas I, Southwestern Bell has been able to not only provide service that is reasonably efficient and sufficient, but Southwestern Bell has been able to provide more advanced telecommunications service. Examples of the advanced technology that has been made available by Southwestern Bell to the citizens of Kansas include touchtone, custom calling services and improved computer access. Without incentive regulation, Southwestern Bell could not economically make these types of capital expenditures in order to keep the State of Kansas technologically advanced.

The flexible pricing mechanism of the TeleKansas Agreement also created the framework to recognize that the telecommunications industry has changed drastically in the last ten to fifteen years. Competition between telecommunications companies is fierce today! If you turn on your television, listen to your radio or read the newspaper you will notice that what was once a monopolistic service provided by one is available from many providers.

It is clear that incentive regulation under TeleKansas has provided a win-win situation for Kansans and Southwestern Bell.

II. TELEKANSAS, THE FUTURE.

On January 3, 1994, pursuant to the stipulation approved by the Commission in TeleKansas I, Southwestern Bell filed a status update and proposal with the Kansas Corporation Commission. In light of the success of TeleKansas, Southwestern Bell proposed a continuance of TeleKansas ("TeleKansas II") beyond the five-year period established for the original TeleKansas in 1990, which contained the following features:

- **\$138 million in new network modernization investment** -- To accelerate modernization of facilities relating to health care, education and economic development. The \$138

million network modernization investment would take place over the next five years and would be in addition to Southwestern Bell's normal network investment expenditures.

- **Continued rate stability** -- Southwestern Bell proposed to cap basic local service rate schedules for residential and business basic local service in the future.
- **Additional price flexibility** -- Southwestern Bell proposed to continue the flexible pricing procedures currently in place, for new discretionary services as they are introduced.
- **Price based regulation** -- Southwestern Bell would continue to be regulated based on the price of its services and not on the company's rate of return.

At the same time that Southwestern Bell filed its status update and proposal, the Commission Staff filed its own response to the Commission requesting that the Commission revert back to utility rate of return regulation in evaluating TeleKansas. This position was taken notwithstanding the stipulated order entered at the time of the approval of TeleKansas I that there should not be a reversion to rate of return regulation. Although Commission Staff and

Southwestern Bell have attempted to resolve this matter, it appears from pleadings on file with the Commission that Commission Staff continues to desire, in effect, to revert back to rate of return regulation.

III. SENATE BILL 591.

Before you today for consideration is Senate Bill 591, which, in essence, proposes to do no more than to codify through legislation the basic tenets of TeleKansas. This bill would allow a telecommunications public utility that agrees to cap its rates for basic local business and residential service, the ability to flexibly price competitive and discretionary services based on price and not earnings.

In Southwestern Bell's case, it gives the company greater security in knowing that they will have an opportunity to recover their future investments in their telecommunications network. These future investments are essential if Kansas is going to be a part of the "information super highway" which will link rural and urban Kansas to the rest of the world. Currently, Southwestern Bell is experiencing some regulatory uncertainty in its TeleKansas II proposal. It appears that the dispute between Southwestern Bell and the current Commission staff, as I understand it, focuses on whether

or not Southwestern Bell must be regulated on the basis of its rate of return. The Commission Staff is taking the position that in order to approve a TeleKansas II plan, they have a legal duty to revert back to rate of return regulation. I do not agree with this premise. The legal underpinning of TeleKansas I as I see it, is the Commission regulating Southwestern Bell's service based on the price of that service. The Commission is not required to look at rate of return in so doing.

Under K.S.A. § 66-1,191, the current Commission is given broad authority to set rates that are fair, just and reasonable to both the customer and the company. The Commission's authority under the public utility statutes is broad enough to give the Commission discretion as to how and by what method it uses to set fair, just and reasonable rates.

The current regulatory uncertainty arises because the current Commission staff wants to return to rate of return regulation to examine Southwestern Bell's proposal to continue the TeleKansas plan. According to the Commission's order approving TeleKansas and adopting the stipulation between Southwestern Bell and the Commission staff, the intentions of the parties were to not revert back to rate base rate of return regulation. Unfortunately, it is well established law that the Kansas Commission is not strictly bound by prior decisions or orders.

Therefore, the purpose of Senate Bill 591 is to establish legislatively the incentive regulation to which Southwestern Bell and the Kansas Corporation Commission staff agreed in 1989. Some opponents of the bill will contend that S.B. 591 is deregulating telephone service in Kansas. That is not true. Instead, it gives the incentive to a telephone company to make investments in its network that will allow its customers access to the information super highway that President Clinton and Vice-President Gore are proposing for our nation's infrastructure. Some people will claim that S.B. 591 is deregulation and will outline how horrible deregulation has been in other industries and their horrible effects on Kansas, especially rural Kansans. S.B. 591 is not deregulation, it is incentive regulation that will stimulate rural economies, link rural communities with urban areas and help grow Kansas.

Under S.B. 591, the Commission will continue to regulate the telephone companies in the following manner:

1. Authority over customer complaints due to quality of service (billing, etc.);
2. Debt security issuance, K.S.A. 66-125;
3. Approval of new services;

4. Approval of all rates and tariffs involving their service;

5. The ability for the Commission to determine which services are competitive under S.B. 591 Section 3.

A change in the law, as proposed by S.B. 591, in my opinion would serve both Kansas customers, like you and I, and telephone companies like Southwestern Bell because:

- It would keep basic local rates from being increased;
- It would assure accelerated modernization and telephone technology as we move into the year 2000;
- It would promote competition and services where competition is present or imminent; and
- It would provide the telephone company and its shareholders a degree of stability under state regulation instead of being subject to regulatory uncertainty.

When TeleKansas I was approved by the Kansas Commission in 1990, we believed that its plan would be a bold new experiment in regulation under the state law; and my perception is that the Commission's hopes have been realized; Kansas telecommunications

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have advanced greatly in the last four years, especially in the rural areas. Competition has been promoted; the company's earnings have been modest (11.8% AVG ROE) and local rates have been maintained at the 1989 level and, in fact, have not increased since 1984. I understand and support Southwestern Bell's need for greater stability as it looks toward TeleKansas II, and in my view, S.B. 591 will accomplish this goal. If S.B. 591 passes, the Commission will still regulate Southwestern Bell as to most of its services, just as it currently does, but on the basis of the reasonableness of its prices not its earnings. And the bottom line to customers is whether they are getting good services at a reasonable price. S.B. 591 will provide a good balance in meeting the needs of Kansas customers and telephone company.

I will be happy to answer any questions, and thank you for the opportunity to appear before you this morning.

Sincerely yours,

Frank A. Caro, Jr.

TESTIMONY OF
JOHN WIEBE- CEO CLAY COUNTY HOSPITAL
IN SUPPORT OF SENATE BILL 591

Thank you Madam Chairperson and members of the Senate Commerce Committee.

My name is John Wiebe and I have been the CEO at Clay County Hospital since 1990 and CEO at another hospital for eight years. Therefore, for about twelve years I have experienced the assistance that telecommunications can give a rural hospital.

Clay County Hospital has seven physicians and we average about 18 patients day who are classified as acute care patients. These are patients that need 24 hour nursing care. Our hospital has a four-bed Intensive Care Unit with monitors that give constant observations of the patients in these beds. We can transmit _____ tracings to Stormont-Vail Hospital's cardiac monitoring from two patients at a time. We also can shift channels so that we can report on as many as eight cardiac patients over a period of a few minutes. Normally we leave the most unstable or critical patients on line to Stormont at all times. Therefore, a trained observer is monitoring our patient in Topeka through Southwestern Bell's telecommunications service. We have had more than 15 years of very good relations with Stormont-Vail and Southwestern Bell. This hardwire telecommunications system has served us well and now it is time for Kansas and rural health care to make the next step to fiber optic transmission.

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Fiber optic technology will allow us to send useable video pictures
of patients and radiology film. In this manner
rural Kansas can maintain "State of the Art"
medical care.

I am here today to voice support for TeleKansas II which promises to provide fiber optic transmitted video pictures in the near future. Health care in Kansas needs to make the next step forward and this in part means providing the more sophisticated means of transmitting data and video pictures of X-rays.

In summary, I encourage the Kansas legislature to do what it can in its wisdom to remove barriers or to set up a system that will encourage the deployment of fiber optic lines. In an area such as Clay County and all over Kansas modern communications are essential to provide quality health care and that is needed for all Kansans. Thank you.

TESTIMONY ON SB 591
SUZIE AHLSTRAND
WICHITA/SEDGWICK COUNTY PARTNERSHIP FOR GROWTH
SENATE COMMERCE COMMITTEE
FEBRUARY 9, 1994

Good morning Senator Salisbury and members of the Commerce Committee.

I'm Suzie Ahlstrand with the Wichita/Sedgwick County Partnership for Growth, also known as WI/SE. WI/SE is the unified economic development agency for Wichita and Sedgwick County.

I do economic development. I deal with companies that are considering locating or expanding in Kansas. I try to sell them on the benefits of doing business here.

Economic development in Kansas was helped a great deal by the Economic Development legislation passed by the state in the 1986 to 1989 time frame. At the same time, we in the Wichita area were restructuring our own efforts. Both of us recognized the need for infrastructure improvements and a positive business climate.

Companies always look at the infrastructure of an area. It may or may not be their top criteria, depending on what business they're in, but it's generally important, whether it be roads, airports, water and sewer services, or the human infrastructure of a qualified work force.

Southwestern Bell's proposed TeleKansas II means an investment in another type of infrastructure. Rather than investing in concrete and asphalt highways, we're discussing information superhighways. In this day and age, markets are international, and communicating internationally has become crucial.

I urge you to give serious consideration to this communication infrastructure investment of \$140 million dollars.

From an economic development and jobs perspective, this will place us as the most sophisticated telecommunications network anywhere in the country. It will give us a head start over other regions of the country as computer communication and other forms of tele-communication come further into their own.

I believe that a \$140 million dollar investment in this kind of infrastructure can be just as important as highways, bridges and airports to economic development. It is just as important for our business future today as the advent of the railroads was to Kansas of the 1800s.

Thank you for the opportunity to appear before you today.

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Attachment 5

Sandie Cox
CWA Representative
Communications Workers of America
Legislative Testimony
Kansas Senate Commerce Committee
February 9, 1994

TESTIMONY

Madame Chairman. Members of the Committee. Good morning.
My name is Sandie Cox. I am here today representing the
Communications Workers of America, a labor union affiliated
with the AFL-CIO.

In Kansas, the Communications Workers of America, or CWA,
represent approximately 4,000 working men and women, 2,759 of
whom work for Southwestern Bell Telephone Company.

Specifically, I am here today representing those 2,759
Southwestern Bell Telephone employees and their families in
Kansas. In general, I am here today representing all working
men and women in Kansas.

As a representative for the CWA, my mission is to protect
jobs in the telecommunications industry. It is the belief of
the CWA that passage of Senate Bill 591 will, in fact,
protect jobs now held by CWA members and may even increase
job prospects for Kansas working men and women.

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Senate Bill 591 contains a provision for continued modernization of the Kansas telephone network started under Southwestern Bell Telephone's TeleKansas plan.

Under the TeleKansas plan since 1990, Southwestern Bell Telephone has invested \$140 million over and above its normal construction budget to modernize the Kansas telephone network.

The Institute for Public Policy and Business Research at the University of Kansas estimates that the company's investment in Kansas' telecommunications infrastructure over the past five years has had very positive economic benefits for the overall Kansas economy. (See Appendix A.)

According to the study, the TeleKansas investment had an average economic benefit of more than \$14 million annually in additional household income spread throughout the Kansas economy.

Bottom line, the KU researchers estimate that the TeleKansas plan had the net effect of creating an average of nearly 400 jobs for Kansas workers in each year of the network infrastructure improvement plan. The number of jobs created in each year of the plan fluctuated from a low of 69 jobs in 1994 to a high of 740 jobs in 1991.

If the past predicts the future, then Southwestern Bell Telephone's proposed additional investment of \$138 million in the Kansas telecommunications infrastructure as contained in Senate Bill 591 will translate into increased dollars flowing in the Kansas economy and increased job opportunities for Kansas working men and women.

The KU economic benefit study confirms that logical assumption. Under TeleKansas II, the KU economists predict an average economic benefit of more than \$16 million annually in additional household income spread throughout the Kansas economy over the five-year period.

Of even more significance to the CWA is the creation of additional jobs promised by the TeleKansas II plan. The KU study predicts an average of 450 jobs created in each year of the plan, with a low of 341 jobs in 1996 and a high of 653 created jobs in 1997.

Another aspect of Senate Bill 591 which promises job security to the Southwestern Bell Telephone employees I represent is a change in the way the Kansas Corporation Commission regulates the telephone company.

This new regulatory approach should provide Southwestern Bell Telephone with a more level playing field to meet the numerous competitors who are entering the local telephone service market. If the company cannot sufficiently address the competitive challenges it faces, it loses revenues in its most profitable areas, which puts the jobs of CWA union employees at risk.

As a member of the CWA leadership team, we are very proud of the jobs that our members do for Kansas telephone customers. They are exceptionally good at what they do...and they welcome the opportunity to compete fairly in the competitive telecommunications marketplace. The way our members see it, their very jobs hinge on Southwestern Bell Telephone's ability to fairly compete in this competitive environment.

Above and beyond the issue of jobs, the CWA solidly supports the telephone network improvements contained in Senate Bill 591, particularly the telemedicine and distance learning applications, because of the overall improved quality of life those services will bring to us, our children, and our grandchildren. This is particularly true for those living in the more rural parts of the state.

On behalf of the Communications Workers of America, I strongly encourage your support of Senate Bill 591.

Thank you.

THE ECONOMIC BENEFITS TO KANSAS OF TELEKANSAS I AND TELEKANSAS II CONSTRUCTION

Institute for Public Policy and Business Research

January 31, 1994

Introduction

This memorandum explains our estimation of the economic benefits of the construction phase of TeleKansas I and TeleKansas II. We have considered only the benefits of the physical construction used in these projects, not the increased service capability provided by the completed projects. Our results are presented in two parts. First, the direct effect of these two projects is described along with the important assumptions we made concerning the data we have. The data for the direct effect is provided in Table 1. Second, the process we used to estimate the indirect effects of these projects is explained. The aggregated results of our estimation process are provided in Table 2.

The Direct Effect of TeleKansas I and II

The data used to estimate the direct effect of TeleKansas I and II was provided by Southwestern Bell and consisted of annual expenditures for materials and labor. The data through 1993 are actual figures while the numbers used for 1994 on are estimates. Although some of the material used in these projects has been or will be bought in Kansas, Southwestern Bell expects that most of the materials will be purchased from out-of-state sources. Since no cost effective way has been devised to estimate the split between out-of-state and in-state purchases of materials, we will assume that all materials have been or will be purchased from out-of-state sources. This assumption eliminates consideration of material purchases directly influencing the Kansas economy, and hence leads to somewhat understating the total impact of TeleKansas on Kansas.

Therefore the only direct influence on the Kansas economy under consideration is the labor expenditures during each year. We will assume that all of these expenditures take place inside Kansas. The data given us for TeleKansas II is in 1993 dollars. However, the data for TeleKansas I is in current dollars. We revised this data using the United States Consumer Price Index for all urban consumers so that it was also in 1993 dollars. The column labeled labor in Table 1 is the direct effect of these two projects and will be treated as an exogenous (i.e. independent) increase in Kansas household income.

The Indirect Effect of TeleKansas I and II

The KSSAM2 (Kansas Social Accounting Matrix) model of the Kansas economy developed by the Institute for Public Policy and Business Research was used to estimate the indirect effects of TeleKansas I and II. A social accounting framework such as KSSAM2 is an elaboration of a standard input-output model for a region. For the purposes of estimating the benefits of TeleKansas I and II, the major difference between KSSAM and an ordinary input-

output model is that household and government behavior are exogenous in an input-output model while within the social accounting framework, they are endogenous (i.e. taken into account).

For the purposes of estimating an economic benefit, the KSSAM2 model is solved for a 52 by 52 matrix of multipliers. These multipliers show the total effect that results in each of 52 sectors, from a given direct effect in each of 52 sectors. Therefore matrix multiplication on the vector of direct effects leads to a vector of total effects. Each element in the vector of total effects represents the total effect of TeleKansas on each of the 52 sectors in the model. The results of estimating the benefit of the annual changes in Kansas wage and salary are provided in aggregate form in Table 2. First we have provided the annual estimated direct, indirect and total effects on Kansas income. Then we have estimated the direct, indirect and total effect on Kansas private sector employment.

Results of the Estimation Process

The figures in Table 2 were calculated using a complete matrix of multipliers. However, the key aggregate multipliers can be summarized as 1.88 for income to income and 2.06 for job to job. The income to income multiplier means that a one unit exogenous increase in income to Kansas households results in an additional indirect increase of Kansas household income of 88% of a unit of income. Thus, combining the direct effect and the indirect effect gives a total effect of an increase of 1.88 in Kansas household income due to an increase in Kansas household income of 1.

The job to job multiplier is similar to the income to income multiplier. An increase of 1 job by Southwestern Bell stimulates slightly more than 1 additional job in the rest of the Kansas economy. An income to income multiplier of 1.88 and a job to job multiplier of 2.06 might appear inconsistent; however, consideration of the nature of the original jobs created by Southwestern Bell should remove any confusion. The jobs created by both of these projects, for the most part, require skilled and highly skilled labor which will earn more than the average income in Kansas. Thus, the ratio of jobs to income for Southwestern Bell is going to be lower than for the rest of the Kansas economy. This is the reason the job to job multiplier is larger than the income to income multiplier.

The concept of income used here is slightly different from Kansas Gross State Product. In particular, this income figure excludes income generated in Kansas but accruing to persons not resident in the state of Kansas. At the same time, it includes income received by Kansans even if earned outside the state.

TABLE 1**EXPENDITURE FOR TELEKANSAS I AND TELEKANSAS II****TELEKANSAS I: EXPENDITURE BY YEAR**

In Current Dollars

	Material	Labor	Total
1989	\$18,244,490	\$5,615,510	\$23,860,000
1990	20,485,170	5,874,830	26,360,000
1991	27,995,690	13,804,310	41,800,000
1992	17,890,380	10,917,620	28,808,000
1993	8,176,680	6,251,320	14,428,000
1994	2,143,370	1,334,630	3,478,000

In 1993 Dollars

	Material	Labor	Total
1989	\$21,260,716	\$6,543,881	\$27,804,597
1990	22,648,103	6,495,126	29,143,229
1991	29,701,742	14,645,542	44,347,283
1992	18,425,944	11,244,448	29,670,392
1993	8,176,680	6,251,320	14,428,000
1994	2,143,370	1,334,630	3,478,000

TELEKANSAS II: EXPENDITURE BY YEAR

In 1993 Dollars

	Material	Labor	Total
1995	\$17,215,510	\$7,117,861	\$24,333,371
1996	13,107,793	6,628,141	19,735,934
1997	27,306,318	12,693,180	39,999,498
1998	18,060,765	8,672,515	26,733,280
1999	18,060,764	8,672,518	26,733,282

TABLE 2
ECONOMIC BENEFITS OF TELEKANSAS I AND TELEKANSAS II

TELEKANSAS I

Household Income (In 1993 Dollars)

	1989	1990	1991	1992	1993	1994
Direct Effect	\$6,544,000	6,495,000	14,646,000	11,244,000	6,251,000	1,335,000
Indirect Effect	5,754,000	5,711,000	12,877,000	9,886,000	5,496,000	1,173,000
Total Effect	12,297,000	12,206,000	27,522,000	21,131,000	11,748,000	2,508,000

Private Sector Employment (Number of Jobs Created Each Year)

	1989	1990	1991	1992	1993	1994
Direct Effect	128	127	287	221	123	26
Indirect Effect	136	135	304	234	130	28
Total Effect	314	323	740	579	322	69

TELEKANSAS II

Household Income (In 1993 Dollars)

	1995	1996	1997	1998	1999
Direct Effect	\$7,118,000	6,628,000	12,693,000	8,673,000	8,673,000
Indirect Effect	6,258,000	5,827,000	11,160,000	7,625,000	7,625,000
Total Effect	13,376,000	12,456,000	23,853,000	16,298,000	16,298,000

Private Sector Employment (Number of Jobs Created Each Year)

	1995	1996	1997	1998	1999
Direct Effect	140	130	249	170	170
Indirect Effect	148	138	264	180	180
Total Effect	366	341	653	446	446

SENATE BILL 591 TESTIMONY

Dr. Edward H. Hammond, President
Fort Hays State University

I. Kansas Needs to Lead in the Information Economy

Madam Chairperson and Committee Members:

We need to put this legislation in perspective. As we sit here in the Spring of 1994, there have been only four (4) ages in the history of man. The first was the hunting and gathering age that lasted many millennia, tens of thousands of years. That was followed by the agricultural age that lasted a couple of thousand years and an industrial age that lasted 200 years. Now we are in the information age which started about 1960 and, at best, will last 60 years.

Two important facts about these ages are that the rate of change has been accelerating and the fact that the same things happen at the same relative intervals. For example, all the new technology that drives an age is invented in the first half of the age. During the second half of the age, the new technology is merged and integrated. Today we are seeing the merger of the three driving technologies of the information age---telephone, television and computing technologies. That leads to the corresponding need to be adept at what we at Fort Hays State University call "information networking" -- which is the *movement and use* of information.

If Kansas is to survive and prosper in this new environment, we need to lead and not simply follow along with what is happening elsewhere. We must broaden our approach to include but go well beyond reliance on the agricultural economy, and the industrial economy. We need to be national leaders in the *information economy*. And in doing so we will bring the benefits of this new economy to all Kansans and into our traditional economic sectors as well.

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Attachment 7-1

There are two main issues evident in the bill as currently drafted. The first is a vision to deploy new technology and a way to do it through public utility investment. The second main issue concerns changes in regulations to encourage this investment and to shield the public utility from uncertainties in regulation beyond basic service provision as traditionally defined.

I see a third issue, equally if not more important, not now addressed in the bill - that is the issue of the knowledge gap between having advanced technologies and knowing how to use them well, or even how to use them at all.

I call it the "educated marketplace" issue. If we deploy new technologies - at the expense of millions of dollars and through the restructuring of our public policy to accommodate them - then as a people and as a state we had better be able to use the technologies when they are in place. We need to know how to use them to our benefit, to make them worth the cost of the financial and social investment we have made.

The "educated marketplace" issue, handled rightly, is a classic example of a "win-win" situation. The end users, clients and consumers of the advanced capabilities will learn how these advancements can increase the quality of life and their communities' prosperity. The public utilities that provide the capabilities will have an informed and creative market that will vastly increase demand for the new capacity. The state of Kansas will benefit in that we will achieve a national and international reputation as a place where the information economy is booming, not just in a few advanced places but networked throughout our entire state.

Therefore, I strongly urge that the bill be amended to include training and education components to enable us to actually use the technologies in these visionary ways. It is not enough to say we can run "fiber to the curb." We need to move forward as a state in creative applications and uses of the technologies. To do otherwise is to build an "information highway" without knowing what kind of vehicles it will carry, and ignorant of what those vehicles will require of the highway in the years to come.

The bill says the investment intended is "targeted to network infrastructure projects that will have application in the areas of education, health care or economic development." At Fort Hays State University we are already involved in training and education in each of these areas. We are proud of our capabilities and accomplishments in these areas, for example through our interactive television networks, our nursing programs, and the activities of our Docking Institute for Public Affairs in strategic planning and economic development with local communities.

But it is precisely because we are already deeply involved in the areas Senate Bill 591 addresses that we know the depth of the challenges they represent. New technology by itself will not aid us in any of them, and indeed could distract us from the needs of the end users or clients of the institutions serving these areas, if we do not proceed from a knowledge base of *how* and *why* we intend to use them, both immediately and in the future.

II. Broadband Networks are a Key Component of Technology Leadership

New information networking technologies require more and more bandwidth to communicate, just as larger and larger ships require wider and deeper canals. Today the preferred technology to provide the broad bandwidth we require is fiber optic cable. It is made of silicon, a cheap and universally available substance. Only five cubic centimeters of silicon is required to produce one kilometer of fiber optic cable. The real costs are associated with refining silicon to carry lightwaves without distortion.

The best way to think of a fiber optic cable compared to today's copper telephone lines is simply to think of fiber as a broadband "big pipe," compared to a narrowband small one. The carrying capacity of fiber's additional volume, or bandwidth, is staggering. An entire dictionary would take 2.3 *days* to transmit by a 2400-bps modem over today's telephone line. At our faster KANS-A-N network's rate, called T-1 or DS-1, the dictionary's information would be transmitted in 5.3 *minutes*. With a broadband fiber optic networks that Fort Hays State University uses to deliver courses to Dodge City, the same dictionary would be transmitted in a quarter of a *second*.

The practical effect of these broadband networks will be full-motion video conferences, comfortable and natural to use. These alone will save us time and money all across our broad and lengthy state, 400 miles long by 200 miles deep. They will also break down barriers of isolation caused by distance and hazardous weather. They will enable us to do business at a distance as well as provide medical conferences and education.

Broadband networks at high speeds of transmission will also allow us to use our computer networks to work together smoothly and share resources that in the past were costly and prohibitive to distribute. At Fort Hays State University, we say "move information to people, not people to information." Computers all across the state will be as available and as easy to access as on a local-area network.

But while fiber optics is the preferred broadband technology today, we will want to be sure to leave room for improvement. I share with Nicholas Negroponte, the Director of MIT's Media Laboratory, the vision that has come to be called the "Negroponte Switch." This is not some new kind of telephone switching computer. Instead, it is a new way of thinking about transmitting information in the most common ways we do so today.

Today, Negroponte says, we have telephone signals going through wires, and television signals going through the air. Soon there will be a switch - telephone signals will go through the air. Today that is called "wireless" communication, or the new radiotelephone. And television signals will go through wires. We already see that in cable television, although many of those programs are first transmitted through the air by satellite. Soon those signals may well travel all the way from source to your set entirely by fiber optic cable.

In our desire to bring advanced information networks to Kansas, we need to keep our eye on the ball. It is broadband networks that we seek, not just a particular kind of current technology, throughout Kansas. And once again, that reinforces the clear need for this bill, and Kansans, to move forward on the "educated marketplace" issue.

III. Legislative Concerns

1. Overall Concern:

The goals contained in the proposal have been established by SW Bell and not derived from a larger strategic plan for the state of Kansas. **There ought to be a link between the achievement of state and local telecommunications policy goals and the requests contained in the proposal** (see attached pp. 84-85 and 100 of "Advantage Kansas" report.)

2. Secondary Concerns:

A. Effect of Fast Rate of Change

With the extremely rapid rate of technological and economic change in the telecommunications industry, how can the state be assured that SW Bell will not have to implement the modernization plan it proposes irrespective of TeleKansas II in order to meet the growing competition in the marketplace? The National Communications Competition and Information Infrastructure bill currently in Congress holds the potential to make an end run around state public utility commissions and open the playing field to all competitors (it states . . . no state or local government may effectively prohibit any provider of any telecommunications service from providing that or any other such service inconsistent with the provisions of the bill).

B. Impact of KANS-A-N Network Bid Process

In making decisions regarding TeleKansas or this legislation, one needs to take into consideration the impact of the current KANS-A-N network bid process. This important network will be revitalized and paid for by state funds. The implementation date is February of 1995.

The bid specifications include the following "advanced services that will meet anticipated state needs in the future":

1. Fiber optic digital connectivity to all major state agencies and institutions
2. Multipoint video conferencing with 45 mbps digital switching
3. Switching services using Signaling System 7 (SS7)
4. Protocol conversion capabilities for dissimilar data rates and equipment
5. Direct connection to cellular telecommunications networks
6. A plan for future Personal Communications Networking (PCN) for KANS-A-N users
7. Integrated Services Digital Network (ISDN) compatibility

The KANS-A-N network can help model a view of what a TeleKansas II network can aim for.

3. *Concerns about Competition:*

What are the implications of TeleKansas II on the goal of trying to provide a "level playing field" for all providers of telecommunications services in the state including telcos, cable companies, and others?

For example, with the increasing importance of cable-TV providers in developing a state and national information infrastructure would it not be valuable to include a "common carriage" provision in TeleKansas II to allow the citizens of the state the potential to benefit from cable companies who become eligible to deliver information over telco infrastructure? Common carriage implies that the carrier cannot own or control the information being provided. SW Bell would have to assure that its infrastructure is open to all providers of information, especially cable-TV. There should be open and equal access provisions in TeleKansas II. It is in the interest of all the state's citizens and the goal to create a "level playing field" for the entire

industry in the state. The state, not SW Bell, needs to develop a "set of principles" to ensure that all parties that desire alternative forms of regulation have a chance to compete.

Since there are only 1.2 million access lines in the state of Kansas, isn't a piece of legislation that includes provisions for only carriers with access lines of 500,000 or more discriminatory and designed for one competitor (this relates to the legislation introduced in the Commerce Committee and not the original TeleKansas II proposal)?

4. *Observations Specific to TeleKansas II Proposal:*

- A) In specific terms, how do the proposed special per minute switched access rates alluded to on page 6 of the proposal compare to existing rates and those of the competition? With the rapid rate of change in the industry, should there be an annual review of these so-called "special rates" to allow competitors to bid for these state customers (hospitals, schools, etc.)? Will any of the links between hospitals, schools, etc. require dedicated as opposed to switched access arrangements and pricing?
- B) Why not include enhanced 911 as a guarantee in the proposal instead of basic 911?
- C) As the distinction between noncompetitive and competitive services continues to change, shouldn't the proposal contain a stipulation for a review of defined services at the end of each year (see page 195 of Regents report)?
- D) Why doesn't the proposal contain a provision for the establishment of a video programming platform and offer access to the platform's capacity to competitive providers? One of the state's goals is to expand its ability to provide video services to all citizens. This would be a step in that direction.
- E) Following on the previous observation, why couldn't the proposal contain an assurance to build "Open Platform Service" in rural areas? This would help accommodate citizens in non-SW Bell exchanges and speed the delivery of affordable video, voice, data and image to all rural citizens. The FCC is currently exploring this idea and Kansas could become a pilot test to evaluate its potential.

state's telecommunications environment. At the same time, community colleges and vocational-technical schools should continue to focus on training primarily technicians, thereby creating an efficient division of labor in the state's education community.

2. Organization/Planning/Policy Context

Lack of Statewide Audit of Telecommunication Services

The Task Force discovered that it was impossible to piece together much less find a comprehensive profile of the state's telecommunications infrastructure and services. Anecdotal information suggests that there remain areas within Kansas that do not have single-party touchtone service. In fact, one individual from southwest Kansas informed a member of the Task Force that it was impossible to connect an answering machine in his business premises because of the existence of multiparty lines. A request to the Kansas Corporation Commission for a listing of exchanges where multiparty service still exists revealed that no such inventory is available. A similar lack of information exists regarding counties served by regular or enhanced 911 emergency service (see Appendix H). It is likely that rural Kansas lacks other services that would be considered commonplace in urban areas.

Unless policymakers possess a clear understanding of what Kansas has in the way of telecommunication capabilities across the state and by counties, it will be difficult to formulate plans and policies to rectify weaknesses and build on the strengths of the existing infrastructure. A sample outline for an audit can be found in Appendix I.

Lack of Comprehensive Statewide Strategic Plan

As discussed in the opening pages of this report, a variety of telecommunications planning initiatives dot the policymaking landscape at the state and local level. None of them, however, represent a comprehensive statewide strategic plan for telecommunications. Equally significant, none are the result of a carefully orchestrated strategic planning process characterized by widespread participation from across the state (see Appendix J for an outline of a typical strategic planning process). An "information management plan" prepared by the Division of Information Systems and Communications (DISC) in February, 1990, perhaps comes closest to a *state* plan of any type. As a plan, however, its principal focus is on state-owned facilities and information management by state agencies. It does not establish a direction or provide a set of goals for using telecommunications technologies and services to enhance private sector business expansion, economic development, healthcare or other communities of interest. Very little information is offered about how to address the strengths and weaknesses of the Kansas PSN. Although stakeholders from every segment of Kansas society have expressed

an unbridled enthusiasm for positioning the state as a telecommunications leader, *there has been no statewide needs assessment* to systematically evaluate user-demands. This report has provided preliminary information of this type but the analysis is far from comprehensive or systematic. Respondents at the forum noted that in those states where the telecommunications infrastructure has been marked for improvement (Iowa, Minnesota, Washington, New Jersey), it has been because the state performed an overall needs assessment as part of a strategic planning process, established the necessary planning and policy structures and provided at least a minimal state-level subsidy, especially for rural areas.

Several respondents to the Task Force survey argued that completion of *comparative cost studies* as one goal in a statewide strategic plan could convince policymakers and the public of the long-term effectiveness of advanced telecommunications and, ultimately, make the large upfront costs for transmission and switching technologies more acceptable. In the opinion of one respondent, "an analysis of the costs of administrative travel, alone, would justify the financing of a fiber network."

How would the formulation of a comprehensive statewide strategic plan contribute to progress toward a preferred Kansas telecommunications environment? For one, it would remove some of the uncertainty experienced by those engaged in "bottom-up" planning initiatives and projects. *A strategic plan is primarily about direction, not time.* A plan would at least provide some understanding and guidance about where the larger statewide telecommunications context is headed. Bottom-up planners in counties, communities, school districts, businesses and regional jurisdictions could develop a better feel for how their goals and choices of technology fit into this larger, future telecommunications environment. Secondly, a comprehensive plan would go beyond the provincial needs of government agencies to address business productivity in the private sector, economic development activities, and other communities of interest that cannot be adequately served by state-owned or state-leased facilities.

A final point to be emphasized. Completion of a comprehensive statewide plan will in no way close the door to future threats or opportunities that might develop in the state and global telecommunications environments. If, for example, technological innovation creates a set of circumstances unforeseen during the original formulation process, the plan should be seen as a "living document" capable of adapting to opportunities as they materialize. Simply put, strategic plans serve as "compasses" or "anchoring points" in a chaotic world of continual change. They are not, however, immutable documents incapable of accommodating new ideas and applications.

The Lack of a State Government Entrepreneurial Spirit or Mindset

Several stakeholders indicated that they perceived state government as lacking in initiative to do anything about improving the telecommunications infrastructure. They identified

impediment to any effort designed to position Kansas as a leading state in the world of advanced telecommunications.

4. Finance: Who Should Pay?

Whatever course of action is chosen to position Kansas as a leader in the world of telecommunications services, there will have to be financial resources to pay for new technologies, education of the citizenry and businesses, development of information services and so on. The key issue, of course, is: who should pay the bill for these initiatives? The answer to the question is not clear, and represents a hurdle that must be overcome if discernible state progress is to be made in the near future.

The Range of Financing Options

There are a wide range and combination of state financing options. The difficulty, of course, is choosing the most palatable from a multidimensional political, economic, social and technological perspective. The following list is illustrative but not exhaustive of some of the most discussed financing options:

- Authorization and allocation of state revenues without corresponding new funding sources; in effect, an adjustment of state priorities on the public policy agenda
- Link the achievement of state and local government telecommunications policy goals with the relaxation of regulatory restrictions on "competitive" services and the capping of prices for captive customers (a TeleKansas II?)
- Expedite the process of introducing new information services outside of the traditional contentious regulatory framework to increase revenues derived from innovative products and services
- Use the rate-making powers of the KCC to encourage local regulated telcos, energy utilities and cable companies to share the financing and benefits of an enhanced Kansas telecommunications environment. This would constitute a redefining of a private market for public purposes by allowing electric utilities to reap greater benefits through spot pricing, home automation and distribution of other automation capabilities (Rivkin and Rosner, 1992)
- Leverage the deployment of ADSL and ISDN technology to enhance telco and cable company revenues for modernization