

Approved: 3/3/94
Date

MINUTES OF THE SENATE COMMERCE SUBCOMMITTEE

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 21, 1994 in Room 123-S of the Capitol.

Members present: Senator Salisbury, Harris, Steffes, Feleciano and Hensley

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

Conferees appearing before the committee:

Meeting of the Senate Commerce subcommittee on SB 591-Limited deregulation of the telecommunication industry.

Lynne Holt distributed copies of an outline for Kansas Telecommunications Strategy to the subcommittee, see attachment 1, which was prepared per the direction of the Chairman as a possible alternative to SB 591.

The subcommittee requested the KCC respond to the following questions at the subcommittee meeting on Tuesday, February 22, 1994.

Does the KCC have authority to develop strategic planning under Kansas statute, and if so how much time would this take? Who decides what an adequate rate of return is? Who decides what excessive profits are? What was the use of TeleKansas I if there is to be no regulation? What is the KCC's reaction if TeleKansas I is not extended?

Susan Fox, President, Southwestern Bell, stated they would not have a problem with developing a telecommunications strategy, in fact they have been working with Kansas Inc. to do so the last few months. They have no problem with extending membership in the Kansas Inc Telecommunications Action Planning Committee, and they have no problem with Section 2. They do have concerns with Section 3. She stated there is a significant disagreement with the KCC's current assessment of alleged over-earnings. Her concern is that the KCC has had the authority to develop a regulatory scheme that represents the state of the art in telecommunications today; and they, as yet, have not done so.

The subcommittee requested Southwestern Bell respond to the following questions at the subcommittee meeting on Tuesday, February 22, 1994.

Would SWB support the proposed establishment of standards of procedure? Support the development of a competitive arena that provides for the all of the telecommunication services, and the establishment of competitive safeguards. Would SWB agree or disagree that the KCC presently has the authority to establish a comprehensive strategic telecommunications plan? The time frame under which the KCC responds to the rate setting process? Should there be a time frame under which the KCC has to act on the orders that are placed before them, regarding rate increases or decreases? If TeleKansas I is extended a year or two should it retain all of the parts that were put into it, which would include leaving the excess profits issue intact until such time as this plan is finalized? Would SWB be responsive to working with KCC on an alternative plan and report back to the Legislature in 1995.

Directed to both KCC and Southwestern Bell the matter of Southwestern Bell's investment should TeleKansas I be extended.

The next meeting is scheduled for February 22, 1994.

MEMORANDUM

Kansas Legislative Research Department

300 S.W. 10th Avenue
Room 545-N – Statehouse
Topeka, Kansas 66612-1504
Telephone (913) 296-3181 FAX (913) 296-3824

February 21, 1994

To: Subcommittee on the Senate Commerce Committee
From: Lynne Holt, Principal Analyst for Senator Alicia Salisbury
Re: Outline for Kansas Telecommunications Strategy

The following strategy is submitted to the Subcommittee assigned to review S.B. 591. This strategy was formulated under Senator Alicia Salisbury's direction. Any inaccuracies and misrepresentations are my own. This strategy recognizes that movement toward deregulation in telecommunications is inevitable but should occur in a systematic and logical manner based on accurate information, public analysis, and debate. To that end, a strategy is recommended which has three components: (1) development of a statewide telecommunications strategy; (2) direction to the Kansas Corporation Commission (KCC) to open up a generic docket to consider the level of competition for regulated telecommunications services; and (3) limited extension of TeleKansas I. The design of a successor to TeleKansas I should incorporate, and be compatible with, the recommendations and analysis contained in the statewide telecommunication strategy and should be compatible with findings resulting from the generic docket on competition. Each component of the overall strategy is addressed below.

I. Development of a Telecommunications Strategy

1. To develop a telecommunications strategy in Kansas, the Kansas Inc. Telecommunications Action Planning Committee should be retained and the scope of representation expanded by statute. The Kansas Inc. Board of Directors should appoint representatives from local telephone companies, interexchange carriers, cable companies, KCC, the Regents institutions, the Board of Regents, the Department of Education, the Kansas Department of Commerce and Housing, a public library, a city, a school cluster, a local chamber of commerce, the private sector membership of Kansas Inc., a medical center, a large company, a small company, and a residential consumer. The Kansas Inc. Board should appoint six legislators to the Committee (now there are only three): three Democrats and three Republicans; three from the House and three from the Senate; three from rural areas and three from urban areas; at least one should serve on the House Committee on Economic Development and one should serve on the Senate Commerce Committee. Funding shall be appropriated in the Kansas Inc. budget for the travel expenditures of nonstate employees who attend Committee and Subcommittee meetings.

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Attachment 1-1

2. Staffing for the Telecommunications Committee would be provided by Kansas Inc. and the Kansas Legislative Research Department, as needed. Subject to appropriations, Kansas Inc. would hire a consultant on a contractual basis for the duration of the development of the strategy to provide technical assistance, frame policy issues, and draft the two reports, described below. This consultant would work with the six subcommittees, discussed below.
3. The state strategy would be developed beginning July 1, 1994 and end December 31, 1995, unless otherwise extended by the 1996 Legislature. There would be an interim report to the 1995 Legislature and a final report to the 1996 Legislature. Each report will be written concisely and must be accessible to persons with no expertise in telecommunications technologies and regulatory matters.
4. The first report, to focus on the telecommunications infrastructure and applications, will be presented to the 1995 Legislature, and will:
 - a. include a statewide inventory of the existing telecommunications infrastructure (already under development by KCC) and an assessment of the telecommunications needs of end users (both these activities were identified in the statement of goals formulated by the Kansas Inc. Telecommunications Action Planning Committee);
 - b. define "telecommunications infrastructure" and formulate a procedure for modifying that definition; and
 - c. identify applications for telecommunications of importance to the state and a method of setting priorities for their development. This analysis should include a plan for informing prospective end users about the use and availability of new technologies associated with such applications. Outcomes to be considered include: improving the competitiveness of Kansas businesses; improving the quality, affordability, and availability of health care; improving the quality of and accessibility to primary, secondary, and postsecondary education; increasing the efficiency, effectiveness, and responsiveness of state and local government; and affording citizens greater exposure to cultural and recreational amenities.
5. In addition to the first report, the 1995 Legislature would receive a report from Kansas Inc., which will contract for its development. This report will identify current and anticipated trends in telecommunications technologies and services and their economic impact on the citizens and businesses of the state, including, but not limited to, low and moderate income households, small businesses, and high technology businesses. This report shall address regional differences in economic impact.
6. The second report, to focus on the quality and availability of telecommunications services, will be presented to the 1996 Legislature, and will:

- a. define "universal service" and the extent to which it has been achieved statewide and by region;
 - b. define and state criteria for provision of "basic telephone service" and the availability and provision of such service in a competitive environment (items (a) and (b) probably would be addressed by the same subcommittee);
 - c. define "lifeline telephone service" and specify the appropriate means of funding the provision of such service;
 - d. develop a procedure for ensuring the quality of telecommunications services; and
 - e. formulate recommendations to the Governor, the Legislature, and KCC on key concepts and changes to be incorporated into state regulatory policies and policies adopted by DISC for the state information network. The state strategy should be used as an underpinning for all future Kansas telecommunications policies.
7. The President of Kansas Inc. should appoint subcommittees to work on each of these issues. Subcommittees should reflect a broad representation of public sector members, private sector members, legislators, and telecommunications service providers. There should be a limit to the number of people assigned to each subcommittee or nothing will get done! One legislator should be assigned to each of the six subcommittees.
 8. With respect to the adoption of recommendations, KCC staff members should be prohibited from voting on any issues that could be construed as a conflict of interest in a proceeding before the Commission.

II. Generic Docket -- Kansas Corporation Commission

1. KCC would be directed to open a generic docket to investigate the level of competition for each regulated or partially regulated (flexibly priced) telecommunications service under its jurisdiction.
2. In addition, KCC should formulate procedures to:
 - a. periodically assess the level of competitiveness of such services and emerging services and develop standards for competitive services;
 - b. deregulate those services which are deemed competitive pursuant to the periodic assessments undertaken in (a); and
 - c. ensure that regulated services will not subsidize competitive or unregulated services.

3. KCC should report its findings to the Senate Commerce Committee, House Economic Development Committee, and the Joint Communications, Computer and Technology Committee no later than January 15, 1995. In its report to the Committees, KCC should identify any actions it plans to undertake to further accelerate the deregulation of telecommunications services.

III. Continuation of TeleKansas I

TeleKansas I should be continued through February 1997 (a two-year extension) under the same regulatory oversight conditions as have governed Southwestern Bell under the initial TeleKansas I plan. However, the reference here to regulatory oversight does not pertain to changes which may be made by KCC with respect to the pricing of nonbasic local telecommunications services (more services might be added to the "flexibly priced" category), and deregulation of telecommunications services pursuant to any orders issued by KCC or to any federal preemptions that may occur prior to March 1, 1997. The extended plan would only apply to Southwestern Bell but nothing prohibits KCC from adopting an alternative regulation scheme for other local exchange carriers. In 1996, KCC must conduct an audit of the Southwestern Bell's revenues and earnings. Based on this review, the recommendations and analyses contained in the state strategy reports, and the findings from the generic docket on competitive services, KCC will formulate a successor alternative regulation plan that would take effect on March 1, 1997. In light of the increasing adherence to alternative regulation schemes by federal and state regulatory commissions and state legislatures, the Kansas Legislature does not intend for KCC to revert to traditional rate-base, rate-of-return regulation in its oversight of Southwestern Bell.