Approved: March 3, 2011
Date

MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Pat Apple at 1:30 p.m. on February 17, 2011, in Room 548-S of the Capitol.

All members were present except: Sen. Jay Emler - excused
Sen. Mike Petersen - excused

Committee staff present:
Matt Sterling, Office of the Revisor of Statutes
Mary Torrence, Revisor of Statutes
Cindy Lash, Kansas Legislative Research Department
Heather O'Hara, Kansas Legislative Research Department
Ann McMorris, Committee Assistant

Conferees appearing before the Committee:
Steve Hahn, AT&T Kansas
Dr. Debra Aron, Navigant Economics & Northwestern University, Chicago

Others attending: See attached list.

The following written responses to questions asked by the committee were distributed:

Steve Hahn, AT&T Kansas, responded to questions regarding COLR. (Attachment 1)

Janet Buchanan, KCC, responded to questions concerning the Consumer Price Index for telephone services. (Attachment 2)

Steve Rarrick, CURB, provided a study covering California residential telecommunications services in response to what other states were experiencing. (Attachment 3)

On February 9, Commissioner Ward Loyd appeared in opposition to **SB 72**. His testimony was distributed in written form today and will be included with the February 9, 2011 minutes as an attachment.

Chair continued hearing on:
SB 190 – Telecommunications and price regulation

Opponents:
Steve Hahn, President, AT&T Kansas, noted AT&T opposes **SB 190** because it re-regulates a dynamic, fast-changing and competitive industry. (Attachment 4)

Dr. Debra J. Aron, Ph.D, Navigant Economics and Northwestern University, Chicago, provided an overview of the conclusions she had reached after reading the KCC 2011 Report on Price Deregulation. She summarized what the report shows in (1) deregulated prices; (2) comparisons; and (3) competition. (Attachment 5)

Written testimony was provided by:
John Idoux, Centurylink (Attachment 6)
J. Kent Eckles, VP of Government Affairs, The Kansas Chamber (Attachment 7)

Chair closed the hearing on **SB 190.**

The meeting was adjourned at 2:30 p.m.

Respectfully submitted,

Ann McMorris
Committee Assistant

Attachments - 7

SENATE UTILITIES
COMMITTEE GUEST LIST
FEBRUARY 17, 2011

NAME	REPRESENTING
Steve Rarrick	CURB
Mel Minor	Capitol Advantage
Tim Graeber	AT&T
Mike Reecht	Sprint
Shirley Allen	KRITC
Page Rauthier	Hein Law Firm
Cindy Zoglebal	AT&T
Nelson Krueger	USC
Janet Buchanan	KCC
Mike Scott	
Glenda Cafer	Cafer Law Office
Debra Avon	Northwestern University
Mike Murray	CenturyLink
Bruce Ney	AT&T
George Stafford	AT&T
Nathan Eberline	LKM
Don Murray	KCTA
Tom Day	KCC

Steve Hahn
President – AT&T Kansas

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February 17, 2011

Chairman Apple and Members of the Committee:

At the conclusion of hearings for SB 72, Senators Apple and Francisco asked questions of AT&T that we were asked to respond to in writing.

The questions were:

1. What are the burdens of being a Carrier of Last Resort (COLR) that are imposed on AT&T Kansas?

2. How is AT&T not justly compensated for being the COLR?

The attached document answers those questions in detail. We look forward to further discussion with the committee on these and other issues surrounding SB 72.

Sincerely,

Steve Hahn
President – AT&T Kansas

Senate Utilities Committee
February 17, 2011
Attachment 1-1

Statutory and Regulatory Background

Kansas Statute Annotated (K.S.A.) 66-2009(a) states that local exchange carriers, like AT&T Kansas, that provided switched local exchange services prior to January 1, 1996, shall serve as the carrier of last resort ("COLR") in their exchanges and "shall be eligible to receive KUSF funding." Specifically, the statute makes clear

> [t]he local exchange carrier serving as the carrier of last resort shall remain the carrier of last resort and shall be entitled to recover the costs of serving as carrier of last resort.

In Docket No. 99-GIMT-326-GIT, the Kansas Corporation Commission ("KCC") established the methodology for determining KUSF support for the costs to provide local service to high cost areas.[1] Among issues the KCC considered, was the question of whether "KUSF should support a carrier that serves as the carrier of last resort."[2]

> How much support, if any, should be distributed for serving as carrier of last resort will be determined at the time an application is made requesting such support. Any such application must include information, data and calculations as to how the specific amount of support requested for carrier of last resort (versus support for high cost areas) is determined. The information supporting such an application must also demonstrate that those costs are not recovered through other means, in order to justify a net increase in support. Without such a demonstration, the Commission will be unable to ensure that double-recovery would not occur-once through the company's existing revenue streams, and again through the increased support amount.[3]

[1] Order 10: Adopting a Forward Looking Cost Methodology for Purposes of Determining KUSF Support and Selecting the FCC's Proxy Cost Model, *In the Matter of an Investigation into the Kansas Universal Service Fund (KUSF) Mechanism for the Purpose of Modifying the KUSF and Establishing a Cost-based Fund*, KCC Docket No. 99-GIMT-326-GIT, dated Sept. 30, 1999, ¶40, at p. 18 (hereinafter *"Order 10"*). "[T]he Commission seeks in this proceeding to ensure that KUSF support is provided only for those areas that are high cost to serve." *Id.*
[2] *Order 10* at p. 42.
[3] *Id.* at ¶106, pp. 42-43.

1-2

In that proceeding, the KCC concluded that the parties had not provided specific evidence upon which the Commission could establish the amount of support for COLR that "may be warranted, or if in fact any such support is warranted at all."[4]

> Although the Commission recognizes that K.S.A. 66-2009(a) states that the local exchange carrier serving as the carrier of last resort shall be entitled to recover the costs of serving as carrier of last resort, such costs have not been identified or presented in this proceeding. Thus, the Commission cannot make any determination here as to the specific support for serving as carrier of last resort that may be allowed. Any such determination would be premature at this time.[5]

As a result, KUSF High Cost support for the provision of local service as determined by the KCC specifically excludes costs incurred by local exchange carriers for serving as the COLR. However, AT&T has the ability to seek additional funding from the KUSF for COLR costs. Since the adoption of the 1996 Kansas State Telecommunications Act, AT&T Kansas has chosen instead to rely upon itself and eschew consumer funded KUSF subsidies for COLR costs as competition in the marketplace grew, avoid growing the size of the KUSF, and, avoid what would be an undoubtedly contentious, burdensome and costly regulatory process to even request KUSF COLR support with potentially uncertain results at best.

The cost to AT&T Kansas of serving and standing ready as the carrier of last resort in Kansas is in the tens of millions of dollars. However, in light of access line losses now exceeding 60 percent, the tipping point is at hand and COLR costs are no longer recoverable through the network. At the same time, AT&T is expected by policy makers and consumers to invest in an advanced network and infrastructure. AT&T must be afforded the opportunity to manage its own network, infrastructure and investment plans in the most efficient manner possible. If not, Kansas consumers will have to support the traditional landline network if policy makers are determined it must be preserved at all costs and serve the social policy goal of being a safety net for telecommunications policy in Kansas.

[4] *Id.* at ¶106, p. 43.
[5] *Id.*

1-3

KUSF COLR Support

In those AT&T Kansas exchanges not deemed by the KCC to be "high cost areas" no KUSF High Cost support is received. On the other hand, AT&T Kansas is the COLR in all of its exchanges. A "high cost area" is not synonymous with COLR obligations.

To obtain KUSF COLR support the KCC requires that AT&T Kansas:

1. File an application requesting COLR support from the KUSF and include information, data and calculations as to how the specific amount of support requested for carrier of last resort is determined; and,
2. Demonstrate that the COLR costs are not recovered through other means in order to justify a net increase in support.

Any application for KUSF COLR support would be subject to review by the Commission in a regulatory proceeding; a proceeding in which other parties, including competing carriers would be allowed to intervene, participate and oppose the application. The proceeding would not be subject to any time frame for completion and the cost for the proceeding would be assessed to the applicant.

At present, AT&T does not receive KUSF COLR support. Neither AT&T Kansas nor any other carrier has ever filed an application requesting KUSF COLR support. It necessarily follows that in any exchange in which AT&T is relieved of its COLR obligations, AT&T would no longer be eligible for KUSF COLR support under K.S.A. 66-2009(a).

COLR Burdens

The COLR obligation currently imposed on AT&T Kansas by K.S.A. 66-2009(a) obligates AT&T to stand ready to serve consumers in each of its exchanges. Because the COLR obligation is premised upon the provision of switched local exchange access service and "the KUSF is intended to support continuation of universal service," any service AT&T extends to a customer in order to satisfy its COLR obligation must comport with the definition of Universal Service (K.S.A. 66-1,187(p)) and Enhanced Universal Service (K.S.A. 66-1,187(q)). In other words, in addition to single party, two-way voice grade calling, the service must provide service features such as equal access to long distance services (the customer picks his or her long distance carrier); access to directory assistance and operator services; signaling system seven capabilities (SS7); and even basic and primary rate ISDN (or the technological equivalent). The provision of many of these features is foreign in the competitive landscape of wireless, VoIP and

1-4

other technologies. When was the last time your wireless or VoIP provider asked you to choose a long distance carrier?

The COLR obligations burden AT&T Kansas by requiring:

1. Any time AT&T seeks to extend an advanced service network (fiber) to a neighborhood it must, in order to provide statutorily defined "universal service", also bear the considerable cost of providing copper loop facilities along side the advanced fiber network;
2. AT&T to continue to maintain and invest in a network that consumers are abandoning, especially those portions of the network that are no longer in use due to the loss of access lines and the overbuilding of AT&T's network by competitors with advanced technology networks; and,
3. AT&T, unlike its competitors, to manage and operate its own network in a manner that is not the most efficient or cost effective.

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Topeka, KS 66604-4027

Thomas E. Wright, Chairman
Ward Loyd, Commissioner

Kansas
Corporation Commission

phone: 785-271-3100
fax: 785-271-3354
http://kcc.ks.gov/

Sam Brownback, Governor

February 17, 2011

Senate Utilities Committee
State Capitol
300 SW 10th
Topeka, KS 66612

Dear Senate Utilities Committee:

During the hearings on Senate Bill 190 on February 16, 2011, it was requested that Commission Staff provide additional information concerning the Consumer Price Index for Telephone Services. The requested information is provided below.

The Bureau of Labor Statistics (BLS) describes the Consumer Price Index (CPI) as follows:

> The CPI provides an estimate of the price change between any two periods. The percent change between the CPIs for two periods indicates the degree to which prices changed between them. The CPI follows the prices of a sample of items in various categories of consumer spending—such as food, clothing, shelter, and medical services—that people buy for day-to-day living. The monthly movement in the CPI derives from weighted averages of the *price changes* of the items in its sample. A sample item's price change is the ratio of its price at the current time to its price in a previous time. A sample item's weight in this average is the share of total consumer spending that it represents. The algebraic formulas used for this averaging are called *index number formulas.*[1]

Specifically related to the CPI for Telephone Services, the BLS states that as of January 1, 2010, this index will include a survey of prices for landline telephone services (without distinction between local and long-distance services) and a survey of prices for wireless telephone services in various urban areas throughout the nation.[2] When beginning to gather data for wireless service, the BLS asked wireless providers to identify the most popular plan or a number of

[1] http://www.bls.gov/opub/hom/pdf/homch17.pdf
[2] A list of the urban areas surveyed and the relative importance of each area in the calculation of the CPI is attached.

Senate Utilities Committee
February 17, 2011
Attachment 2 -1

Appendix 5. Sample areas, population weights, and pricing cycles

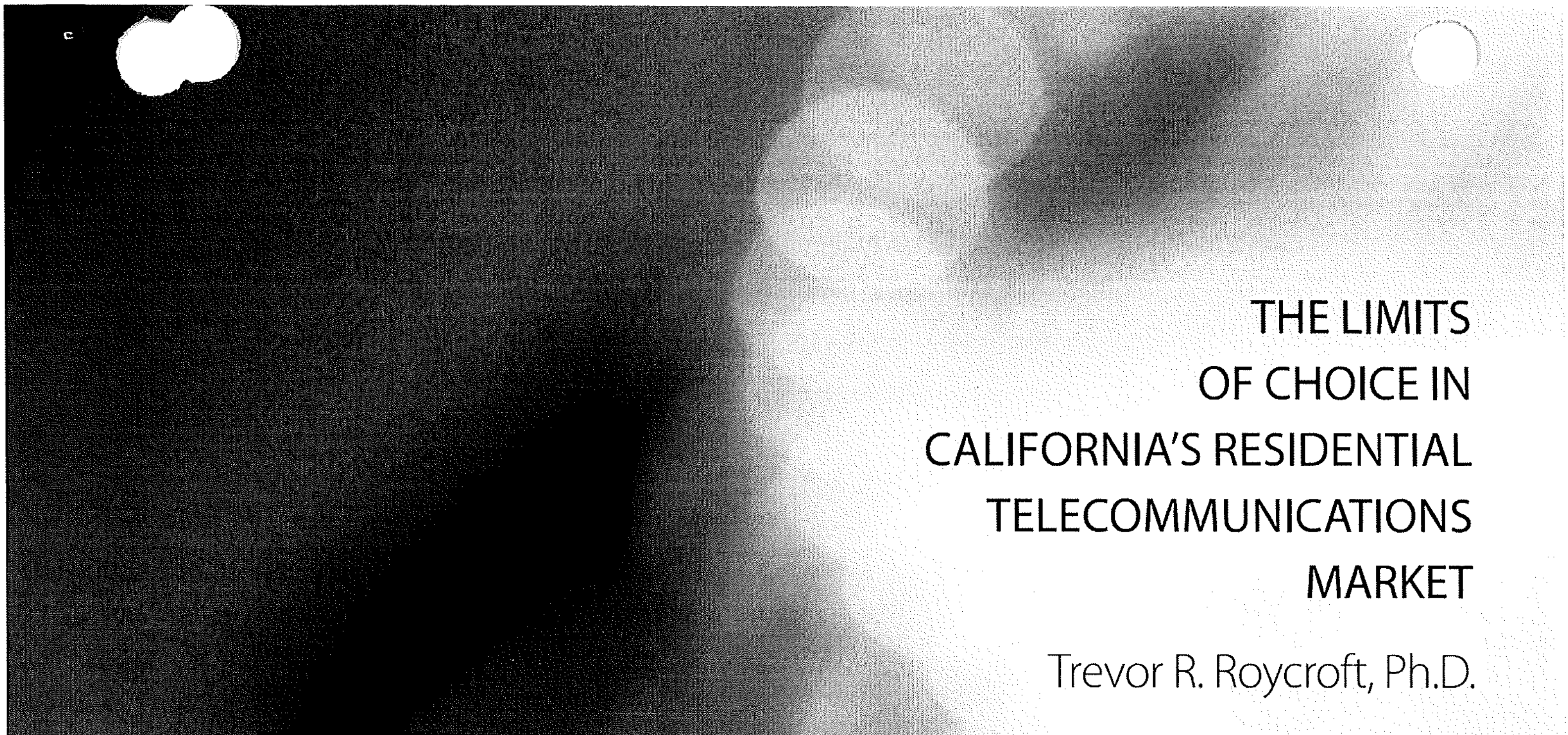
PSU	Sample areas and counties	Percent of index population	Pricing cycle (months) Odd	Even
	Northeast region			
	New York-Northern New Jersey-Long Island, NY-NJ-CT-PA CMSA:			
A109	New York City Bronx, Kings, New York, Queens, Richmond	3.39	X	X
A110	New York-Connecticut Suburbs NY portion: Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, Westchester CT portion: Fairfield, Litchfield (part), Middlesex (part), New Haven (part)	2.74	X	X
A111	New Jersey-Pennsylvania Suburbs NJ portion: Bergen, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, Warren PA portion: Pike	2.83	X	X
A102	Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD CMSA NJ portion: Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Salem DE portion: New Castle MD portion: Cecil PA portion: Bucks, Chester, Delaware, Montgomery, Philadelphia	2.73		X
A103	Boston-Brockton-Nashua, MA-NH-ME-CT CMSA CT portion: Windham (part) MA portion: Bristol (part), Essex, Hampden (part), Middlesex, Norfolk, Plymouth, Suffolk, Worcester (part) ME portion: York (part) NH portion: Hillsborough (part), Merrimack (part), Rockingham (part), Strafford (part)	2.52	X	
A104	Pittsburgh, PA MSA Allegheny, Beaver, Butler, Fayette, Washington, Westmoreland	1.11		X
B102	Reading, PA MSA Berks	.83	X	
B104	Syracuse, NY MSA Cayuga, Madison, Onondaga, Oswego	.87	X	
B106	Buffalo-Niagara Falls, NY MSA Erie, Niagara	.68		X
B108	Hartford, CT MSA Hartford (part), Litchfield (part), Middlesex (part), New London (part), Tolland (part), Windham (part)	.83		X
B110	*Burlington, VT MSA* Chittenden (part), Franklin (part), Grand Isle (part)	0.74		X
B112	Sharon, PA MSA Mercer	.67		X
B114	Johnstown, PA MSA Cambria, Somerset	.95	X	
B116	Springfield, MA MSA Franklin (part), Hampden (part), Hampshire (part)	1.12	X	
	Midwest region			
A207	Chicago-Gary-Kenosha, IL-IN-WI CMSA IL portion: Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, Lake, McHenry, Will IN portion: Lake, Porter WI portion: Kenosha	3.81	X	X
A208	Detroit-Ann Arbor-Flint, MI CMSA Genesee, Lapeer, Lenawee, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, Wayne	2.40		X
A209	St. Louis, MO-IL MSA IL portion: Clinton, Jersey, Madison, Monroe, St. Clair MO portion: Franklin, Jefferson, Lincoln, St. Charles, St. Louis, Warren, St. Louis city	1.15		X
A210	Cleveland-Akron, OH CMSA Ashtabula, Cuyahoga, Geauga, Lake, Lorain, Medina, Portage, Summit	1.32	X	
A211	Minneapolis-St. Paul, MN-WI MSA MN portion: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, Wright WI portion: Pierce, St. Croix	1.18	X	
A212	Milwaukee-Racine, WI CMSA Milwaukee, Ozaukee, Racine, Washington, Waukesha	.74	X	
A213	Cincinnati-Hamilton, OH-KY-IN CMSA IN portion: Dearborn, Ohio KY portion: Boone, Campbell, Gallatin, Grant, Kenton, Pendleton OH portion: Brown, Butler, Clermont, Hamilton, Warren	.84	X	
A214	Kansas City, MO-KS MSA KS portion: Johnson, Leavenworth, Miami, Wyandotte MO Portion: Cass, Clay, Clinton, Jackson, Lafayette, Platte, Ray	.73		X

2-2

Appendix 5. Sample areas, population weights, and pricing cycles—Continued

PSU	Sample areas and counties	Percent of index population	Pricing cycle (months) Odd	Pricing cycle (months) Even
B356	Florence, AL MSA Colbert, Lauderdale	0.81	X	
B358	Greenville-Spartanburg-Anderson, SC MSA Anderson, Cherokee, Greenville, Pickens, Spartanburg	.92	X	
B360	Fort Myers-Cape Coral, FL MSA Lee	.74	X	
B362	Birmingham, AL MSA Blount, Jefferson, St. Clair, Shelby	.89	X	
B364	Melbourne-Titusville-Palm Bay, FL MSA Brevard	.79	X	
B366	Lafayette, LA MSA Acadia, Lafayette, St. Landry, St. Martin	.90	X	
B368	Ocala, FL MSA Marion	.74	X	
B370	Gainesville, FL MSA Alachua	.78		X
B372	Amarillo, TX MSA Potter, Randall	.85		X
B374	San Antonio, TX MSA Bexar, Comal, Guadalupe, Wilson	.90	X	
B376	Oklahoma City, OK MSA Canadian, Cleveland, Logan, McClain, Oklahoma, Pottawattamie	.87		X
B378	Baton Rouge, LA MSA East Baton Rouge, Livingston, West Baton Rouge	.91	X	
B380	Odessa-Midland, TX MSA Ector, Midland	.80		X
C328	Arcadia-Wauchula, FL **Urban parts of:** De Soto, Hardee **Housing only in urban parts of:** Glades, Hendry, Highlands	.93		X
C332	Morristown-Jefferson City, TN **Urban parts of:** Hamblen, Jefferson	.65	X	
C334	Picayune-Poplarville, MS **Urban parts of:** Pearl River **Housing only in urban parts of:** Lamar, Marion	1.15		X
C344	Statesboro-Waynesboro-Millen-Sylvania, GA **Urban parts of:** Bulloch, Burke, Jenkins, Screven	.72	X	
	West region			
	Los Angeles-Riverside-Orange County, CA CMSA:			
A419	Los Angeles-Long Beach, CA PMSA Los Angeles	4.10	X	X
A420	Los Angeles Suburbs, CA Orange, Riverside, San Bernardino, Ventura	2.62	X	X
A422	San Francisco-Oakland-San Jose, CA CMSA Alameda, Contra Costa, Marin, Napa, Santa Clara, Santa Cruz, San Francisco, San Mateo, Solano, Sonoma	2.89		X
A423	Seattle-Tacoma-Bremerton, WA CMSA Island, King, Kitsap, Pierce, Snohomish, Thurston	1.37		X
A424	San Diego, CA MSA San Diego	1.16	X	
A425	Portland-Salem, OR-WA CMSA OR portion: Clackamas, Columbia, Marion, Multnomah, Polk, Washington, Yamhill WA portion: Clark	.83	X	
A426	Honolulu, HI MSA Honolulu	.39	X	
A427	Anchorage, AK MSA Anchorage	.10		X
A429	Phoenix-Mesa, AZ MSA Maricopa, Pinal	1.04	X	
A433	Denver-Boulder-Greeley, CO CMSA Adams, Arapahoe, Boulder, Denver, Douglas, Jefferson, Weld	.92	X	
B482	Chico-Paradise, CA MSA Butte	.99		X
B484	Provo-Orem, UT MSA Utah	1.01		X
B486	Modesto, CA MSA Stanislaus	1.01	X	
B488	Boise City, ID MSA Ada, Canyon	.84	X	
B490	Las Vegas, NV-AZ MSA AZ portion: Mohave NV portion: Clark, Nye	.94		X
B492	Yuma, AZ MSA Yuma	.83	X	
C450	Bend-Redmond, OR **Urban parts of:** Deschutes	.91		X
C456	Pullman-Colfax, WA **Urban parts of:** Whitman	.91	X	

2-3

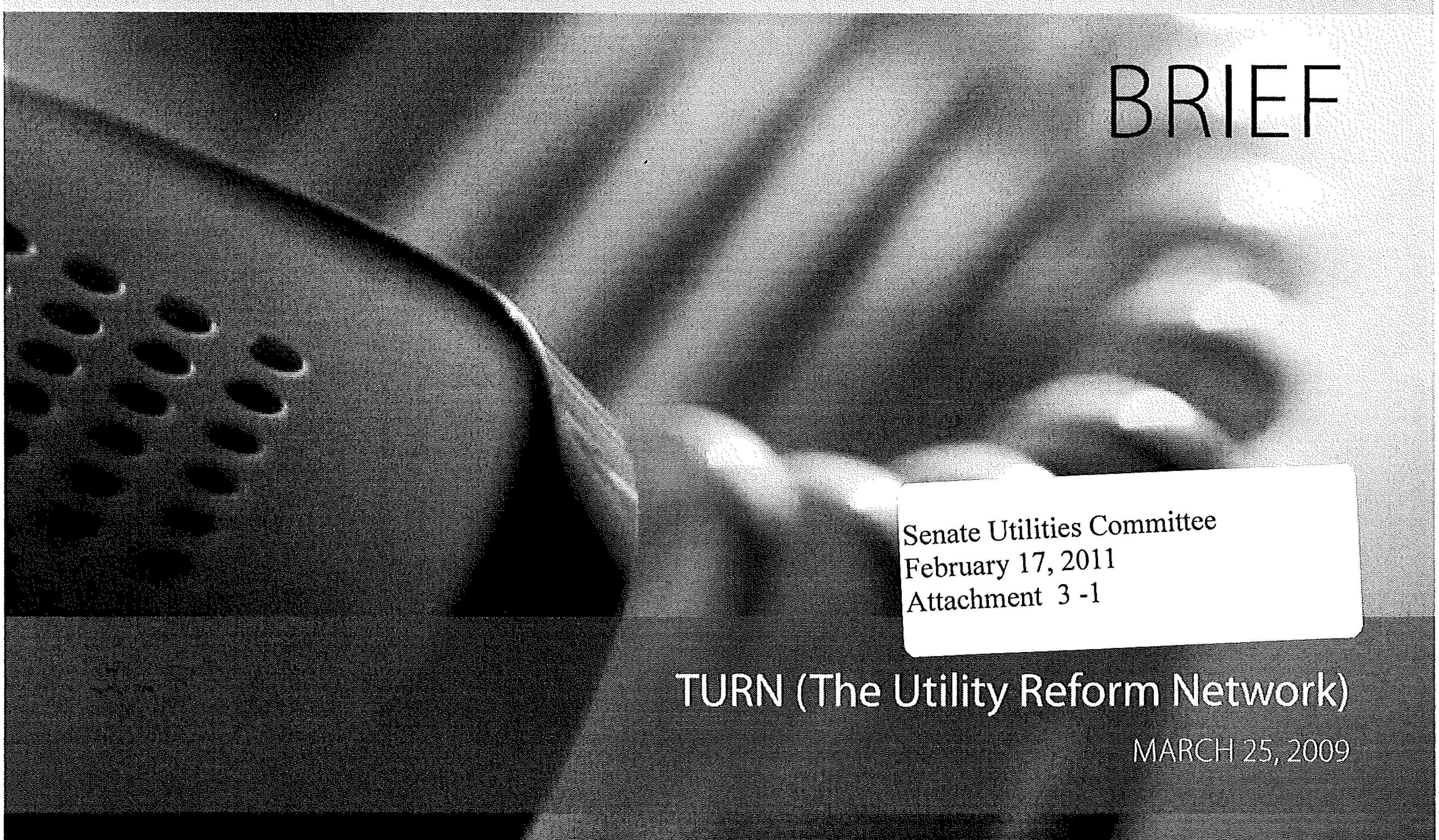


THE LIMITS
OF CHOICE IN
CALIFORNIA'S RESIDENTIAL
TELECOMMUNICATIONS
MARKET

Trevor R. Roycroft, Ph.D.

Why "Competition" is Failing to Protect Consumers

BRIEF



Senate Utilities Committee
February 17, 2011
Attachment 3 -1

TURN (The Utility Reform Network)

MARCH 25, 2009

California consumers have experienced an ongoing stream of rate increases following the California Public Utilities Commission's decision to lift price caps, with the most recent increases for basic service likely to cost consumers over $100 million per year. "Pricing freedom" for telephone companies has turned into a travesty for consumers.

In August of 2006 the California Public Utilities Commission (CPUC) found that the states' four largest telephone companies[1] "no longer possess market power" based on "the demonstrated presence of competitors" throughout their service territories.[2] As a result, the CPUC has proceeded to dismantle almost all aspects of telecommunications regulation in California. Most significantly, the CPUC granted the state's dominant incumbent local exchange carriers (AT&T, Verizon, SureWest, and Citizens/Frontier) "broad pricing freedoms concerning almost all telecommunications services, new telecommunications products, bundles of services, promotion, and contracts."[3]

However, instead of price competition, California consumers have experienced an ongoing stream of rate increases, with the most recent increases for basic service likely to cost consumers over $100 million per year. "Pricing freedom" for telephone companies has turned into a travesty for consumers, and the "competition" identified by the CPUC has turned out to be a myth.[4]

In order to investigate the outcomes of the CPUC's deregulatory policy, TURN commissioned a study of market conditions in California. This study, *The Limits of Choice in California's Residential Telecommunications Market*, clearly demonstrates that contrary to CPUC assumptions, consumers have extremely limited choices of telephone service providers and that the "pricing freedom" granted to the incumbent telephone carriers has resulted in an ongoing stream of rate hikes driving prices sky high.

A SAMPLING OF RATE INCREASES SINCE PRICE CAPS WERE LIFTED BY THE CPUC

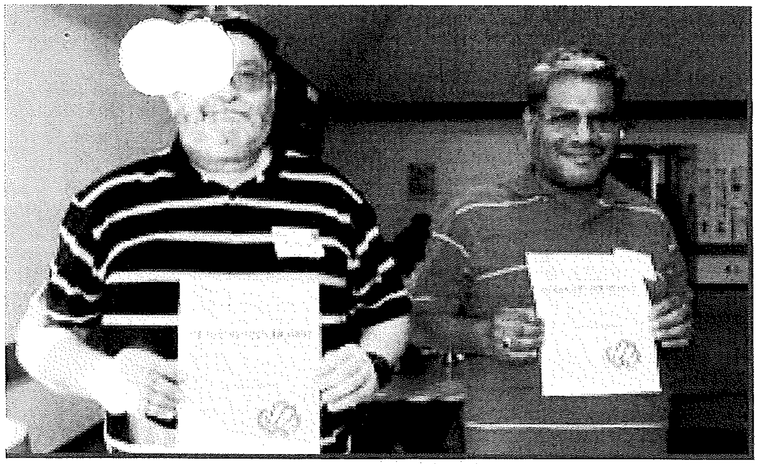
AT&T

Basic Service	26%
3-minute local toll call	163%
Caller ID	62%
Call Waiting	86%
Non-Published Directory Listing	346%
Directory Assistance	226%
Returned Check Charge	276%

Verizon

Basic Service	13%
3-minute local toll call	188%
Directory Assistance	171%
Returned Check Charge	121%
Inside Wire Maintenance	66%
Call Waiting	29%

3-2



RATE INCREASES DEMONSTRATE MARKET POWER

The CPUC's decision to remove the price cap framework that had previously protected consumers from market power was driven by the conclusion that "competition" would protect consumers. In other words, the market would self-regulate, and no firm would impose arbitrary rate increases on consumers. The CPUC accepted the conclusions of telephone company experts, such as Dr. Robert Harris, an economist who testified on behalf of AT&T California (formerly known as SBC).

Dr. Harris told the CPUC:

One of the reasons I'm confident in making the recommendations that I'm making to this Commission (i.e., to remove price caps) is that I'm firmly convinced that the stupidist thing SBC or Verizon could do was think, oh, we got some pricing flexibility now. Let's start jacking up local service rates.[5]

However, this is precisely what has occurred. Most recently, AT&T California and Verizon, the state's two largest telephone service providers, implemented, respectively, 23% and 13% increases for basic service rates. These rate increases alone are likely to cost California consumers more than $100 million per year. These most recent rate increases come on top of other increases by AT&T California and other large telephone companies. Price increases of the magnitude implemented by AT&T California and other telephone companies are not consistent with a "self regulating" market where competition protects consumers.

This ongoing stream of price increases should be a wake-up call to the CPUC that self-regulation has failed to deliver the consumer protection that price-caps had previously provided.

3-3

I was worried that I was going to be cut off from my doctors, from my family, and my elderly parents. ~Howard Vincini

PRICE INCREASES AND THE LIMITS OF CHOICE

The TURN study finds that market competition is failing to protect consumers. Not surprisingly, given the rate increases that have been imposed by telephone companies, the study finds that wireline telephone service has unique characteristics that are difficult to substitute for alternative voice technologies such as wireless services or voice over Internet protocol (VoIP) services. Because there are limits on consumers' ability to choose, telephone companies have found it profitable to "jack up rates."

Wireless Service Does Not Constrain Local Service Rates

The study finds that numerous factors contribute to the ability of telephone companies to increase rates. For example, the CPUC, in deciding to lift price caps, relied heavily on the conclusion that wireless mobility services are a close substitute for wireline telephone service. The study finds substantial evidence that this is not the case.

- California has one of the lowest rates of wireless-only households in the nation. Only 9% of California households have cut the cord and gone "wireless-only." The overwhelming majority of California households continue to purchase local telephone services provided over wireline facilities.
- Wireless substitution for wireline services is now recognized by the Federal Communications Commission as a niche-market phenomenon that affects a relative few households.
- The report analyzes data from recent surveys regarding telephone usage conducted by the Centers for Disease Control and Prevention, and demonstrates that there are statistically significant factors that make it more likely for a household to rely on wireline telephone service. These factors include:
  - Age of household head
  - Race of household head
  - Size of the household
  - Home ownership
  - Marriage
  - Presence of individuals with health problems
  - Presence of individuals with a disability
  - Higher income levels

This analysis demonstrates that many consumers will not find it easy to substitute wireless for wireline service. Thus, the presence of wireless service providers will have limited impact on price increases for wireline service. If it is easy to substitute wireless for wireline services, why do telephone companies raise their rates?

3-4

CLEC Competition has Evaporated

The CPUC, when deciding to lift price caps, identified competitive local exchange carriers (CLECs) as an important source of competition.[6] The report finds that CLEC competition has declined dramatically since the CPUC issued its decision—there are now over 50% fewer CLEC lines in service compared to the peak of CLEC operations. The two largest residential CLECs, MCI and the legacy AT&T, merged with Verizon and SBC (now known as the new AT&T). Given this decline in competition, it is not surprising to find residential rates rising.

Cable Alternatives Have Significant Limits

The report also finds that while some cable television companies have begun to offer voice telephone services, there are substantial limitations on the ability of these services to constrain telephone company price increases. These limitations include the fact that:

- Not all cable companies sell voice services, and other cable companies that do sell voice services may not have these services ubiquitously deployed in their service areas.

- Those cable companies that sell telephone service have varying policies regarding how they sell those services:

  - Most cable companies that sell voice services offer only packages of voice services that combine local, long distance, and vertical features. These service packages are priced well above stand-alone local service rates, and eliminate consumers' ability to find à la carte alternatives to local telephone company services.

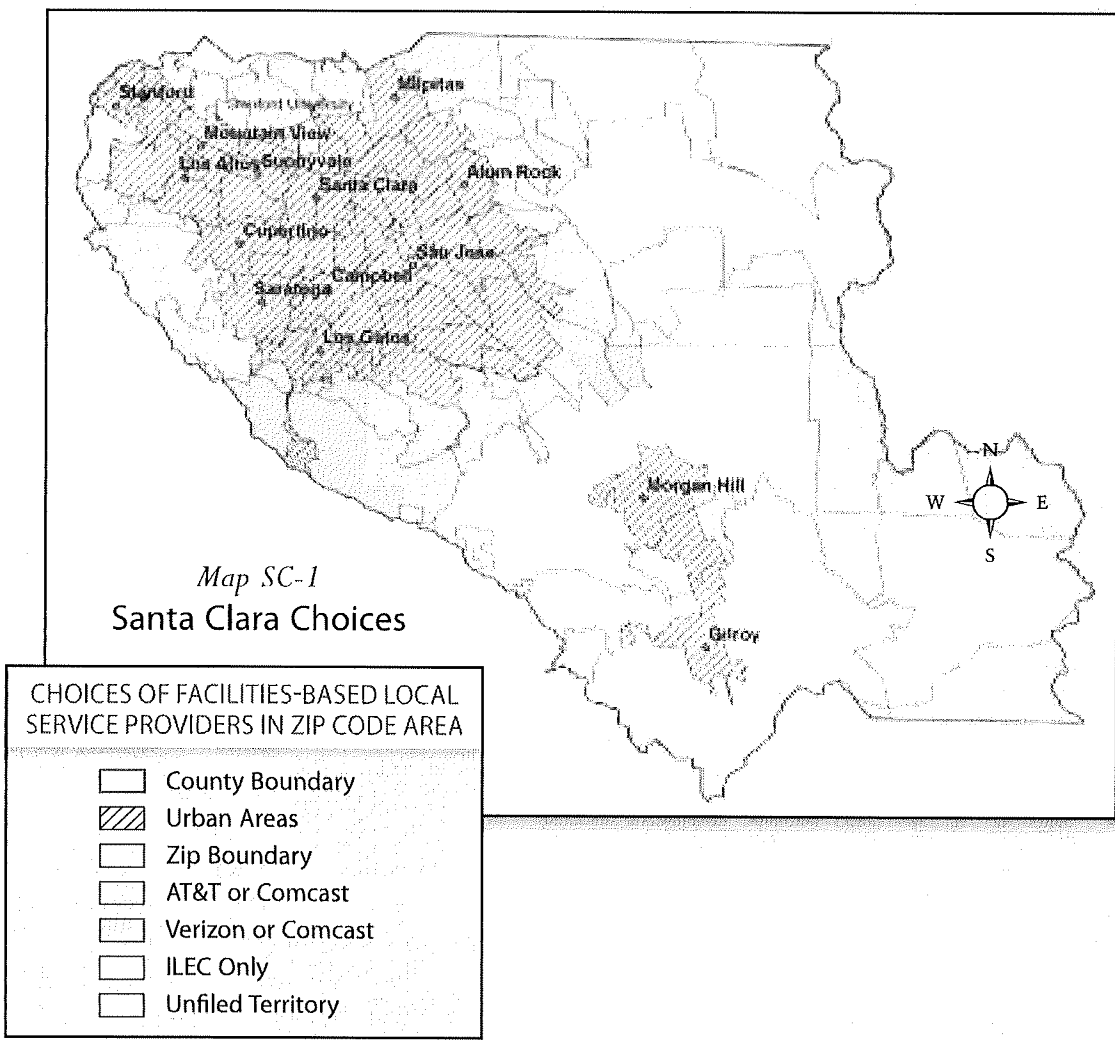
  - Most cable companies promote the purchase of service bundles that combine video programming, high-speed Internet access, and voice services. These bundles have prices that typically start at $100 per month, and up.

These factors reduce consumers' ability to choose alternatives to their local telephone company's service. If consumers have limits on their ability to choose alternatives, price increases are more likely.

3-5

Market Maps Show Limited Choice

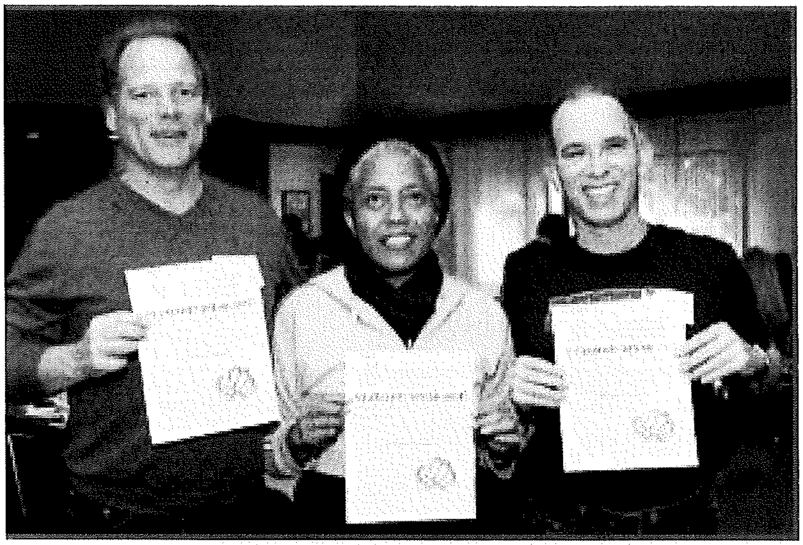
The report conducted research to identify the choices that California consumers can make among alternative providers of wireline telephone services, and found that most Californians are likely to have two choices—service available from their local telephone company (either service packages or à la carte options), or service available from their local cable company (typically a service package). The report studied these alternatives in nine California counties, where nearly 50% of California's population resides.



Map SC-1
Santa Clara Choices

The results shown in the map above are typical of findings in the report.[7] In and around urban areas, cable voice services are available, giving consumers one alternative to the local telephone company, while those consumers residing outside of urban areas are less likely to have any choice at all. This map also shows that consumers in the urban areas in the southern portion of Santa Clara county continue to face a monopoly—no cable voice services are available. This low level

3-6



of choice inhibits price competition. Furthermore, if consumers do not want voice packages, or do not want to purchase an expensive bundle from the cable company, then consumers have little ability to substitute for telephone company services as their rates rise.

The report also reviews other services identified by the CPUC, such as voice over Internet protocol (VoIP) services provided by independent firms like Vonage. The report finds that these services have substantial limitations, and have experienced limited adoption by consumers. These limitations prevent VoIP services from effectively constraining telephone company rate increases.

CONCLUSIONS

The evidence evaluated in the report quantifies the lack of competition in the market for local telephone services in California. Many California consumers face a market with only one alternative to their local telephone company—this "choice" is not sufficient to provide consumer protection. Economists refer to this market structure as a duopoly. The report indicates that duopoly markets have not been observed to perform well from the standpoint of encouraging price competition and protecting consumers. The performance of the duopoly in California's residential telephone service market—an ongoing string of rate increases— indicates another market failure.

As the old saying goes, "the proof of the pudding is in the eating." If market competition is working, why the ongoing stream of price increases? Why have the main rivals to the local telephone company, the cable companies, increased rates following telephone company rate increases? Observed pricing behavior on the part of local telephone companies and their cable rivals does not reveal evidence of price competition. Rather, pricing reflects the actions of firms that recognize that consumers have little choice, resulting in dramatic rate increases for many California consumers.

In light of these findings, it is clear that the elimination of price caps is failing to protect California consumers. Unless corrective action is taken, consumers will pay prices that reflect the exercise of market power, leading to the undesirable outcomes of excessive prices, undue discrimination, and the unwarranted transfer of income from consumers to the providers of local telephone services.

3-7

Wireless? My father, who is 91 years old?
My father doesn't understand wireless.

~Bishop Aurea Lewis

POLICY RECOMMENDATIONS

As the last threads of price protection for basic service rates for most consumers will be removed in early 2011, it is imperative that the CPUC take action to reinstate reasonable price caps for local service rates. As the CPUC's decision also permits, beginning in 2011, geographic deaveraging, i.e., local telephone companies will gain the ability to target specific communities with basic service rate increases, it is imperative that this provision of the CPUC's decision also be reversed. The continuing market power identified in the companion report, combined with local telephone companies' ability to geographically target rate increases, can only increase the harms already experienced by California consumers.

The following actions should be taken:

- It is imperative that the CPUC take action to reinstate reasonable price caps for local service rates. The price caps should, at a minimum, constrain basic rate increases to no more than the rate of inflation.
- The geographic deaveraging provision of the CPUC's decision must also be reversed. The continuing market power identified in the companion report, combined with local telephone companies' ability to geographically target rate increases, can only increase the harms already experienced by California consumers.
- In addition to a price cap on basic rates, LifeLine rate increases should be reversed, and a uniform, affordable, LifeLine rate should be established statewide. The continued affordability of basic telephone service to low-income households is a pressing issue given the economic crisis that is gripping California.
- Finally, the CPUC should more closely monitor market outcomes associated with pricing, service quality, and the delivery of advanced services.

Market forces are failing to deliver the benefits that the telephone companies promised the CPUC as it made its decision to lift price caps. It is time to reestblish an effective regulatory framework that will protect consumers and ensure that high-quality telecommunications services are available to all Californians at reasonable rates

3-8

ENDNOTES

1. AT&T California, Verizon, SureWest, and Frontier.

2. D06-08-030 at 117.

3. D.06-08-030 at 1.

4. After TURN's competition report was completed TURN obtained access to a previously unreleased white paper prepared by the CPUC's Staff entitled "Market Share Analysis of Residential Voice Communications in California," California Public Utilities Commission Communications Division – Policy Branch Staff White Paper, December 2008. In this paper the CPUC Staff calculates that between June, 2005 and June, 2007, market concentration increased in California for wireline voice services, wireless voice services, and broadband services, measured either separately or on a combined basis.

   The CPUC's finding is startling, as it shows that even if one assumes that a wireline telephone, a wireless telephone, or a broadband connection are perfect substitutes for one another, market concentration has increased, not decreased. Economic theory links higher market concentration to a greater likelihood of market power. The CPUC Staff study finds that market concentration, as measured by the Herfindahl-Hirschman Index, results in concentration measures well above the Department of Justice's standard indicator for highly concentrated markets.

   To conduct its analysis, the CPUC Staff had access to proprietary data that was not available to TURN or our researcher. However, it is clear that the analysis performed by the Commission's own staff supports TURN's findings that because of the limited choices available, competition is not sufficient to protect California consumers from market power.

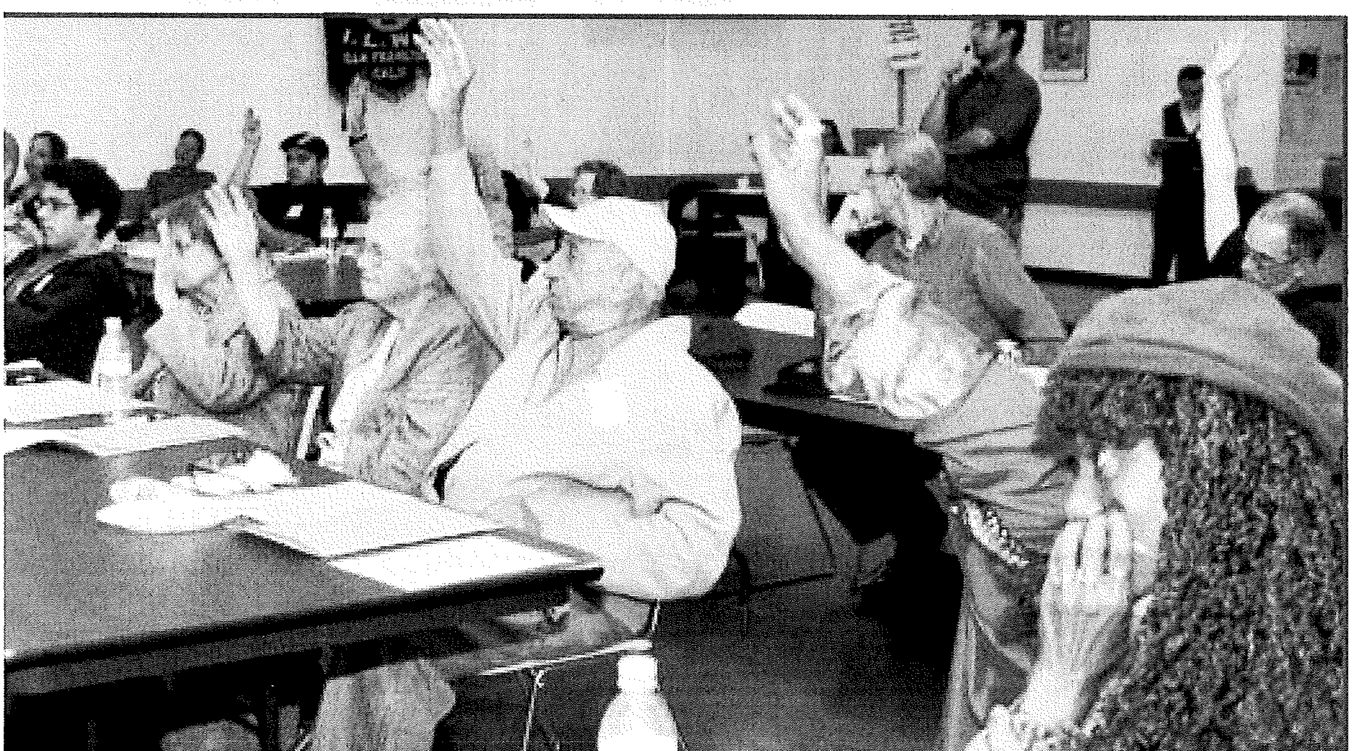
5. From Dr. Harris' oral testimony. See, CPUC01-#220620-v1-R0505005_013006_Vol_2,at 364.

6. D.06-08-030 at 265 and 268.

7. The report studied voice service choices by Zip Code area in nine California counties: Alameda, Fresno, Humboldt, Los Angeles, Madera, Sacramento, San Bernardino, Santa Clara, and Shasta.

We need to get the public part of this process back on the table.
There is no public in the Commission.

~Charles McGee



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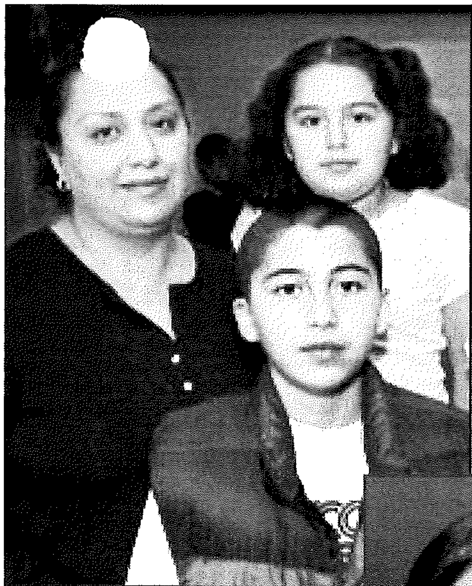

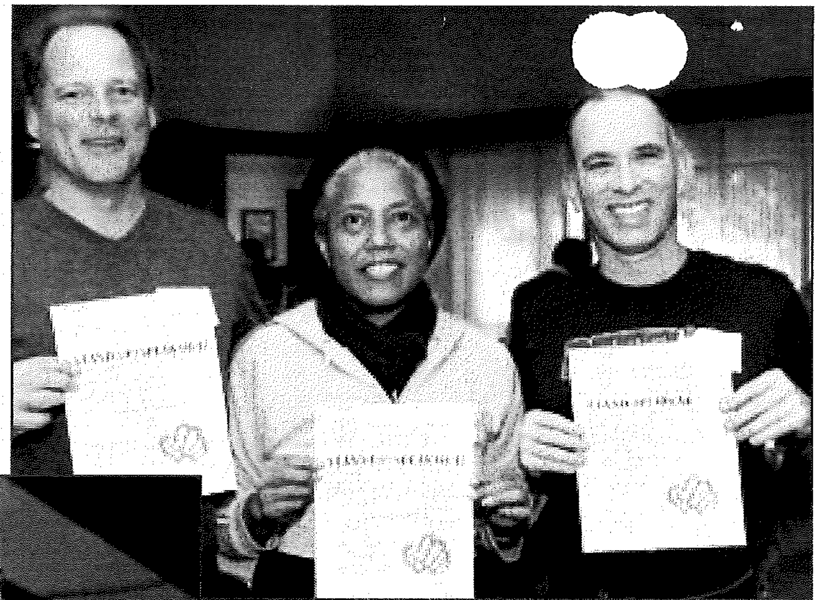

TURN
affordable utilities
livable communities

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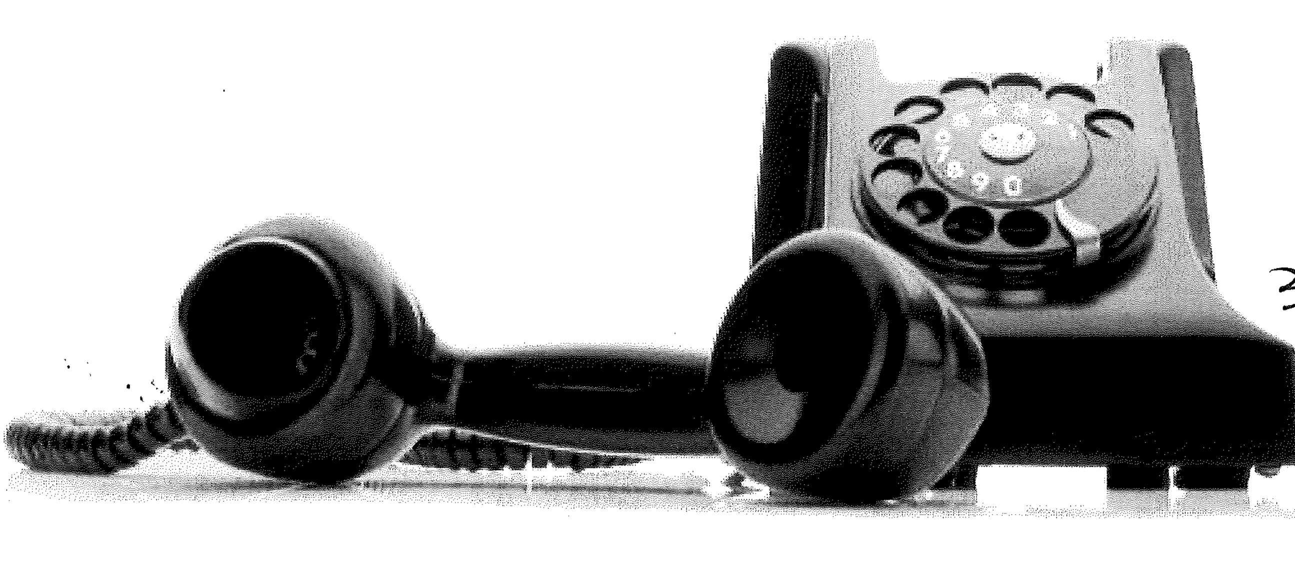
affordable utilities / livable communities



3-10

at&t

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steven.hahn@att.com

February 17, 2011

Mr. Chairman and Members of the Committee:

I am Steve Hahn, President of AT&T Kansas. AT&T opposes SB 190 because it re-regulates a dynamic, fast-changing and competitive industry. Leaders across our nation are calling for and enacting policies that encourage growth by reducing the burdens upon the job creators in our economy. This bill would move Kansas in the opposite direction and hinder future investment and job growth in the state.

This is clearly demonstrated by several recent quotes from Governors around the country. South Dakota Republican Governor Dennis Daugaard:

"We have the best business climate in the nation, and I intend to keep it that way. Our first advantage is our low tax burden.... Our second advantage is our reasonable, predictable, and simple regulations. But this second advantage can be improved. It is the nature of government, over time, to become more regulatory, and we must be deliberate about resisting and reversing this. Over the next year, we must undertake a comprehensive review of regulations in every agency of government. We must repeal the regulations that we don't need, and simplify those that are too complex."

California Democratic Governor Jerry Brown:

"There are hundreds of thousands of new jobs to be created if California regulatory authorities make sensible and bold decisions. It will also be necessary to make sure that our laws and rules focus on our most important objectives, minimizing delays and unnecessary costs."

Florida Republican Governor Rick Scott:

"But prosperity comes from the private sector. ONLY from the private sector. The only path to better days is paved with new private sector jobs." And: *"We have hard-working people who desperately want jobs. We have energetic entrepreneurs with plenty of ideas... and persuadable investors with ready cash. All that's been missing is the determination to create the most favorable business climate in the world.... Florida has to offer the best chance for financial success. Not a guarantee – just the best chance. Three forces markedly reduce that chance for success – taxation...regulation...and litigation."*

Senate Utilities Committee
February 17, 2011
Attachment 4- 1

The gauntlet has been set. These Governors are joined by dozens of other state and federal leaders with the same message and same objective. Kansas simply cannot afford to take a step backward in the current economic environment.

Much of yesterday's testimony focused on the need for broadband deployment throughout the state. I agree that broadband deployment and broadband usage is a key component of economic development. That's why AT&T is currently undergoing a major expansion of its wired and wireless network, with aggressive plans to bring high speed mobile broadband service to 43 counties in western Kansas. However, and let me be clear, the additional regulations imposed by SB 190 would discourage investment in all advanced technologies, including broadband.

Attraction of investment dollars from outside our state's borders is a critical step toward growth. SB 190 would dam up the borders of Kansas, diverting capital to other states that have created a more welcoming environment.

Suggestions that this bill would "grow" investment in Kansas are false. Further complicating this line of reasoning is the fact that some proponents of this bill utilize an already advantageous regulatory scheme to their benefit. Some of them compete with my company in our local exchange areas, free of much of the regulation in current law and unaffected by the additional regulation proposed in SB 190. It is important to note that AT&T does not compete for wireline voice customers in their local exchanges.

This bill promotes extensive market interference, a factor that will never be linked to economic growth. We face a clear choice: Increase regulations and decrease investment and job growth. Or, grow the economy by updating policy to encourage investment in the technologies that Kansans demand and need.

I respectfully ask that you join me in opposition to SB 190.

From: SONDAG, JOHN (ATTSI)
Sent: Wednesday, February 16, 2011 8:22 AM
To: HAHN, STEVE (ATTSI)
Subject: FW: AT&T letter on Kansas Legislation

Steve: Thought you might find the attached email I just received from one of our Missouri State Senators very interesting. Looks like he is lobbying me for more AT&T jobs and investment out of your budget. John

John Sondag
President-AT&T Missouri

From: Senator Ronald Richard [mailto:Ronald.Richard@senate.mo.gov]
Sent: Wednesday, February 16, 2011 8:11 AM
To: SONDAG, JOHN (ATTSI)
Subject: RE: AT&T letter on Kansas Legislation

John:

Miss seeing you around the capitol this year. But I'm sure the state president's job is keeping you busy.

I've been hearing a little bit about communications bills now being considered in the Kansas legislature. I can't believe regulators there want lawmakers to place additional regulations on the industry. Next thing you know they'll be pushing for the return of leather football helments … or rotary phones! But you know the old saying about how regulators love to regulate.

The Missouri legislature has as you know approved many good public policies over the years relating to the state's communications laws. And as you promised when those bills were being reviewed, AT&T responded by investing hundreds of millions statewide. Not only on advanced wireless services, but also in jobs. Last I heard, AT&T's new call center in my hometown of Joplin now has more than 500 employees. There obviously is a tie between modern communications rules and investment in a state.

But seriously, John, if Kansas is willing to ignore investment and jobs, then I want AT&T's dollars that could have gone there to be invested in my Senate district in Southwest Missouri and across the state.

Sen. Ron Richard

4-3

Economic comments on the 2011 Report of the Kansas Corporation Commission to the Kansas Legislature on Price Deregulation

Debra J. Aron, Ph.D.

Navigant Economics and Northwestern University

February 17, 2011

NAVIGANT ECONOMICS

Overview of my conclusions

5-2

» The economics underlying the analysis and conclusions in the KCC Report are fundamentally incorrect. For example:

  › The analysis assumes that in competitive markets, prices always fall, and the number of companies always grows, neither of which is true.

  › The Report misapplies analytical tools such as the so-called HHI.

  › The Report erroneously equates competitors' market shares with the ability to provide pricing discipline.

» The report views the market through a 20th century lens, largely ignoring the biggest elephants in the room—the explosion of wireless and broadband and their profound impact on the legacy wireline market.

» The Commission's Report and its recommendations leading to SB 190 are disconnected from the public policy goals in Kansas law.

NAVIGANT
ECONOMICS

Findings of the Commission's 2011 Report on Price Deregulation

5-3

» Let us look at what the Report actually shows:
  - In nearly every case identified, prices that were deregulated (bundles) fell. (pp. 41-42)
  - Prices that were controlled (stand-alone basic local service) remained within the required cap. (pp. 38-39)
  - The number of AT&T LEC lines fell every year since 2006. (p. 31)
  - CLEC market share exceeded the national average and grew every year since 2005. (p. 30)
  - The number of competitors in Kansas in AT&T's price deregulated exchanges grew every year in nearly every exchange since 2006. (pp. 16-17)
  - Competitors have become more facilities-based. (p. 29)
  - Wireless lines in the state have grown significantly from 2003 to 2009. (p. 33)
    - **There is no evidence here that the market has performed in any way other than competitively**

NAVIGANT ECONOMICS

What the Report did not find

5-4

» Any evidence of anticompetitive behavior

» Any evidence of material price increases

» Any evidence of decline in actual competitive activity in the market or any exchange

NAVIGANT
ECONOMICS

5-5

1. The economic analysis in KCC's Report is fundamentally incorrect

NAVIGANT ECONOMICS

How does the Commission conclude that there is a failure of competition?

5-6

» Asserts that prices for basic local service should have gone down if the market were competitive.

This is incorrect as a matter of economics.

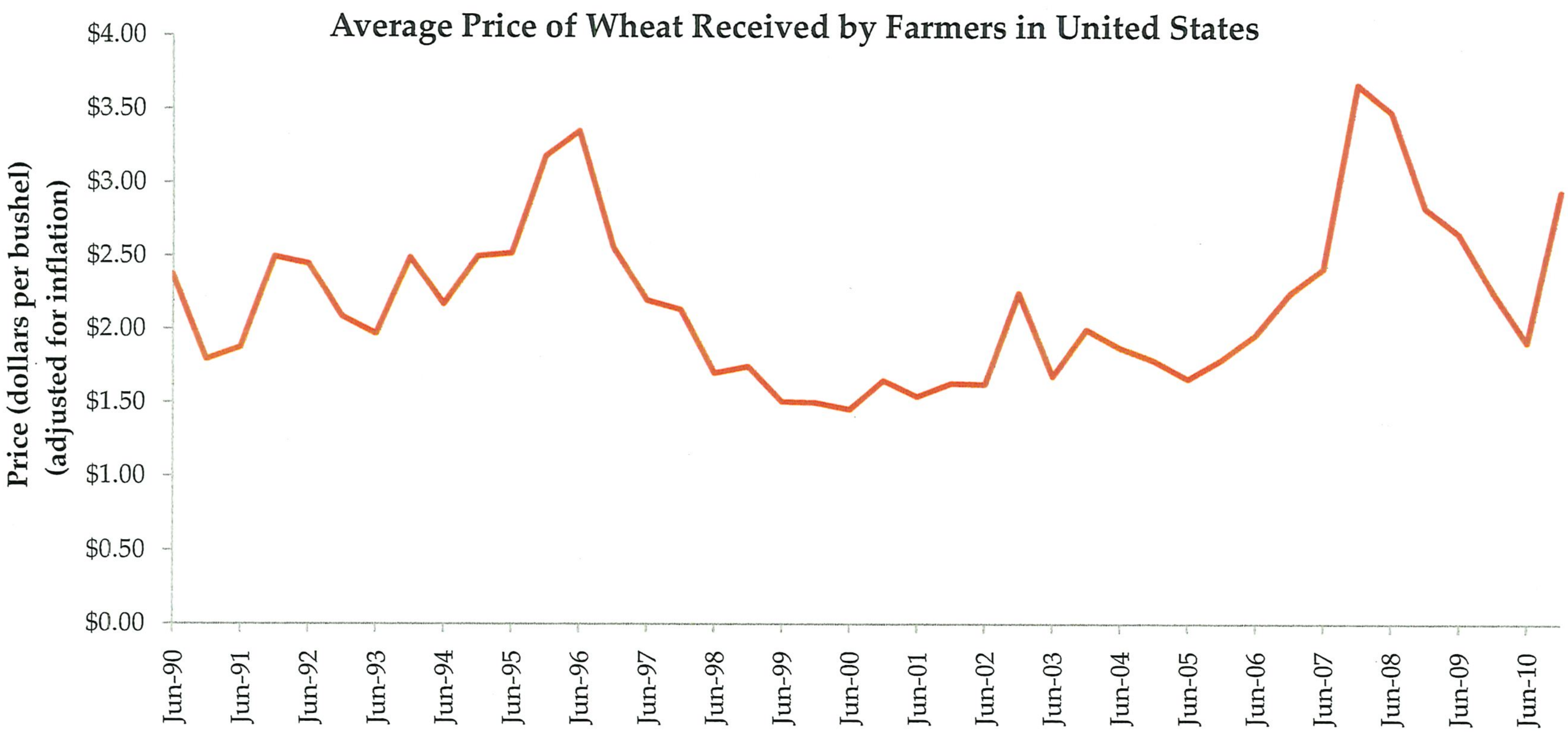
» Prices do not necessarily or always go down in competitive markets. Competition drives prices toward costs.

NAVIGANT
ECONOMICS

The Report's interpretation of price changes is flawed

5-7

» Prices in a competitive market do not always go down.



Source: United States Department of Agriculture

NAVIGANT ECONOMICS

Prices move toward cost in a competitive market

5-8

» Prices of previously-regulated basic local service lines are certainly not expected to necessarily decline.

› These prices are the result of a long and arcane history of cross-subsidies and policy distortions.

› Basic local service prices have traditionally been suppressed by regulation:

– Business subsidized residential rates;

– Features subsidized residential rates;

– Switched access rates (i.e. long distance companies) subsidized residential local rates.

› **If prices were at below-cost levels, they will go up due to competition, not down.**

– The higher prices promote competition, entry, efficient investment, and efficient consumer decisions.

NAVIGANT
ECONOMICS

Suggestions that deregulated prices have increased in other states are potentially misleading

59

- Consider California. Testimony before this Committee was that AT&T increased the price of deregulated services by 22 and 23%
  - In fact, these increases were expected as part of the California Commission's adoption of a new Uniform Regulatory Framework.
  - The AT&T prices had been frozen since the 1990s, were far below Verizon's in the same area, and remain below the Verizon prices even after the increases.
  - In permitting the price increases, the California Commission said:
    - Price controls "**discourage true intermodal competition for voice services, including basic residential service.**"
    - Controls "**discourage a new entrant from joining or expanding its offerings in the state's voice communications market.**"
    - Failure to permit efficient prices would mean that the state "**may not receive the most advanced communications technologies.**"

NAVIGANT
ECONOMICS

The price comparisons the Report focuses on are not valid for evaluating the level of competition in Kansas communications market

5-10

- The analyses focus on wireline basic local service only, excluding bundled service.
- They do not represent what consumers pay on average or even what many consumers pay.
- Bundled service is a key means of competition, because it is what many consumers want.
  - Bundles provide pricing discipline on stand-alone basic service pricing.
  - Consumers who do purchase stand-alone service are often also purchasing a constellation of other services, just not in a bundle.
    - Customers may choose the stand-alone service because they prefer different providers for different services, or because they can take advantage of better prices by picking and choosing providers.

Counting competitors does not measure competition

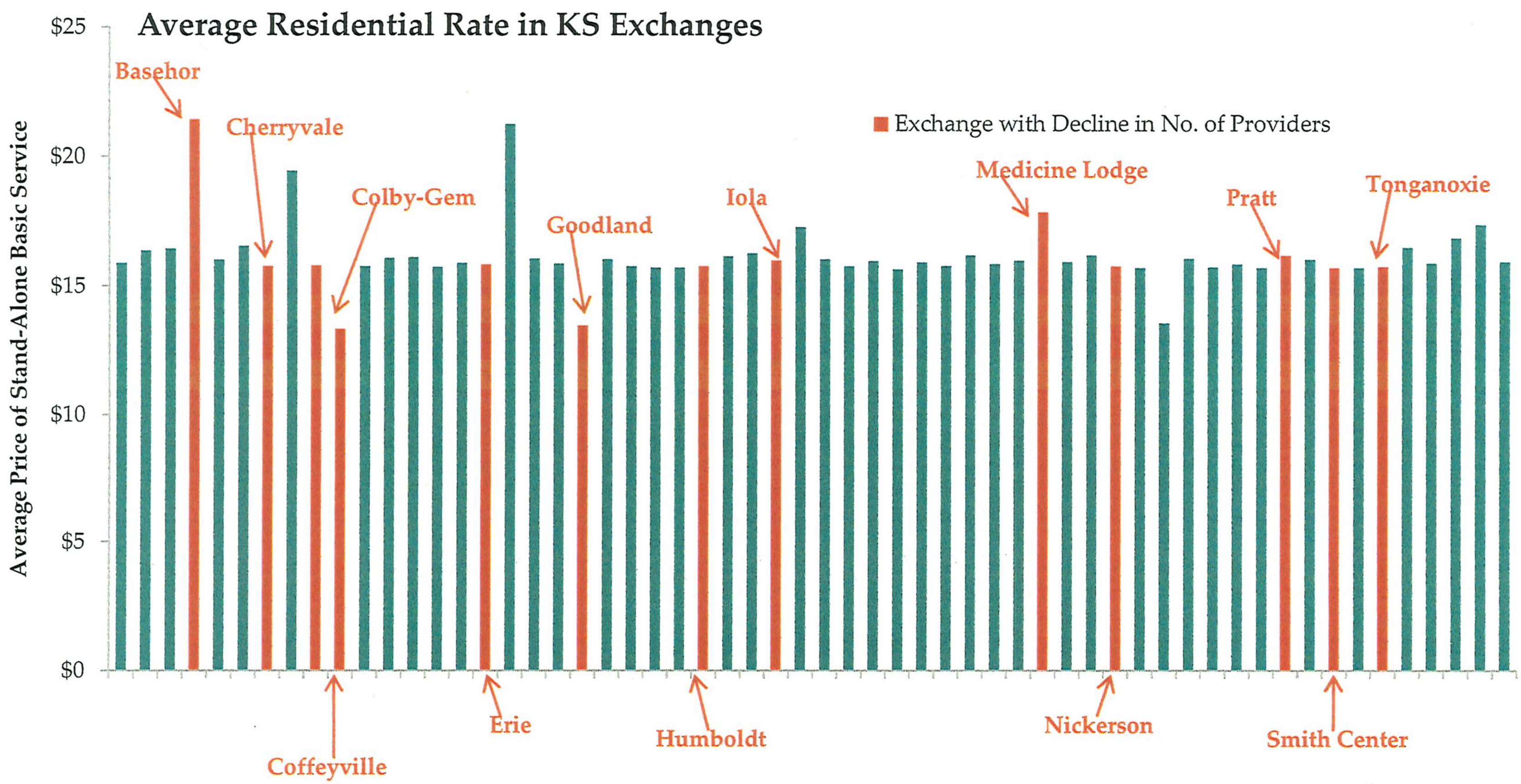
5-11

- The Report asserts that the number of competitors went down in some exchanges.
  - **This is in no way a sign of lack of competition.** In fact, it can be the reverse. Competition causes less efficient firms to merge or exit and more efficient ones to flourish.
- The Report did not examine:
  - what happened to the firms that exited;
  - why they exited;
  - whether they had a sound business plan in the first place;
  - whether they merged with someone else in the exchange and are still operating there;
  - what happened to their assets;
  - whether their business plan was superseded by new technologies;
  - whether their exit was in any way suggestive of, caused by, or causing a lack of competition.

NAVIGANT
ECONOMICS

There is no apparent relationship between price and number of providers

5-12

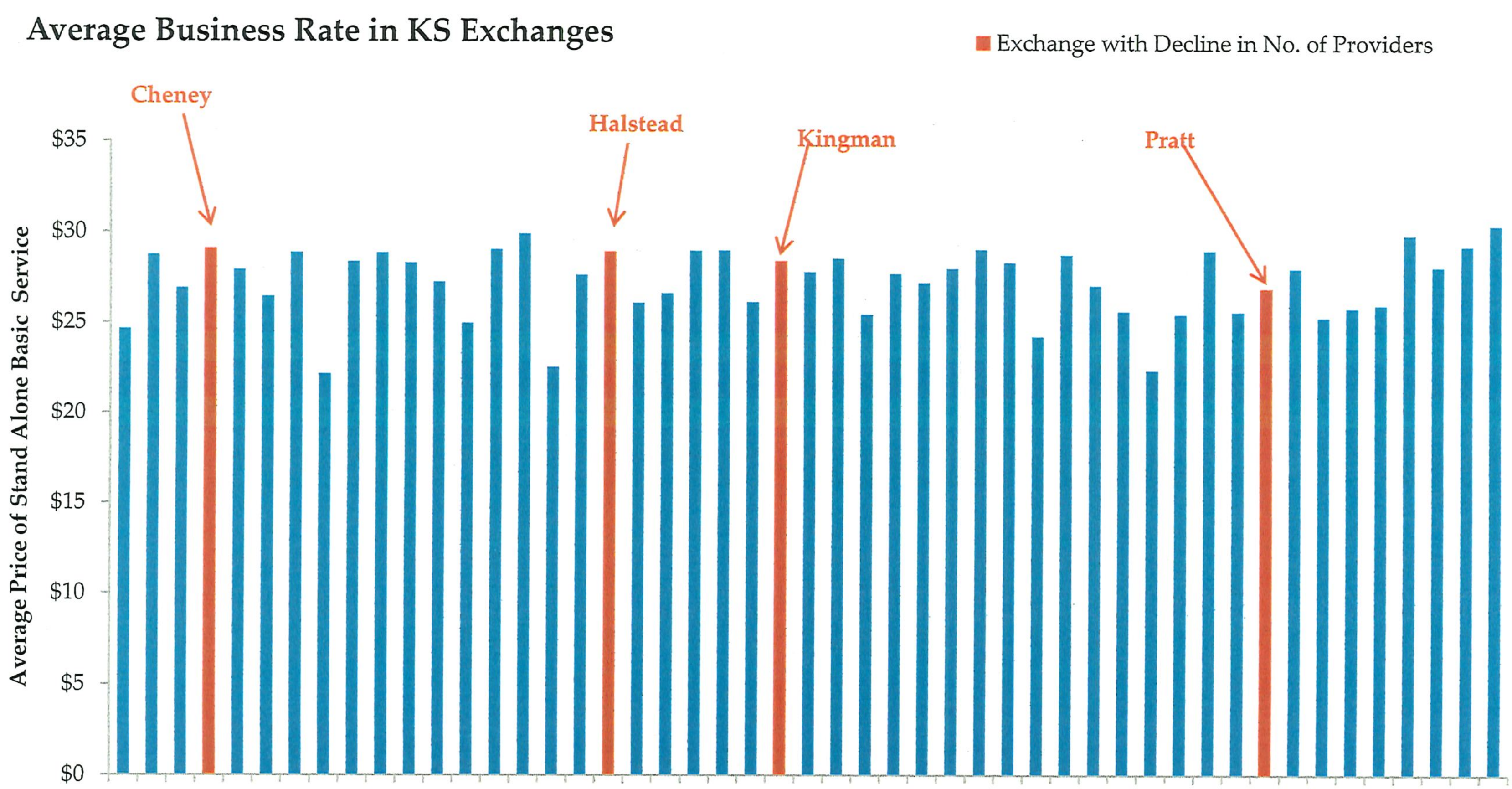


Source: KCC Report, Tables 2 and 4

NAVIGANT ECONOMICS

Nor for business services

5-13



Source: Commission Report, Tables 2 and 3

NAVIGANT ECONOMICS

The Commission's HHI analysis is completely invalid

5-14

» The Commission did not use the HHI properly

› The *Report excluded entirely from the HHI analysis* one of the most significant technologies in the market from consumers' standpoint: wireless.

› Wireless penetration is 86% in Kansas—to ignore it in a market analysis renders the analysis meaningless.

› Wireless is perhaps the single most important phenomenon in the telephone marketplace of the last two decades.

› The Legislature explicitly recognized wireless service as competition in its legislation.

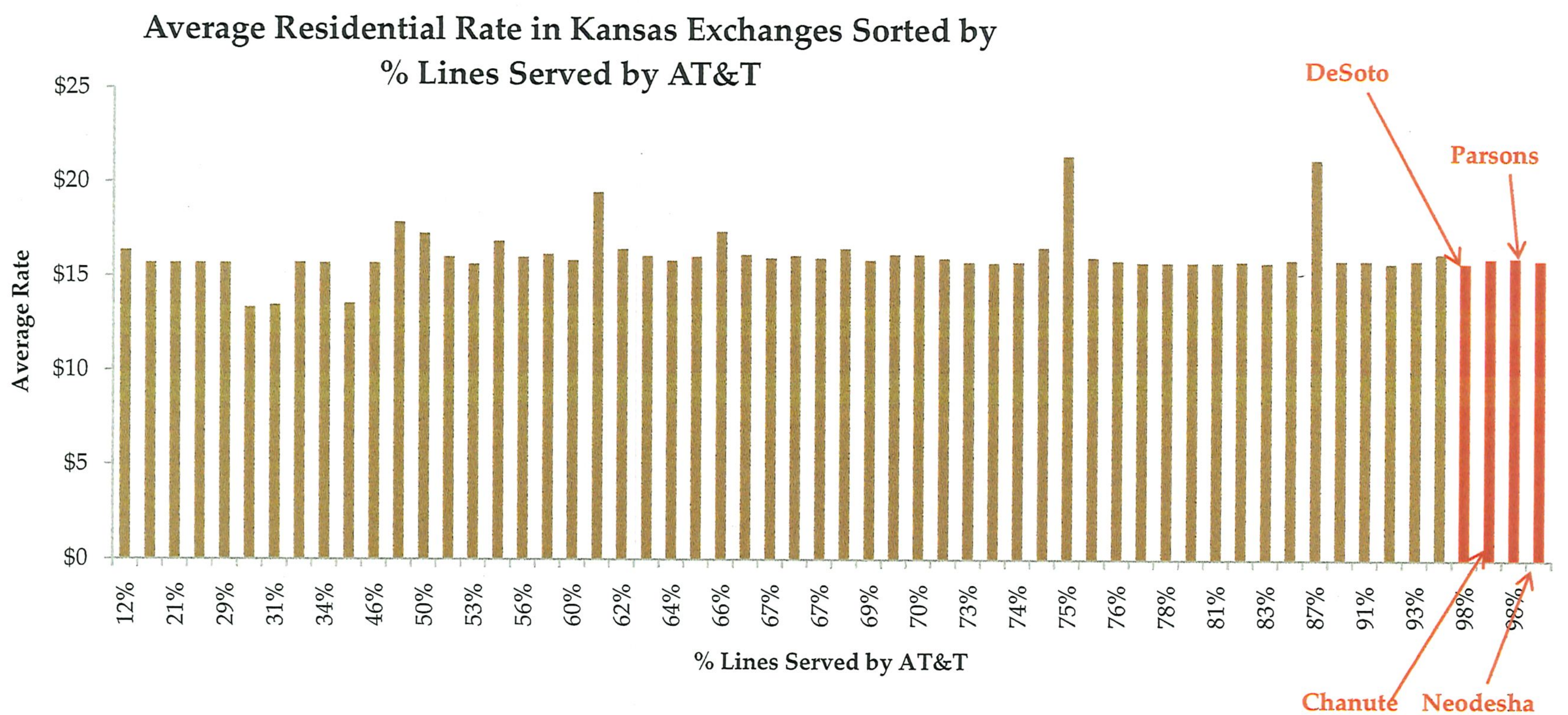
The Commission's HHI analysis is completely invalid

5-15

- The Report applied the HHI to geographic areas that have regulatory meaning but *no apparent economic validity as market areas.*
- The Report ignored the effect of AT&T's obligation to serve and the fact that competitors can target the most profitable lines
  - *As a result of these failings (and others), the "HHI" numbers are not meaningful*
- KCC appears to be unaware of the revisions to the DOJ Merger Guidelines in 2010; DOJ itself is backing away from significant reliance on HHI and similar exercises (and changed the HHI thresholds).

NAVIGANT
ECONOMICS

The Report makes much of market share, but there is no apparent relationship between price and market share

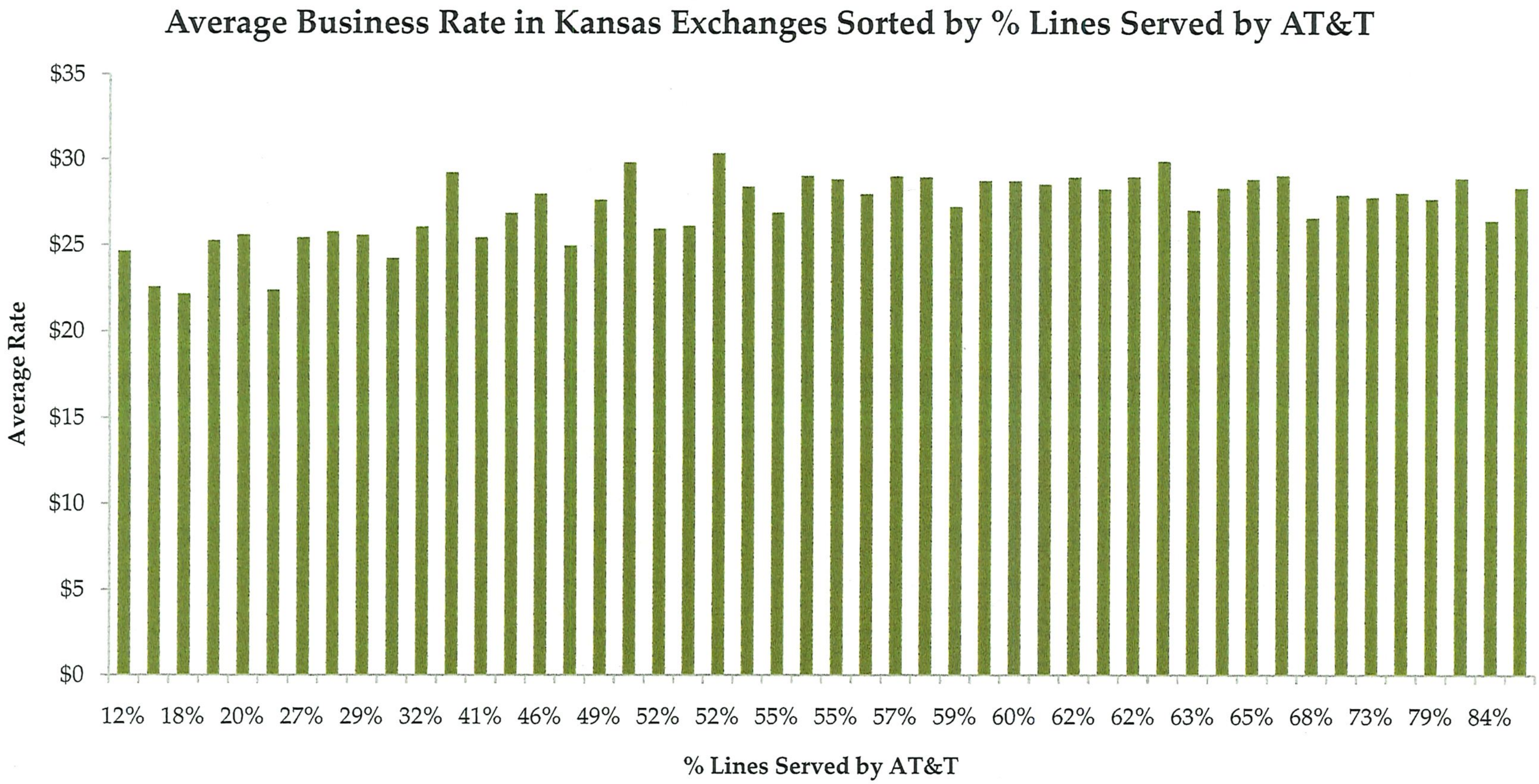


Source: Commission Report, Tables 2 and 5

NAVIGANT ECONOMICS

Nor for business services

5-17



Source: Commission Report, Tables 2 and 6

NAVIGANT ECONOMICS

5-18

2. The KCC's Findings Show No Evidence of Failure of Competition

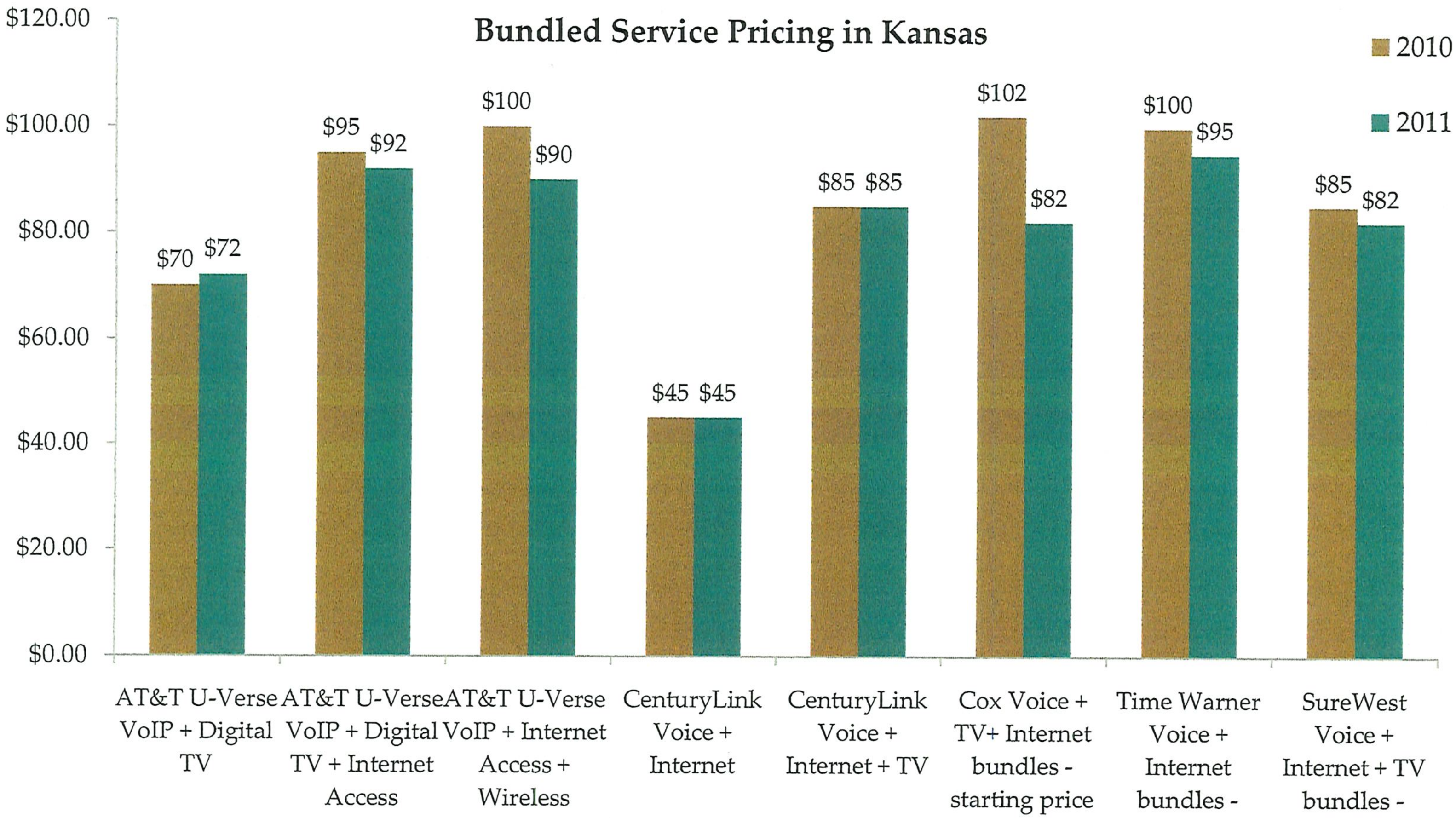
NAVIGANT
ECONOMICS

5-19

» Let us take a closer look at what the KCC found.

5-20

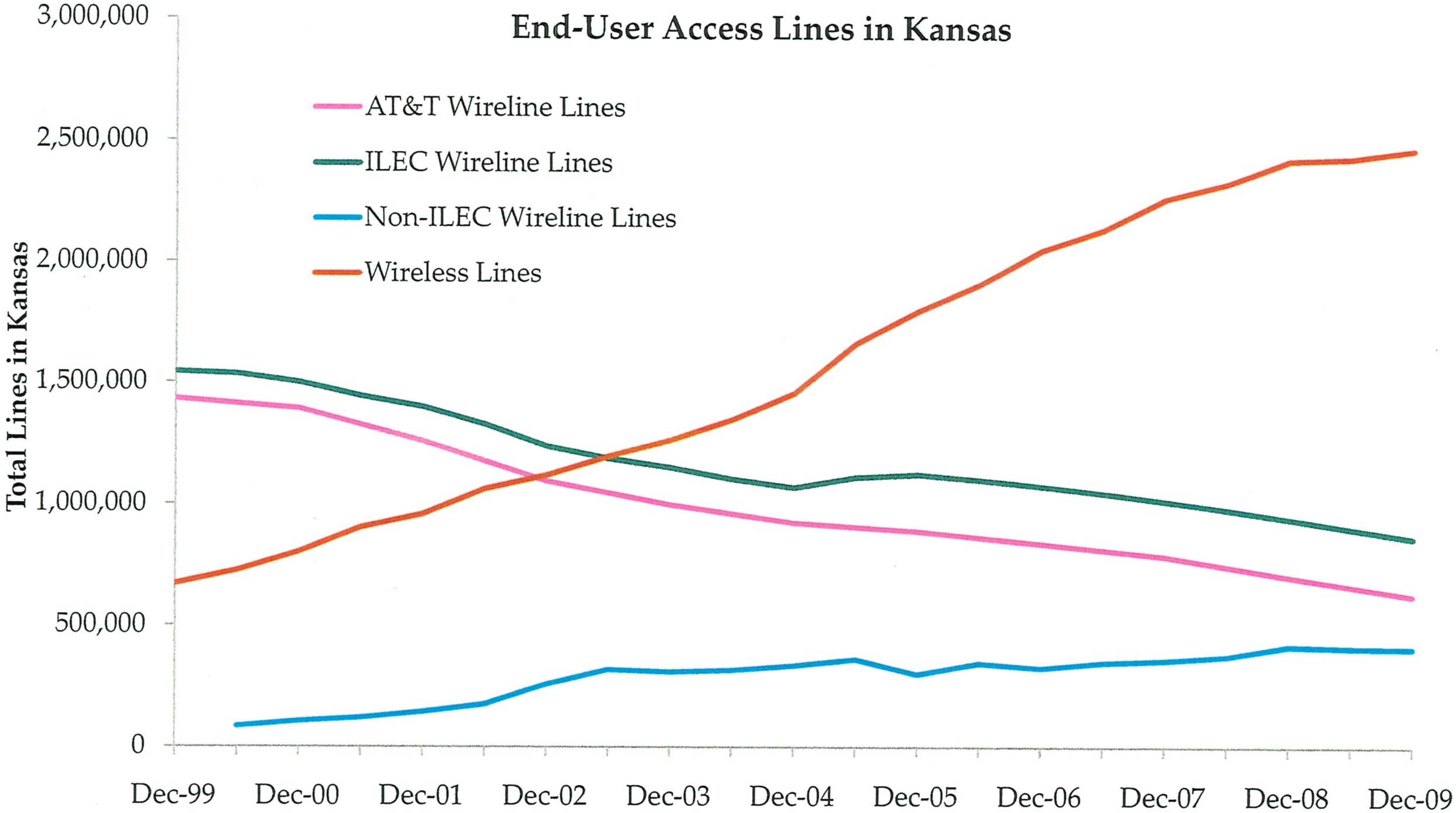
Deregulated prices fell



Source: KCC Report, pp. 41-42

Wireless "lines" have increased in Kansas even as traditional ILEC-served wirelines have declined

5-21

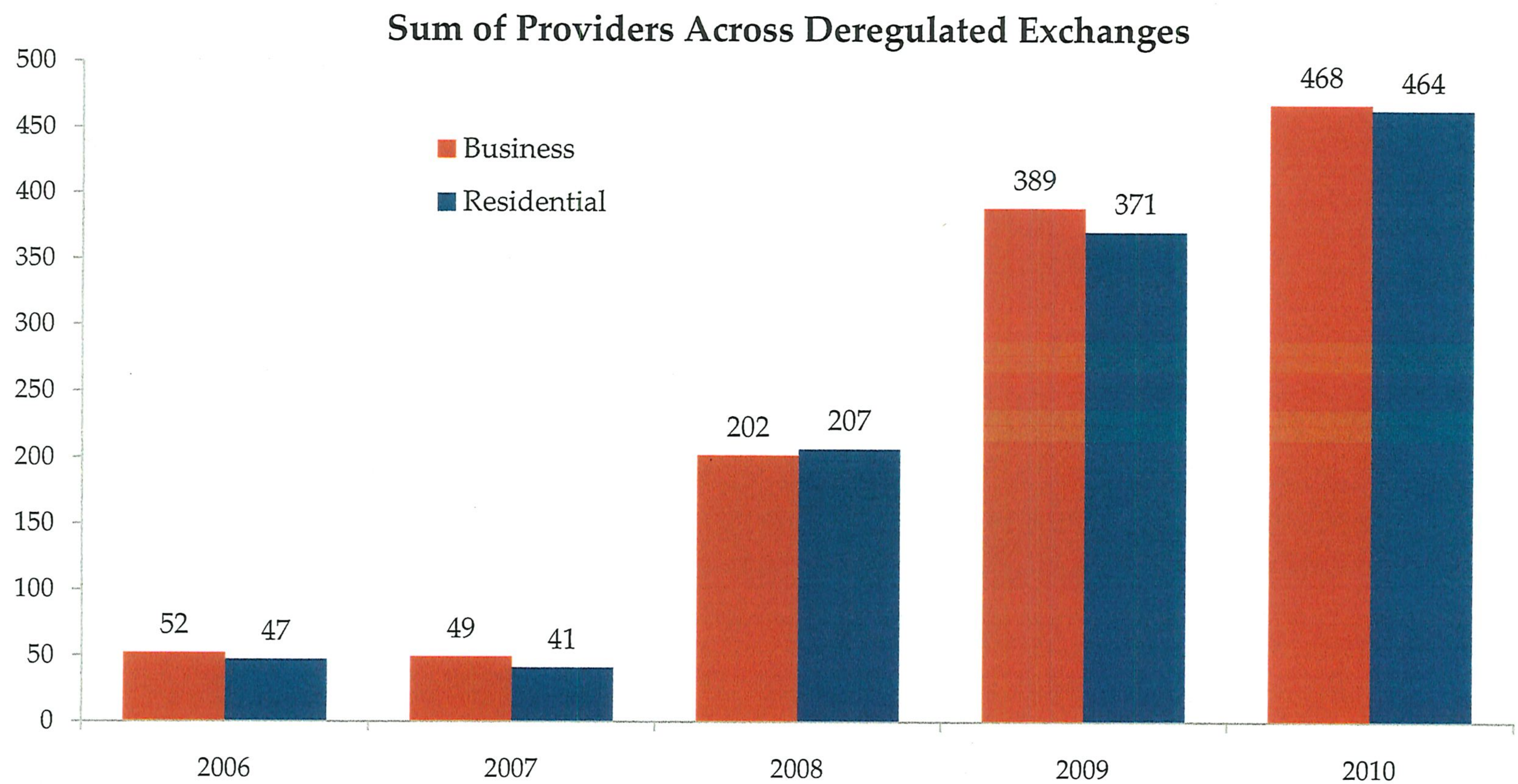


Sources: FCC Local Competition Report; FCC ARMIS Report 43-08

NAVIGANT ECONOMICS

Number of providers has increased

5-22

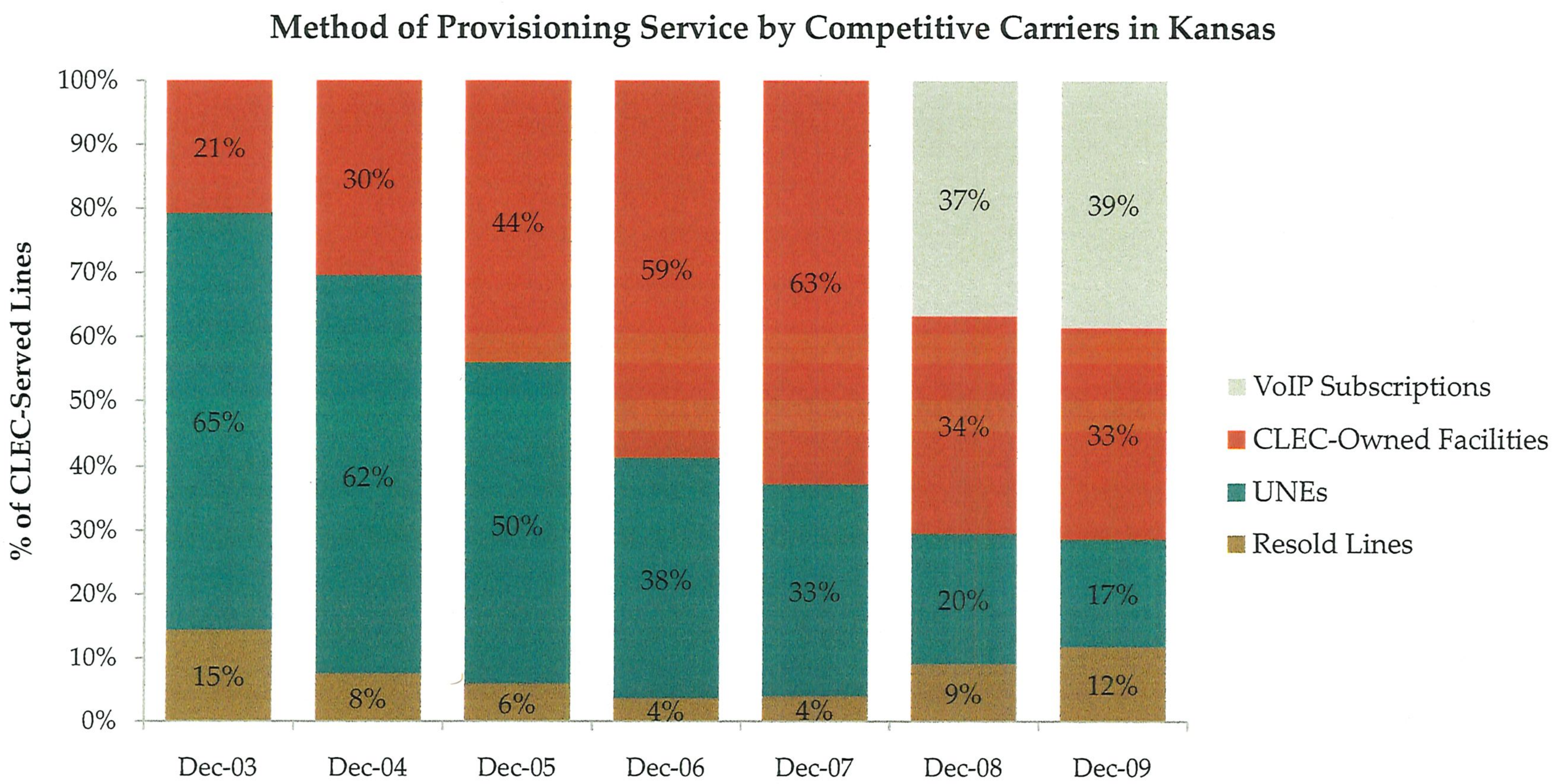


Source: KCC Report, Tables 3 and 4

NAVIGANT
ECONOMICS

Facilities-based competition has increased

5-23



Source: KCC Report, Table 9

NAVIGANT ECONOMICS

5-24

The Report's finding that "it would be difficult to conclude that there is effective competition in any of the deregulated exchanges" (p. 46) is simply disconnected with the actual findings.

There is no meaningful evidence of lack of competition in any exchange, and significant evidence in the report of effective competition.

5-25

The report concludes that because some AT&T rates have increased since deregulation, while some have not, competition has not "been effective in bringing the expected benefit of reduced rates." (Page 35)

This is completely incorrect.

- It ignores the effect on the constellation of prices consumers pay.
- It also ignores all of the many other benefits of competition, including innovation, advanced infrastructure for broadband and wireless services, and the dynamics of a competitive marketplace, where prices go up and down as sellers find ways to meet the various demands of consumers with different preferences and tastes.

What are valid ways to assess competition?

5-26

» Research and address the following questions:

› Are the investments by competing providers of traditional wireline services significant in magnitude?

– Are these investments increasing over time?

› Are inter-modal means of providing the service present in the market ?

– Is consumer adoption of these alternative means of supply increasing over time?

From: Direct Testimony of Debra Aron
Docket No. 05-SWBT-997-PDR
p. 6

NAVIGANT
ECONOMICS

5-27

3. The Commission's Report and SB 190 ignore important public policy goals in Kansas law

NAVIGANT
ECONOMICS

An overriding policy goal: Advanced infrastructure

5-28

(a) Ensure that every Kansan will have access to a **first class telecommunications infrastructure** that provides excellent services at an affordable price;

(b) ensure that consumers throughout the state realize the benefits of competition through increased services and **improved telecommunications facilities and infrastructure** at reduced rates;

(c) promote consumer access to a full range of telecommunications services, **including advanced telecommunications services** that are comparable in urban and rural areas throughout the state;

(d) advance the development of a **statewide telecommunications infrastructure that is capable of supporting applications**, such as public safety, telemedicine, services for persons with special needs, distance learning, public library services, access to internet providers and others; and

(e) protect consumers of telecommunications services from fraudulent business practices and practices that are inconsistent with the public interest, convenience and necessity.

NAVIGANT ECONOMICS

Goals of the legislature revolved around investment in broadband and advanced infrastructure

5-29

- The Report pays lip service to these goals and then says not one word about either the progress in the state broadband deployment or adoption.
  - Nothing in the KCC Report addresses these goals.
  - Nothing in the Report assesses whether these goals are being met.
  - Nothing in the recommendations purport to advance the goals.
  - Nothing in the Report recognizes that competition promotes efficient investment in advanced infrastructure and promotes economic growth.
  - Nothing in the Report recognizes that reversing the progress of deregulation, especially when the signs all suggest that the market is functioning effectively, is harmful to the goals advanced by the legislature.
  - Nothing in the Report discusses the potential effects of its proposals on broadband investments and adoption.

NAVIGANT ECONOMICS

John Idoux
Kansas Governmental Affairs
john.idoux@centurylink.com

CenturyLink

5454 W 110th Street
Overland Park, KS 66211
913-345-6692

Testimony in Opposition of Senate Bill 190

Testimony by CenturyLink
John Idoux, Kansas Governmental Affairs
Before the Senate Utilities Committee
February 16-17, 2011

Thank you Chairman Apple and members of the Committee. My name is John Idoux with CenturyLink's Governmental Affairs team and I appreciate this opportunity to express CenturyLink's opposition to Senate Bill 190.

CenturyLink Introduction

CenturyLink has provided communications services in Kansas for over 110 years under various names and is the leading rural broadband and communications company serving predominantly rural markets in 33 states. CenturyLink serves over 84,000 rural Kansans in 119 communities including Junction City/Fort Riley, Gardner, Spring Hill, and 111 communities with less than 1000 residents. High speed Internet facilities have been deployed to all 119 Kansas communities and nearly 85% of CenturyLink's customers have access to high speed broadband with additional deployment planned. CenturyLink also provides wholesale transport services with more than 750 route miles of fiber optics in Kansas. In April 2010, CenturyLink announced plans to acquire Qwest and the transaction is expected to close in the first half of 2011.

Senate Bill 190 Background

Like AT&T, CenturyLink is a price-cap regulated carrier. CenturyLink opposes SB 190 because it ignores the competitive markets that have evolved in Kansas since 2006. SB 190 places undue burdens on incumbent price-cap regulated carriers seeking price deregulated status while providing cable telecom providers and other competitors with unfair competitive advantages. I expand on each of these areas below.

Ignores the Success of Prior Laws Enacted to Promote Competition

- More than 25% of CenturyLink's customers live in towns with aggressive wireline competition from Cox, Comcast, TimeWarner and rural phone companies edging out of territory to expand their own footprints. These are facilities based competitors offering viable competitive offerings in competitive markets and government mandates targeted to a single provider distorts and interferes with competition.
- There appears to be no empirical data associated with this proposal to show that consumer choice is harmed in any way with the current price deregulation statutes or that the re-regulation of a competitive marketplace is warranted.
- SB 190 would render meaningless the concept of price deregulation status for incumbent local exchange carriers and price cap regulated carriers would have no meaningful transition to parity price regulation.

Provides Cable Telephone & Other Competitors Unfair Advantages

- SB 190 imposes restrictions on price-cap regulated incumbent carriers in areas where the Commission has previously determined competition exists. CenturyLink's competitors such as cable telephone operators and other competitors would not face similar restrictions contained within SB 190.
- Proposed price changes by price deregulated incumbent local exchange carriers would first require the Commission to complete a detailed analysis to ensure the statutory requirements of SB 190 were achieved. This analysis creates uncertainty for carriers like CenturyLink and results in significant delays in making price modifications that are not forced upon competitors.
- The cost of regulation through assessments is primarily borne by the incumbent providers and gives our competitors a distinct competitive price advantage..

Conclusion

CenturyLink urges you to reject Senate Bill 190.

Thank you for your consideration.

Testimony before the Utilities Committee
SB 190 – Telecom Price Regulation
Submitted by J. Kent Eckles, Vice President of Government Affairs

achieve more

Thursday, February 17th, 2011

The Kansas Chamber of Commerce appreciates the opportunity to present written testimony in opposition to Senate Bill 190, which further regulates the telecommunications industry.

The telecommunications industry in Kansas is a major economic driver – resulting in literally tens of millions of dollars in direct capital investment and thousands of jobs. The investment they make and workers they employ contribute millions in revenue to the State of Kansas.

Communications infrastructure build-out is key to future business growth and retention. Site location consultants throughout the U.S. recognize the importance of a State's telecom infrastructure and annually rate it as "important or very important" when deciding to remain in a state or relocate to one.

Our members believe the State needs to further deregulate industry – NOT re-regulate it, which this bill proposes to do. Kansas consumers and businesses simply cannot afford additional regulations, especially in such a competitive sector as the telecommunications industry.

The Kansas Chamber knows firsthand the lengths other states are going to attract capital and jobs and we strongly feel this bill would place the State at a competitive disadvantage by going in precisely the wrong direction.

We urge the Committee to not pass SB 190.

The Kansas Chamber, with headquarters in Topeka, Kansas, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to live and work. The Chamber represents small, medium, and large employers all across Kansas. Please contact me directly if you have any questions regarding this testimony.

THE KANSAS CHAMBER

Senate Utilities Committee
February 17, 2011
Attachment 7-1

835 SW Topeka Blvd. Topeka, KS 66612 785.357.6321