

SENATE COMMITTEE ON BUSINESS & CONSUMER AFFAIRS

January 22, 1999 Hearing Room C

1:00 P.M. Tapes 9 - 12

MEMBERS PRESENT: Sen. David Nelson, Chair

Sen. Lee Beyer, Vice-Chair

Sen. Rick Metsger

Sen. Charles Starr

MEMBER EXCUSED:

Sen. Randy Miller

STAFF PRESENT: Y. Sherry Sheng, Administrator

Nancy Masee, Administrative Support

MEASURE/ISSUES HEARD:

SB 215 Work Session

SB 142 and SB 143--Informational Meeting

Introduction of LC 2217 and LC 2218

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 9, A		
006	Chair Nelson	Opens meeting at 1:00 p.m. Opens work session on SB 215.
<u>SB 215 WORK SESSION</u>		

015	Sen. Beyer	MOTION: Moves SB 215 to the floor with a DO PASS recommendation.
		VOTE: 4-0 EXCUSED: 1 - Miller
016	Chair Nelson	Hearing no objection, declares the motion CARRIED. SEN. MILLER will lead discussion on the floor.
020	Chair Nelson	Closes work session. Opens informational hearing on SB 142 and SB 143.
<u>SB 142 and SB 143</u>INFORMATIONAL MEETING		
026	Gary Bauer	Oregon Telecommunications Association. Describes the trade association of carriers. Shows overhead projections to explain who the local exchange carriers are and their distribution throughout the state. Presents (EXHIBIT A) .
060	Bauer	Continues slide presentation describing providers and carriers. Difference between providers and types of regulations: <ul style="list-style-type: none"> • Four "arch" companies • Cooperatives • Smaller telephone utilities • Incumbent local exchange carriers • Competitive carriers
120	Bauer	Continues slide presentation describing Public Utility Commission (PUC) authority and services.
180	Bauer	Continues slide presentation discussing services and earnings of the utilities.
220	Bauer	Continues slide presentation discussing long distance providers.
240	Bauer	Continues slide presentation on infrastructures. Discusses the definition of advanced services. Explains service costs between customers, market place, and provider.
270	Chair Nelson	Asks for questions.
297	Larry Huss	U.S. West. Describes Oregon's system in which the metro area in the valley has

		<p>an abundance of telecommunications providers and services. States that out of the corridor, in eastern and southern Oregon and the coast, the communities need advanced telecommunication services to help supply replacement industries. Presents (EXHIBIT B).</p> <p>Unemployment due to:</p> <ul style="list-style-type: none"> • Loss of timber industry • Loss of agrarian economy
334	Huss	<p>Continues describing areas that need services. Klamath Falls and Milton-Freewater are described as new receivers. Three communities that make a difference:</p> <ul style="list-style-type: none"> • Granite ñ never has had telephone service; not cost effective. • Milton-FreewateróSykes Company combined with two other entities and US West to cooperatively supply telecommunications. • Oakridge ñ internet not available due to lack of T-1 lines; not cost effective for US West to invest there.
TAPE 10, A		
041	Huss	<p>States the committee needs to secure basic telephone service to communities and continue universal service. Emphasizes:</p> <ul style="list-style-type: none"> • Federal Communications Commission (FCC) needs to adopt a universal service fund as Congress asked. • Implement a state fund to meet high costs. <p>States funds need to be supplied to make up the difference between the cost of providing service and the PUC rate for basic service.</p>
055	Chair Nelson	Asks if the current regulatory landscape does this.
058	Huss	Explains the current rate of return regulation is used now. Says competition in Portland is vulnerable to competition. Explains that competition is not required to provide high cost services in other areas.
066	Chair Nelson	Discusses the question of no existing competition to US West.
068	Huss	Says competition is not going to occur throughout the state at one time. States competition will evolve from the major metropolitan areas. Gives examples of deregulation: airlines, railroads and banks. Says the results are that the price goes up for rural service or becomes nonexistent.
090	Sen. Metsger	Asks about the external high cost funds.
100	Huss	Responds that universal service in USA is created by business and long distance

		overcharges. Says an external fund needs to be created from any surpluses in the telecommunication funding mechanism.
120	Chair Nelson	Asks if current regulations can obtain universal access and universal service.
125	Huss	Answers that universal service is basic service and that access to advanced services is primarily used by businesses.
130	Chair Nelson	Asks for questions.
132	Gary Miller	Manager Oregon Telephone Corporation in eastern Oregon. Describes the exchange area that has sixty percent of the customers in towns. Says one rural subscriber requested a data line that was provided. Presents (EXHIBIT C) .
169	Miller	Continues describing costs to rural areas. Gives the example of service to the Ironside area that provides 40 customers, at a cost of \$360,000. Says the company's goal is a complete digital network.
175	Chair Nelson	Asks if rate of return is an incentive.
177	Miller	Replies that the state would find it very expensive to install lines. Gives the example of the Bates exchange, which has state highway shops that use the facilities Oregon Telephone already has in place.
238	Dorrene Benthin	Manager, Monitor Cooperative Telephone Company. States that the farmers formed their own company when the large companies found it economically too expensive.
275	Benthin	Describes needs of rural, small cooperative companies and communities. Says rural customers want the same services in their homes as the business community. States the cooperative must have the ability to deliver the telecommunications necessary to aid the community. Explains any profits of the cooperatives are redistributed to members of the cooperative. Says the community is now growing rapidly.
335	Benthin	<p>States that local telecommunication providers must decide on their needs:</p> <ul style="list-style-type: none"> • Promote educational excellence • Improve health care services to the home • Deliver products and services economically <p>Providers need to:</p> <ul style="list-style-type: none"> • Minimize regulations • Streamline noncompetitive services • Adopt incentives to assist investment in new services

398	Chair Nelson	Asks if there are problems in adding lines three times the number there were ten years ago. Asks if there are problems in burying lines.
TAPE 9, B		
012	Benthin	Responds there have not been problems. Describes customers needs, related to the cooperative. Says the residential cost is \$7.70 a month and the business cost is \$16.10.
022	Chair Nelson	Asks if difficulty of access to high tech lines has been a problem.
033	Benthin	States, as a member-owned cooperative with retained earnings, they can invest if they choose. Says they try to keep costs as low as possible.
041	Sen. Beyer	Comments that it sounds like co-ops have cheaper costs and more services than larger areas.
046	Bob Smith	Director for Century Tel. Describes his experience in the northwest as a rural provider. Presents (EXHIBIT D) .
077	Smith	Discusses rates and what needs to be done in the future. States that government needs to make known the subsidies offered. Explains that cooperatives rely heavily on federal and state funding.
100	Smith	Says access to advanced services is second to access to basic services. Describes a North Umpqua situation that required cable replacement. Says there was a \$1.3 million cost to a handful of customers; of that, \$800,000 was replacement cost. States that a wireless carrier would cost much less, if available.
163	Smith	<p>Suggestions to the committee:</p> <ul style="list-style-type: none"> • Assure capital recovery as much as possible • Provide portable access to rights of way • Become an "anchor" tenant (state) • Minimize government intervention
178	Chair Nelson	Asks about regulator rate of return.
180	Smith	Says there is not a form of regulation that addresses rate of return. Discusses losing customers to competition and government subsidizing. Comments that today's investments are tomorrow's legacy.
215	Chair Nelson	Says there is not competition amongst the four largest carriers.
220	Smith	Responds that some competition is advancing.

231	Huss	Comments on competition and that the businesses in the metropolitan areas provide the subsidy for other areas. Says the rate of return regulations provide some disincentives. States that rate of return regulations focus on earnings. Increasing sales requires reducing profit margin. (INAUDIBLE DUE TO MICROPHONE BREAK UP)
238	Chair Nelson	Says he has heard that competition will drive prices toward their true cost. Comments that residential lines are cost less and business lines cost more.
240	Huss	Responds that metropolitan business prices will come down because the price greatly exceeds the cost.
265	Sen. Beyer	Asks about subsidies.
267	Smith	Responds the company gets \$15 million from the federal universal service fund and half again that much from state and federal access charges. Says that 80 percent of the customers are located in 15 percent of service area.
300	Chair Nelson	Thanks the panel.
310	Laura Imeson	AT&T. States that the regulatory climate in Oregon is good according to AT&T; that the statutes are adequate. Describes AT&T as a long-distance carrier, and provides local service. Says AT&T is also a wireless service. Describes infrastructure investment outside the Portland area as extensive. Presents (EXHIBIT E) .
355	Imeson	Describes merging with TCI, a \$32 billion merger. Says AT&T will spend several billion dollars more to upgrade the network with broad band services over the cable network.
359	Chair Nelson	Asks about time the table.
360	Imeson	Says service will be offered later this year in Portland area.
TAPE 10, B		
010	Imeson	<p>Describes incentives to implement telecommunications:</p> <ul style="list-style-type: none"> • Government programs • Federal Universal Service Fund • Market environment • Anchor tenant • Alternative technology • Tax credits • Low interest loans <p>Describes deterrents that hinder telecommunications development:</p>

		<ul style="list-style-type: none"> • Regulatory climate • Monopoly providers • Local regulatory issues • Existing infrastructure
035	Imeson	Does not support SB 142. Supports universal service. Says consumers benefit from competition in the market.
041	Sen. Metsger	Asks why the statutes have not addressed the problems faced.
046	Imeson	Responds that it takes more time. Says the incumbents have rights to appeal and that takes time.
051	Sen. Metsger	Asks how the state fund should be funded.
060	Imeson	Responds that the commission has developed a policy defining basic service.
064	Sen. Beyer	Discusses franchise fees.
073	Imeson	Explains how fees are based. Responds the charges are based on local access. Charges are based on different procedures.
078	Chair Nelson	Asks about how far away the merger with TCI is.
085	Imeson	Responds that Portland is one of ten test markets for AT&T.
088	Chair Nelson	Asks if there is a time table for that.
085	Imeson	Responds that there is some litigation on that merger. Says it may be solved by this next summer.
088	Susan McAdams	Electric Lightwave (ELI). Reports that Oregon has a sound telecommunication policy in place, at present. Oregon statutes allow competitive entry. Presents (EXHIBIT F) .
128	McAdams	Suggests referring to rate of return regulation. Says the current rules and regulations balance the rate of return regulation. Says further deregulation will cause less service in rural areas. Says competition is growing in Oregon but it is transitional. Shows map of network in Oregon by Electric Lightwave. Comments investors still have a very small share of the market.
140	McAdams	Describes the market and how the company is trying to boost customer sales. Refers to agreements with other carriers to bring service to Klamath Falls and Bend.

200	McAdams	Discusses rural area access. Says PUC will approve incumbent plans if they meet requirements.
246	McAdams	Summarizes the telecommunications issues that ELI believes in. Says a state universal fund will be needed, targeted to real needs, and be competitively and technologically neutral.
249	Chair Nelson	Asks for a description of neutral.
252	McAdams	Responds that contributions to the funds should not favor any carriers.
270	Sen. Metsger	Asks how investment could drive the market.
276	McAdams	Responds that the state could serve as an investor, as a major purchaser, and an anchor tenant. Points out ELI areas of control on the map.
280	Sen. Beyer	Asks about the backbone map, and if these are solely owned by Electric Lightwave.
282	McAdams	Responds that Electric Lightwave owns or controls on those routes. Says partnerships may be entered into with other providers. States it is a combination of various possibilities.
299	Chair Nelson	Thanks the panel for coming.
312	Joan Smith	Commissioner, Public Utility Commission (PUC). Refers the committee to the information provided by the commissioners. Presents (EXHIBIT G).
340	Smith	Emphasizes the complexity of the telecommunications industry. Says there is not consistency within the industry. States regulation of monopolies is very complex. Says there is not one solution for rural, nor one solution for urban areas. Each area has its own needs.
390	Smith	States the issues are about money. Discusses four issues to be understood and acted upon: <ul style="list-style-type: none"> • Universal service • Universal access • Alternative regulation • Advanced services funding
TAPE 11, A		

007	Smith	Describes universal service. Provides affordable service to the population.
013	Smith	Universal service is described as basic telephone service. Universal access means advanced service (broad band) data, voice, and video services made available in high cost areas at prices comparable to low cost areas. Changes in 1996 Telecommunication Act are defined as "affordable." States there is a difference in the meaning of affordable. Says business subsidizes residential; urban subsidizes rural; long distance subsidizes local service. Says there is a federal universal support fund.
049	Smith	Discusses universal access by potential customers in high cost areas. States that PUC does not know what is out there, but the infrastructure is fairly advanced. States that incentives for investments to achieve universal access include a competitive market. Says rate of return does not guarantee profit, but guarantees an opportunity to earn a profit.
100	Smith	Continues describing rate of return. Says return on the investment is the opportunity. An alternative to rate of return is the company earns more profits. Describes alternative forms of regulation.
155	Smith	<p>Sources of funds:</p> <ul style="list-style-type: none"> • Depreciation expense • Capital markets to raise funds • Reinvesting profits in infrastructures <p>Discusses how to support telecommunications in high cost areas. Proposes a universal access fund, available to all companies, governed by a citizens' board; states desirable features include being competitively neutral, targeted to areas with no support, being geographically equitable, meeting local community needs, being technologically neutral, and using effective enforcement.</p>
198	Smith	Continues presentation on the review process. Summarizes universal service, universal access, kinds of regulation, and how a fund can be established.
215	Chair Nelson	Asks for questions.
219	Sen. Metsger	Asks about alternative forms of regulation.
230	Smith	Suggests alternative forms of regulation using nontraditional choices. Says the advantage of alternatives is that a particular company can become negotiable. Says the question is how to create balance in the public interest.
273	Sen. Metsger	Asks how to determine if the investments targeted are the investments made.
290	Smith	Says the answer lies where the investment works best; for example, in La Grande, the incumbent company negotiated with the investors.

317	Chair Nelson	Asks how PUC can be equitable to all parties.
329	Smith	Answers that nothing will be sudden. States that expectations have been too high. States that competition from the consumer's point of view is having more than one choice of a carrier and sufficient information to make the choice.
TAPE 12, A		
008	Smith	Discusses the reluctance of larger companies to invest. States nothing will happen fast, there is no simple solution, options should be involved.
040	Chair Nelson	Thanks the speaker. States the committee is open to suggestions. Asks staff about next week's schedule.
041	Sherry Sheng	Committee Administrator. States that Monday a panel from different parts of Oregon will discuss the unmet needs of services in their area.
<u>INTRODUCTION OF LC 2217 AND LC 2218</u>		
055	Chair Nelson	Asks the committee to introduce as bills LC 2217 and LC 2218.
073	Sen. Nelson	MOTION: Moves LC's 2217 and 2218 BE INTRODUCED as committee bills.
074		VOTE: 4-0 EXCUSED: 1 ñ Miller
075	Chair Nelson	Hearing no objection, declares the motion CARRIED.
076	Chair Nelson	Adjourns meeting at 3:25 p.m.

Submitted By, Reviewed By,

Nancy Masee, Y. Sherry Sheng,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ Written testimony, Gary Bauer, 2 pp

B ñ Written testimony, Larry Huss, 1 p

C ñ Written testimony, Gary Miller, 3 pp

D ñ Written testimony, Bob Smith, 1 p

E ñ Written testimony, Laura Imeson, 1 p

F ñ Written testimony, Susan McAdams, 3 pp

G ñ Written testimony, Joan Smith, 60 pp