

SENATE COMMITTEE ON BUSINESS & CONSUMER AFFAIRS

January 27, 199 Hearing Room C

1:00 p.m. Tapes 15 - 16

MEMBERS PRESENT: Sen. David Nelson, Chair

Sen. Lee Beyer, Vice-Chair

Sen. Rick Metsger

Sen. Randy Miller

Sen. Charles Starr

MEMBER EXCUSED:

STAFF PRESENT: Y. Sherry Sheng, Administrator

Nancy Masee, Administrative Support

MEASURE/ISSUES HEARD:

SB 142 and SB 1436 Informational Meeting

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 15, A		
003	Chair Nelson	Opens meeting at 1:00 p.m.
010	Don Mazziotti	Chief Information Officer, State of Oregon, Telecommunications Advisor to the Governor.
012	Paul Krug	Department of Administrative Services (DAS).
013	Mazziotti	Describes his presentation as an overview of the state's enterprise network and as fielding questions from the committee. Gives background defining the enterprise

		as consisting of all three levels of state government, three tiers of education, and local and county government. States the enterprise has many networks.
027	Mazziotti	Describes consolidating the networks. Attempts to manage and plan for the future with new technology. States the Governor reconvened the Information Resource Management Council, which consists of 22 members, including Rep. Simmons and Sen. Nelson. Explains the Council developed a plan for an enterprise network.
060	Mazziotti	<p>Describes the enterprise network connected to major state facilities and communities. Presents (EXHIBIT A) Description of the enterprise network includes:</p> <ul style="list-style-type: none"> • High band width, high speed • County and local government locations • Universities, colleges, and schools <p>Explains the network is purchased from existing providers.</p>
100	Mazziotti	<p>Continues presentation on how the networks are set up:</p> <ul style="list-style-type: none"> • Hub sites that switch and route signals will be constructed • Spokes will connect many users • Backbone network will be supported from revenues currently used by enterprise agencies to purchase conventional telecommunication. • Telecommunications in state government cost \$102 million per biennium presently • User funds and other funds will support local area connections
150	Mazziotti	<p>Explains the plan of network development:</p> <ul style="list-style-type: none"> • Backbone network will be fully deployed by 2001 • Salem, Portland, Bend, and Burns leg of network is operating • Burns archive facility construction is completed • High speed network serves the Burns facility • Transitional costs and funding for current users of the state network (voice, video and data) are not yet determined.
177	Chair Nelson	Asks what the range of cost is.
178	Mazziotti	Responds it depends on the institution and the nature of the connection, and their plans. States the backbone costs would be connecting and equipment.
200	Mazziotti	Explains the state's purpose in constructing the network is for production, not a research or experimental network, and to provide the levels of service of a telephone network.
250	Mazziotti	Displays charts and maps showing how hubs connect to sites of the network.
300	Mazziotti	Continues describing the hub and spoke sites of the network which is included in

		the state plan. Explains, beyond that, the customer would need to ask for building out from the spoke. Says the cost of the Salem to Burns network (OC-12 capacity) is \$48,000 per month. Explains there needs to be \$48,000 of business on that leg to pay for it, and that the cost beyond the \$48,000 includes technical, managerial, engineering and other personnel. Says locations without sufficient demand cannot justify location of high speed, expensive equipment and those connections. Emphasizes that area remains to be solved.
301	Chair Nelson	Asks if the \$48,000 is part of the \$70 million.
320	Mazziotti	Responds it is. Says providers want to hook up to this network. Explains public content information could be transmitted to the home. Says hubs cost the state about \$1 million each, and the spoke locations cost about \$200,000 each (internalized as state's cost). States the work stations, the connections, the routers, and specific equipment are the extra costs.
340	Krug	A typical customer might pay \$1,500 or \$2,000 a month for a 1 ½ megabyte connection.
345	Chair Nelson	Asks if the state would own the equipment.
344	Mazziotti	Explains the state's intention would be to lease the equipment and buy the services for the entire network. Describes circumstances which would necessitate owning equipment. Says spoke equipment might need to be owned.
350	Chair Nelson	Asks if the state will take on the role of a utility or of selling services.
375	Mazziotti	Agrees there is a fine line determining this. Explains the state is providing a backbone serving the state enterprise, and the state is not reselling any part of the business. Emphasizes it is operating, it is functional, and it works; it is a backbone which serves the state enterprise and supports the state's business functions. Describes the surplus available that commercial users could use, but would not be sold; as yet the details of the surplus use have not been determined.
400	Chair Nelson	Asks if there is a potential for conflict.
391	Mazziotti	Says the state does not want to become a reseller.
TAPE 16, A		
005	Sen. Metsger	Asks Mazziotti his opinion on how to handle the excess capacity.
007	Mazziotti	States that legal counsel tells them that current law permits surplus band width to be made available on a cost basis. Says this is also possible on sites leased from a local provider which could be available for private and commercial use. Indicates that it implies significant economic development and growth.

019	Mazziotti	Displays relay sites throughout Oregon. Explains fiber-optic networks.
044	Chair Nelson	Asks if the fiber is available.
	Mazziotti	Responds that the state is in the process of identifying providers. Explains that Portland has a great band width due to its geographic location.
060	Chair Nelson	Asks what the costs are to get this started.
061	Krug	Responds to the costs of off-ramps and on-ramps to backbones. Explains that the greatest cost is connecting to the point of presence, and could be \$1.5 million in some sites. Says the state has absorbed some of the cost in their estimates.
075	Mazziotti	Indicates that the state has not costed out the connection of hub and spoke sites, including: <ul style="list-style-type: none"> • Capital cost • Recurring cost • Funds from a universal service fund • Funds from school and library fund • Other sources available
080	Chair Nelson	Asks Mazziotti to apprise the committee of these costs.
088	Mazziotti	Asks for a few days to determine the costs.
097	Chair Nelson	Asks for questions.
100	Mazziotti	Summarizes presentation saying that many remote communities do not have advanced services available to them.
110	Chair Nelson	Asks about costs of service.
127	Krug	Responds cost is always predicated on distance.
133	Chair Nelson	Asks if other states have deployed broad band networks.
135	Mazziotti	Describes Washington State's progress in connecting K-20 schools, and says many states have their own networks.
153	Chair Nelson	Asks if Washington's network allows private use, and asks if the state has authority to do this.

157	Mazziotti	Responds no, it serves educational outlets. Comments that many states have networks, but Washington has the highest band-width network that DAS is familiar with. Believes the state has sufficient authority to carry out what has been described today, and to have the agencies participate in the aggregate of demand.
170	Mazziotti	Explains there were 700 state telephone accounts a few years ago, and now the state manages six bills through a centralized approach.
180	Chair Nelson	Asks how agencies respond to the backbone concept.
190	Krug	Responds there is positive feedback; cost is the question. Says the cost is not yet determined. Says the PortlandóSalemóBend--Burns route is now ready for calculations.
195	Chair Nelson	Asks if private interests are known.
208	Krug	Responds that Bend Cable has shown interest.
211	Sen. Metsger	Asks if the stateís over capacity was made available, what returns could be expected.
220	Mazziotti	Responds that the state is presently calculating the possibilities. Offers to put together a model. Emphasizes the stateís position is to stimulate competition from the outside.
257	Sen. Metsger	Responds that it would be helpful to know what the payoff and recapture would be to the state.
259	Chair Nelson	Asks if demand would be on a regional basis.
265	Mazziotti	Emphasizes the stateís job is to provide a reliable backbone. Says communities need to decide their own needs and what part they can fund. Reiterates the many demands by agencies on funding.
300	Sen. Beyer	Asks if a call center could be hooked up in LaGrande.
313	Mazziotti	Responds it could. Says many economic functions besides call centers could be hooked up.
338	Sen. Beyer	Asks if local providers can connect to the network.
340	Mazziotti	Responds that small telephone companies could do so if their own network had the capacity. Comments that many small companies are more advanced than the

		larger ones. Says hooking up to our network would provide them with access to state information.
373	Chair Nelson	Asks what the concept of the state is in releasing services.
377	Mazziotti	Refers to models they are looking at: <ul style="list-style-type: none"> • Excess capacity released back to providers • Oregon does not want to get into retail business
395	Sen. Beyer	Asks about the line running from Portland, if the state is buying fibers on that.
399	Mazziotti	Says the state is leasing one strand with 12 pieces of glass; Oregon is using two.
409	Krug	Says the state is buying service from Enron.
TAPE 15, B		
015	Mazziotti	States that Enron laid the super band-width cable through Burns headed to Houston, Las Vegas, and Los Angeles, with the prospect for business growth.
021	Chair Nelson	Asks how the transition will be made from networks.
029	Mazziotti	Describes a network to educational institutions in Oregon. Describes services in training of students. States the new network would replace the present satellite. Explains that satellite service has the disadvantages of expense and interruptions; it is labor intensive and expected to increase in price. Proposes transition to Internet Protocol (IP) network, which is included in the Governor's university system budget. Says other cost solutions in the interchange to network have yet to be met.
080	Mazziotti	Describes distance education in other states.
084	Chair Nelson	Says continuation of service without interruption and cost of service are concerns.
086	Sen. Metsger	Asks about the cost of equipment using the satellite network.
90	Mazziotti	Responds it is \$4.5 million. Costs will go up to \$6 million per biennium for a smaller user group.
098	Sen. Metsger	Asks if the hardware will work.

100	Mazziotti	Says the hardware is not standard spaced. States long distance charges imposed on agenciesí funds is funding the satellite network. Says going to a unified network with a single-rate model will cut costs.
124	Chair Nelson	Asks for questions from the committee. Thanks speakers. Asks for reports from Mazziotti.
128	Mazziotti	Responds, a model for pricing in the private sector and a report of costs of capital to deploy the network beyond the hub and spokes of the network boundaries will be submitted.
134	Chair Nelson	Asks for questions from the audience.

138 Sharon Scott Salem, Oregon. Wants to follow bills that regard monopoliesí impact on the public sector.

165 Chair Nelson Adjourns meeting at 2:10 p.m.

Submitted By, Reviewed By,

Nancy Masee, Y. Sherry Sheng,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ SB 142 & SB 143, Written testimony, Don Mazziotti, 3 pp