

**SENATE COMMITTEE ON BUSINESS & CONSUMER AFFAIRS**

**February 10, 1999 Hearing Room C**

**1:00 p.m. Tapes 34 - 35**

**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 Massee, Administrative Support**

**MEASURE/ISSUES HEARD:**

**Introduction of Committee Bills**

**SB 142 and SB 143 Work Session**

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 34, A		
004	Chair Nelson	Opens meeting at 1:07 p.m. Opens work session on SB 142 and SB 143. Asks Rep. Simmons to come forward.

**SB 142 AND SB 143 WORK SESSION**

010	Rep. Mark Simmons	House District 58. Supports SB 142 and SB 143. Reaffirms the need for SB 142. Says the process began several years ago to create SB 142. Explains the litigation between the Public Utility Commission (PUC) and US West would not affect SB 142. Urges the committee to pass SB 142 to the floor. Presents <b>(EXHIBIT A)</b> .
035	Chair Nelson	Recesses work session on SB 142 and SB 143. Opens work session to introduce committee measures.

**Introduction of Committee Bills**

035	Chair Nelson	Asks if there is any discussion on the LC drafts.
037	Chair Nelson	<b>MOTION: Moves LC's: 1766 dated 11/11/98, 1768 dated 11/27/98, 1769 dated 12/11/98, and 2263 dated 12/29/98 BE INTRODUCED as committee bills.</b>  <b>LC 1766 becomes SB 623. LC 1768 becomes SB 624. LC 1769 becomes SB 622. LC 2263 becomes SB 625.</b>
038		<b>VOTE: 3-0</b>  <b>EXCUSED: 2 ñ Beyer, Metsger</b>
039	Chair Nelson	<b>Hearing no objection, declares the motion CARRIED.</b>
045	Chair Nelson	Closes work session. Re-opens work session on SB 142 and SB 143.

**SB 142 AND SB 143 WORK SESSION**

055	Don Mazziotti	Chief Information Officer, Department of Administrative Services (DAS). Explains the backbone of the enterprise network. Presents maps showing hub site and spokes <b>(EXHIBIT B)</b> .
111	Mazziotti	Explains the Burns hub site and its users: <ul style="list-style-type: none"><li>• Oregon Youth Authority operating</li><li>• Burns backup and archive facility, where state agencies store their computer server data</li></ul> Other possible utilization of the hub site includes being used as: <ul style="list-style-type: none"><li>• An enterprise network for OPB</li><li>• a health care facility</li><li>• a private provider serving as a link to hub site</li></ul>

		High schools, community colleges, and courts through private providers are other possibilities.
180	Chair Nelson	Asks who built the point of presence (POP) and what the cost was.
182	Mazziotti	Says Enron did and they paid for it. Says the hub site is a state-owned facility and that costs vary according to location.
195	Philip Krug	DAS. Explains the costs to the state for raw equipment are about \$500,000. Refers to handout.
208	Chair Nelson	Asks what incentives the state would need in order to build points of presence (POP).
210	Mazziotti	Replies the incentive is established by the enterprise network infrastructure. Deploying the network makes a case for the state to act upon.
242	Krug	Explains recurring costs by referring to the map.
257	Mazziotti	Clarifies capital costs and recurring costs on pages 1 and 2 are part of the rate model. Page 3 identifies cost per site for a customer. Says the prices quoted are the lowest prices available to customers on a network of this capacity.
310	Sen. Metsger	Asks if the cost is based on the package (of 20 hub sites).
314	Mazziotti	Says that is correct, four hub sites are now operating.
345	Mazziotti	Says the total telecommunications bill of state government would be \$102 million per biennium. States if it is possible to capture a significant portion of the costs on the network, there will be more than enough funds from state agencies. Does not know the total recurring cost to customers at a variety of levels and capacities. Says education and Oregon Public Broadcasting (OPB) would be very significant contributors.
369	Sen. Beyer	Asks if the intent is to move ahead with the network, no matter the outcome of SB 142. Explains the network represents the necessity to replace the networks, as directed by SB 994.
405	Mazziotti	Explains that the diagram portrays where the state needs to consolidate state networks according to statute.
<b>TAPE 35, A</b>		
006	Sen. Metsger	Asks about the other agencies using the network. Asks what an aggregate figure

		from the state would be to offset the recurring costs.
012	Mazziotti	Says they represent a fraction of the cost of operating the network. Says he will need to get the figures.
015	Sen. Metsger	Says he thinks that would be a good way to figure where the state will be going in the market.
018	Sen. Beyer	Asks if most routes, hubs, and equipment are owned through private providers.
022	Mazziotti	Answers they are, but for security reasons some are owned by the state. No provider can offer all needs. A consortium of providers is needed. Refers to the HUB diagram that shows the private providers. Many private providers would ideally be offering services.
046	Chair Nelson	Says there is a fear that the state will subvert the private provider and take away the demand in the community.
055	Mazziotti	Says that hopefully private providers will want to expand the market and cause growth.
060	Chair Nelson	Asks if the state will take away the demand in the community.
061	Mazziotti	Says he has heard that. Explains articulation at hubs. Describes the state as a major customer with local providers. Predicts that increased broadband capacity will generate growth.
075	Chair Nelson	Says the state's plan is a "top" down plan. Says some think it should build from the communities up.
085	Mazziotti	Explains the state's plan is to replace existing networks and it would be very difficult for local communities to finance networks. Explains the state is launching pilot projects to see how communities use the network. Says the Burns backup facility stores backup information with a hub site and point of presence (POP). Says the network is consolidating 14 networks with a mix of technology, voice, data, and video.
108	Chair Nelson	Asks for further questions.
112	Terry Edvalson	Director Regional Services Institute, Eastern Oregon University. Representing Rural Oregon Telecommunications Consortia (ROTC). Sponsor of SB 142. Addresses ñ1 and ñ3 amendments to SB 142. <b>(EXHIBIT C)</b>
		Staff presents <b>(EXHIBIT D)</b> .

162	Edvalson	Describes technical changes that amendments will make.
200	Edvalson	Continues explaining the amendments that will make clarifications in the bill.
250	Edvalson	Continues explaining the ñ1 and ñ3 amendments. States definitions apply to universal services. Reads lines 22 through 32. Explains page 6 clarifies the universal service fund. Lines 9 through 17 address the revenue neutral issue. Continues explaining rearrangement of technical changes that the amendments will make.
382	Chair Nelson	Asks Edvalson for an overall view of the process.
388	Edvalson	Replies that most parties agree upon the need to implement a Universal Service Fund. States that creating price caps is difficult to agree upon. Explains that the enterprise network needs to have a way of financing, since there is no capital available and multiple means will be needed to afford this. Says there is no easy answer to this.
<b>TAPE 34, B</b>		
016	Sen. Beyer	Asks how to get advanced services to the outlying regions. Observes that most of the region is not in US West territory and that GTE, Century, and Sprint do not seem to be interested. Asks how to get to the areas not served.
032	Edvalson	Says the other companies are waiting to see what happens. States that US West provides the major backbone in collaboration with other carriers. Suggests there is a need to mix together resources.
040	Sen. Beyer	Asks how to get enough capital.
059	Edvalson	Explains the shift from rate of return to price capping.
066	Sen. Beyer	Asks about price capping the residential services.
084	Edvalson	Suggests asking the companies and PUC what the price cap level should be.
092	Chair Nelson	Thanks the speaker.
101	Beth Vargas	League of Oregon Cities (LOC). Says the ñ1 amendment is proposed by LOC. Presents <b>(EXHIBIT E)</b> .
107	Sen. Beyer	Asks if all amendments are needed.

110	Vargas	Explains the amendment on page 2, after line 27. Says there are two sections that release an elected carrier from regulations.
112	Chair Nelson	Suggests moving the amendments
115	Sen. Beyer	Says the amendments are confusing and he requests that Legislative Counsel organize them in a new document.
119	Sen. Starr	<b>MOTION: Moves to ACCEPT SB 142 -2, and -3 amendments dated 2/5/99 AND to conceptually accept the proposed amendments submitted by Terry Evaldson dated 2/10/99.</b>
121	Chair Nelson	<b>Hearing no objection, declares the motion CARRIED.</b>
122	Chair Nelson	Verifies that the committee will accept the amendments on a conceptual basis so that Legislative Counsel can draft a new single set of amendments to work with.
200	Paul Morton	General Manager, Bend Cable Communications. States Bend Cable offers high speed TCT, ISP connectivity and other services in Bend. Residences and businesses connect to using their cable modems.
240	Morton	Explains fiber-optics are also provided. Bend Cable's goal is to be connective within a local Bend region and to link up with the backbone. Explains the fiber connections are in six areas in Bend. Explains that the medical and business services, real estate agencies, clinics, advertising, print shops, and businesses with multiple locations use cable servers to connect their offices. Enron, ELL, and Bonneville Power are the major backbone servers who have been contacted. Says it is fortunate that two fiber backbones come together in Bend.
338	Morton	States their goal is to complete the fiber ring around Bend hub in one year. Says there are now 800 modems in place in 4 percent of homes in Bend. Explains that small businesses' goal is to continue to maximize utilization of the business and open opportunities for small cable companies. Emphasizes that Bend Cable will partnership with other companies.
378	Sen. Beyer	Asks if they are connected on the new POP, as part of the new state line.
380	Morton	Responds they soon will be.
382	Sen. Beyer	Asks if they provide telephone service.
384	Morton	Replies not yet.
394	Sen. Beyer	Asks about rates.

396	Morton	Says the charge is \$34 per month for modem service.
399	Mike Dewey	Oregon Cable Telecommunications Association. Explains the concern is for price points. Says services cost \$39.99 and \$49.99, but these are emerging services.
412	Roger Harris	Cresview Cable TV, Prineville and Madras. Explains the rebuild of their system that will allow access to new services. Says the commitment is huge and they are partnering with a high speed technical ISP channel. Suggests the price of \$49.95 for a guaranteed bandwidth.
<b>TAPE 35, B</b>		
045	Harris	Describes commitment to cable service in rural Oregon.
068	Sen. Beyer	Asks if they will get into telephone business.
070	Harris	Says yes, they will. The initial high-speed service will be installed by this summer.
073	Sen. Beyer	Asks if the company sees enough business to invest in the area without incentives and tax credits.
077	Harris	Explains the company feels there is opportunity.
087	Dewey	Says the company now has 84% of the video business in that area. Explains it is not an easy business to be in because of lack of standardization and it is a risk-taking industry.
110	Morton	Explains how the business has expanded.
120	Chair Nelson	Thanks witnesses.
131	Chad Biasi	Verio, Inc. Verio provides 70 of the 120 ISPs in the state of Oregon. States that high speed, reliable internet services provided to Public Utility Districts (PUDs) in rural Oregon are Verio, Inc.'s goal. Says some infrastructure is in place. PUDs are an important resource in the telecommunication services. Presents <b>(EXHIBIT F)</b> .
181	Biasi	Explains that advanced telecommunication infrastructures are needed. Says the advantage of PUDs is that they are already set up.
216	Chair Nelson	Asks how the PUDs would serve education, rural health, and the state enterprise backbone.

235	Biasi	Says the PUDs have frame relay connectivity and they have the infrastructure. Says the last mile is sometimes the greatest problem of connectivity. Explains how the PUDs could provide the last mile.
261	Sen. Beyer	Asks about crossing the lattice.
268	Biasi	Explains the technicalities of the lattice.
275	Sen. Beyer	Asks what legal barriers there are.
280	Biasi	Says there is legislation in the House to allow PUDs to cross lattice and carry data.
300	Sen. Beyer	Asks what a frame cloud is.
305	Biasi	Says a frame cloud is a switch. Explains there are pockets in Oregon that do not have frame switches and if PUDs could create frame switches, they could provide service at a lower cost.
229	Beyer	Asks if the statute says PUDs cannot do this now?
232	Biasi	Says that is correct, the PUDs are presently limited by statute.
335	Chair Nelson	Asks if they serve a huge part of the state.
337	Biasi	Says the PUDs serve all the rural areas in Oregon.
340	Chair Nelson	Asks for questions. Asks the interested parties to take time to study this and come back. Adjourns at 2:55 p.m.

Submitted By, Reviewed By,

Nancy Masee, Y. Sherry Sheng,

Administrative Support Administrator

## **EXHIBIT SUMMARY**



**A ñ SB 142 and 143, Written testimony, Mark Simmons, 1 p.**

**B ñ SB 142 and 143, Written testimony and maps, Don Mazziotti, 6 pp.**

**C ñ SB 142, Amendments ñ1 and ñ3, Terry Edvalson, 8 pp.**

**D ñ SB 142-3 Amendment, Legislative Counsel Staff, 4 pp.**

**E ñ SB 142ñ2 Amendment, Beth Vargas 1 p.**

**F ñ SB 142 and 143, Written testimony, Chad Biasi, 4 pp.**