

HB

5

HOUSE COMMITTEE REPORT

(7)

Date referred: 3/4/87

FURTHER REFERRALS:

DATE: 3/26/87

The Labor & Commerce Committee has considered HB 5

"An Act relating to regulation of telecommunication services."

RECOMMENDS:

- replace with CSHBS (L+C) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Steve Kozma
Ed. C. Brubaker
J. Ellis
Cliff D. Gair
Dave Douley

SIGNING OTHER RECOMMENDATIONS:

W. Furnace No. 11

Dave Douley
 Chairman's signature

HOUSE COMMITTEE REPORT

3/4

(5)

Date referred: 1/19/87

FURTHER REFERRALS: Labor & Commerce

DATE: 2/26/87

The House Special Committee on Telecommunications Committee has considered HB 5

"An Act relating to regulation of telecommunication services."

RECOMMENDS:

CSNB 5 (Tele)

- replace with CS FOR HOUSE BILL 5 TELE the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

[Handwritten signatures]

SIGNING OTHER RECOMMENDATIONS:

[Handwritten signature]

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DO NOT PASS UNLESS APPROVED

[Handwritten signature]

Chairman's signature

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY
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May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

H L+C

3-24-87

1:30 p.m.

Original sponsor: Boucher

1 IN THE HOUSE

BY THE LABOR AND
COMMERCE COMMITTEE

2 CS FOR HOUSE BILL NO. 5 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to regulation of telecommunications
7 services."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 42.05 is amended by adding a new section to read:

10 Sec. 42.05.145. TELECOMMUNICATIONS REGULATION POLICY. A utility
11 that provides local exchange or interexchange telecommunications ser-
12 vice in the state affects the public interest. Regulation of these
13 utilities shall, consistent with this chapter, seek to

14 (1) maintain and further the efficiency, availability, and
15 affordability of universal basic telecommunications service; and

16 (2) ensure that rates to customers for telecommunications
17 services are reasonable.
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5-0123X
Cramer
3/24/87

Original sponsor: Boucher

BY THE LABOR AND
COMMERCE COMMITTEE

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 5 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act declaring that telecommunications service
7 utilities affect the public interest; and directing
8 that regulation of telecommunications service util-
9 ities maintain and further universal basic telecommu-
10 nications service."

11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

12 * Section 1. AS 42.05 is amended by adding a new section to read:

13 Sec. 42.05.145. TELECOMMUNICATIONS REGULATION POLICY. A utility
14 that provides local exchange or interexchange telecommunications ser-
15 vice in the state affects the public interest. Regulation of these
16 utilities shall, consistent with this chapter, seek to maintain and
17 further the efficiency, availability, and affordability of universal
18 basic telecommunications service.

AMENDMENTS PROPOSED BY REPRESENTATIVE BOUCHER ON CS HB 5

- Line 6: telecommunications [TELECOMMUNICATION]
Line 11: telecommunications [TELECOMMUNICATION]
Line 14: further [ADVANCE]
Line 15: ...service; and
Line 16: rates [CHARGES]
Line 16: telecommunications [TELECOMMUNICATION]
Line 17: ...reasonable. [; AND]
Lines 18-20: Omit entire subsection (3).

POSITION PAPER

Department of Commerce
& Economic Development

HB 5: An Act relating to the regulation of telecommunications services.

This bill directs regulation of telecommunications utilities to seek three goals:

efficiency and affordability

reasonable cost

ensure that noncompetitive service delivery does not subsidize competitive service delivery

The Alaska Public Utilities Commission supports this bill. The Commission believes that this bill is compatible with established goals of the Commission. The Commission further believes that the same concept could and possibly should apply to all other utilities that provide essential services

There is no fiscal impact associated with this bill.


J. Anthony Smith, Commissioner

DATE: March 9, 1987

Original sponsor: Boucher

1 IN THE HOUSE
2 CS FOR HOUSE BILL NO. 5 (Telecommunications)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - FIRST SESSION
5 A BILL
6 For an Act entitled: "An Act relating to regulation of telecommunication^s
7 services."
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
9 * Section 1. AS 42.05 is amended by adding a new section to read:
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11 that provides local exchange or interexchange telecommunication^s ser-
12 vice in the state affects the public interest. Regulation of these
13 utilities shall, consistent with this chapter, seek to
14 (1) maintain and ^{further} ~~advance~~ the efficiency, availability, and
15 affordability of universal basic telecommunications service; ^{and}
16 (2) ensure that ^{rates} ~~charges~~ to customers for telecommunication^s
17 services are reasonable; ~~and~~
18 (3) ensure that revenue earned from ~~noncompetitive~~ telecom-
19 munication services is not used to subsidize the competitive ventures
20 of telecommunication companies.



Jeffus & Williams

P. O. Box 389 Juneau, Alaska 99802 (907) 780-6400

February 25, 1987

The Honorable H. A. Boucher
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Representative Boucher:

As telecommunications contractors, licensed within the state of Alaska, we would like to register our approval and support for House Bill 5, as presented by you, with specific reference to Paragraph 3.

The recommendation of Mr. Ted Lehne of the Alaska Telephone Association (ATA) -- calling for the adoption of wording used by Washington state -- is not, in our estimation, sufficient to deal with the intent as first proposed by Paragraph 3.

The primary telecommunications utility in the state of Washington was, of course, the Bell System. A court-ordered breakup of that company mandated the complete separation of its regulated (dial tone) and nonregulated (equipment sales and installation) services, which has led to increased competition on the nonregulated side and lower costs to the consumer. The wording enacted by the Washington State Legislature further insured that, should the regulated company file for a rate change, it could not include costs associated with that part of the business which was now in free market competition.

The difficulty in Alaska is that telecommunications utilities have their own nonregulated (interconnect) arm within the same company, and this "competitive" side of the industry has a built-in subsidy.

In illustration, company "A" is a true competitive venture, marketing nonregulated sales and services. "A" owns a business location and office equipment, vehicles, tools and various other equipment, has employees, pays property tax, and has monthly bills for everyday operating expenses -- all paid for by the revenues from the business.

On the other hand, company "B", the local telephone company, a fully regulated telecommunications utility, also sells nonregulated services and equipment in direct competition with company "A". Their employees, when performing nonregulated work, bill

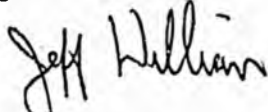
February 25, 1987
Page Two

the customer for that time, as would be expected. However, the employees are paid by the utility, use that regulated company's workplace and warehouse, office equipment, vehicles, etc., etc. Under this structure, the utility could operate its "competitive" arm of the business at a subsidized loss, simply to drive out competition.

In view of this, we feel the only true measure under consideration, designed at ensuring fair competition for the benefit of the consumer, is with Paragraph 3 of your House Bill 5.

Sincerely,

JEFFUS & WILLIAMS CO. INC.



Jeff Williams
General Manager

JW:pas

cc: House Special Committee on Telecommunications Members

HOUSE BILL #5
SECTIONAL ANALYSIS

Section 1:

This section defines the intent of the bill and gives the 3 major goals of the proposed legislation. The intent is to bring under state regulation, providers of universal telecommunications services in the state of Alaska. In this section, universal telecommunications is defined to include voice, video and data communications. The 3 goals of the proposed regulation are:

1. To maintain current levels of service, and increase the efficiency, availability, and affordability of state-wide telecommunications services.
2. To make sure that customers are charged fair and equitable fees for services rendered.
3. To ensure that rates established by a provider of non-competitive telecommunications services are not used to fund the competitive component of that providers services.

CHANGES MADE BY COMMITTEE SUBSTITUTE

Changes to subsections:

(1) maintain and advance the efficiency, availability, and affordability of universal basic telecommunications service [COMMUNICATIONS SERVICE INCLUDING VOICE, VIDEO, AND DATA COMMUNICATIONS];

(The result is a narrowing of the definition to focus more on basic (i.e., telephone) service rather than the expanded definition which includes "non-essential" telecommunications services.)

(2) ensure that charges to customers for telecommunication [COMMUNICATION] services are reasonable; and

(A simple language change to give consistency to the bill.)

(3) ensure that revenue earned from [RATES FOR] noncompetitive telecommunication [COMMUNICATION] services is not used to [DO NOT] subsidize the competitive ventures of telecommunication [COMMUNICATION] companies.

(Language clarification: Addresses the issue of whether a telephone company can use the revenues (i.e., profits) from its non-competitive business in the operations of its competitive business.)

RESEARCH QUESTIONS and ANSWERS

HB 5

UNIVERSAL SERVICE AT REASONABLE RATES

QUESTION: Why should the APUC get involved in the issue of universal service at reasonable rates?

ANSWER: APUC currently regulates the telephone utilities, but currently is not required to address the issue of universal service and reasonable rates. HB 5 would make this explicit.

HB 5 assumes that it is appropriate for the APUC to address the social issue of universal service and reasonable rates. The assumption is that all Alaskans should be linked via telephone, and that the cost of telephone service should not be exorbitant.

The nation-wide deregulation of the telephone industry could affect both universal service and telephone rates in the future. Alascom currently has the obligation to provide intrastate service to Alaska, and the cost of providing that service is subsidized by AT&T. AT&T would like to relieve itself from the subsidy obligations, and if this happens, intrastate rates could rise as Alascom is forced to charge telephone users the true cost of intrastate service.

HB 5 therefore anticipates future possible market structure changes (which will be decided by the Federal-State Board) and requires that APUC monitor any changes that could affect Alaskan telephone users.

QUESTION: Who is handling cases of unfair competition now? APUC? or FCC? How many cases are under investigation? What is the APUC/FCC attitude toward cases of cross subsidization?

ANSWER: The issue of unfair competition is handled by both the APUC and by the FCC. If the alleged violation is intrastate in nature it falls under APUC jurisdiction, while interstate violations are handled by the FCC. The attitudes of the commissions toward cross subsidizations are mandated by law. If a formal complaint is received, they must investigate and rule on the cases. APUC indicates that there are not any cases under investigation at this time, and that there have not been any cases investigated in the past.

AN ACT RELATING TO REGULATION OF TELECOMMUNICATION SERVICES

INTENT

The intent of the bill is to give the Alaska Public Utilities Commission policy direction in regulating telephone utilities in Alaska.

THE PROBLEM

The deregulation of long distance telephone utilities (AT&T) in 1984 and the resulting rise in private sector competition in the telephone and telecommunications industry requires that APUC now have policy guidelines.

POLICY GUIDELINES PROPOSED BY HB 5

The basic assumption of HB 5 is that the public interest must be protected in the current business climate of deregulation and competition.

It is also assumed that the state should set policy on this issue and not simply accept federal policy, even though it is similar.

The availability and affordability of telephone service are the key policy guidelines.

The definition of "communications" is expanded to include not only telephone service but also video and data communications.

SPECIFIC PROVISIONS

- (1) "Communications" is defined, and the need for universal (i.e., statewide) service at affordable rates is stated.
- (2) The importance of communication services to all Alaskan's is stressed by indicating that the communications services must be "reasonably" priced.
- (3) Deregulation and competition in the telephone industry has led to a situation where a telephone company could use revenues from one of its monopoly operations to subsidize an operation in which it is competing with another company.

PAST ACTION ON BILL

A similar bill (HB 701) was introduced in the last session but it died in the House Labor and Commerce Committee.

Several provisions of HB 701 that had "anti-competitive" connotations, and were therefore controversial, have been removed in HB 5.

FISCAL NOTE

The Alaska Public Utilities Commission attached a zero fiscal note to HB 701.

POSITIONS OF AFFECTED GROUPS

Both the Alaska Public Utilities Commission and the Alaska Telephone Association support the concept of the bill. Technical language changes may be necessary.

GCI and Alascom found HB 701 controversial due to the competition/market structure implications. Neither have presented positions on HB 5 at this point.

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version: HB 5
Publish Date: _____

Revision Date: _____
Title: "An Act relating to regulation
of telecommunication services"
Sponsor: Boucher
Requestor: _____

Agency Affected: Commerce & Econ. Dev.
BRU: Alaska Public Utilities Commission
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This bill proposes a basis statement of telecommunications policy and is not expected to have any fiscal impact on this agency.

Prepared by: T.S. Moninski, II, Executive Director Phone: 276-6222
Division: Alaska Public Utilities Commission Date: _____

Approved by Commissioner: *(Signature)* Date: 2/26/87
Agency: Commerce and Economic Development

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

FEB 13 1987

OC #5201

February 10, 1987

Representative H.A. "Red" Boucher
ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
House Labor & Commerce Committee
House Committee on Telecommunications
P.O. Box V
Juneau, AK 99811

RE: House Bill #5

Dear Representative Boucher,

I am writing in support of House Bill #5 that will be appearing before you shortly.

The basic point of request for support is thru Sec. 42.05.145 Item #3 entitled "Ensure that rates for noncompetitive communication services do not subsidize the competitive ventures of communications companies".

The FCC, in their wisdom said only the Bell operating companies had to totally separate their competitive and noncompetitive areas, but the rest of the telephone companies could separate through accounting procedures and that monitoring is left up to the State Public Utilities Commissions.

The rate of return allowed the telephone companies is set thru the Alaska Public Utilities Commission and essentially is if a telephone company spends \$1.00 they get a rate of return of \$1.10 so the more they spend the more they make.

ATU does all their buying of material, equipment, vehicles, advertisement in the yellow pages, payroll, pension plans, financing, etc. thru the noncompetitive side and passes along to the consumer the rate of return. With all this advantage, Anchorage Telephone Utilities competitive side, for example, has reported sustained losses of 2.5 million in their first 2 years in business.

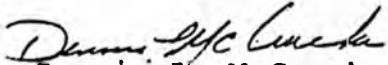
I am sure if the APUC looked at all the telephone companies and they were able to apply all the losses towards local service, then items 1 and 2 of House Bill No. 5 could be attained.

As an interesting side point of your concern for House Bill #5, I feel by the current situation you may not have anyone to regulate. It is my understanding that at this time the cities/municipalities do not have to be under APUC regulation. In fact, Fairbanks Municipal Utility Systems is not under the regulation of the APUC and it is common knowledge Anchorage Telephone Utility is going to remove itself in the very near future. I believe that Ketchikan is still under the APUC but, I am not positive about that.

House Labor & Commerce Committee
House Committee on Telecommunications
Representative Boucher
February 10, 1987

With the advent of Anchorage not being regulated and combining Fairbanks, approximately 1/2 - 2/3 of the states telephone subscribers will not be represented on a consolidated front thru any state agency. Any stated goals as listed in the House Bill #5 will be in serious jeopardy. I cannot see how we as statewide subscribers can be assured of affordable universal communications service if 1/2 - 2/3 of us do not have the represented protection of the APUC.

Respectfully,


Dennis L. McCracken
General Manager
COMTEC, INC.

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