

HB

5

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 4/22/87 5-DAY NOTICE  
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: L&C

\*\*FISCAL NOTE(S) ATTACHED \*\*  
IN ACCORDANCE WITH AS 24.08.035  
(see below)

DATE TURNED INTO OFFICE 4/28/87

Mr. President:

STATE AFFAIRS

Committee considered CSHB 5 (L&C)

declaring that telecommunications service utilities affect the public interest; and directing that regulation of telecommunications service utilities maintain and further universal basic telecommunications service.

and recommended:

- replace with CS \_\_\_\_\_  same title
- attached amendment(s) and  new title

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

letter of intent adopted and attached

\*\* Committee  attached or  adopted fiscal note(s)  
 zero PREVIOUS  fiscal impact

MEMBERS SIGNING DO PASS

Rich Healy (Do Pass)  
Greg P. Greenman (Do Pass)

OTHER RECOMMENDATIONS

Jan. 1987. No Rec.

Sen. Michael Roberson  
Chairman signature and recommendation

Committee Backup Attached

IN THE HOUSE

BY THE LABOR AND COMMERCE  
COMMITTEE

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

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act declaring that telecommunications service utilities affect the public interest; and directing that regulation of telecommunications service utilities maintain and further universal basic telecommunications service."

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

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

Sec. 42.05.145. TELECOMMUNICATIONS REGULATION POLICY. A utility that provides in state [local exchange or inter-exchange] telecommunications service [in the state] affects the public interest. Regulation of these utilities shall, consistent with this chapter, seek to maintain and further the efficiency, availability, and affordability of universal basic telecommunications service and shall ensure that customers enjoy where possible a choice of telecommunication suppliers and services.

# Alaska State Legislature

POUCH V  
JUNEAU, ALASKA 99811  
(907) 465-4931



CHAIRMAN  
Special Committee on  
Telecommunications

DISTRICT 10  
BOX 111038  
ANCHORAGE, ALASKA 99511  
(907) 349-2192

MEMBER  
Labor and Commerce  
State Affairs  
Finance—Subcommittee Administration

Representative H. A. "Red" Boucher

TO: MEMBERS OF SENATE STATE AFFAIRS COMMITTEE  
FROM: H.A. "RED" BOUCHER *HAB*  
SUBJECT: CSHB 5 (L&C) "Universal Service"  
DATE: APRIL 27, 1987

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## INTENT

The intent of the bill is to put the state on record in support of "universal service" (i.e., basic telephone service that is available to all Alaskans at affordable rates).

The bill does not intend to make a statement about preferential telephone market structures (i.e., competition vs. monopoly). The market structure issue is being decided at the federal level within the context of the State/Federal Joint Board.

## THE ISSUE

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 has already affected basic telephone rates and the market structure in Alaska. Telephone rates have decreased for some services (long distance calls) but increased for others (subscriber line charges).

Continuing technological advances and market restructuring are likely to continue having effects on the affordability and availability of basic telephone service.

## POLICY GUIDELINES PROPOSED BY HB 5

The Alaska Public Utilities Commission (APUC) has the responsibility (AS 42.05) for regulating telephone utilities within the state. CSHB 5 directs the APUC to consider public access to affordable telephone service when regulating telephone utilities within the state.

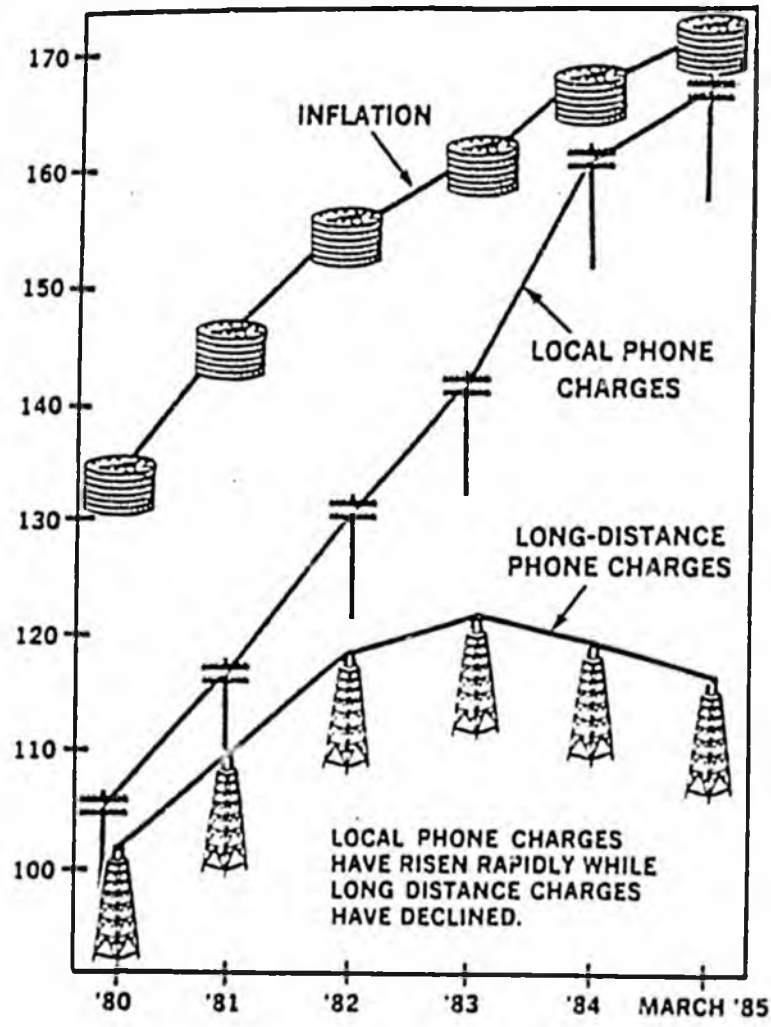
## DEFINITIONS

"local exchange" means telephone service within a community.

"interexchange" means telephone service between communities.

# CONSUMER COSTS FOR PHONE SERVICE

BASED ON CONSUMER PRICE INDEX 1977=100



LOCAL PHONE CHARGES HAVE RISEN RAPIDLY WHILE LONG DISTANCE CHARGES HAVE DECLINED.

SOURCE: Bureau of Labor Statistics

BY JO ELLEN MURPHY FOR THE WASHINGTON POST

After divestiture

# Breaking up is

by Michal Smith



Photo courtesy of NYNEX

*The preservation of universal telephone service remains central to the competition vs regulation argument that dominates the telecommunications agenda today. At greatest risk in a totally unregulated market is the rural user.*

It was a legendary love-hate relationship.

The American consumer's passion for the telephone made it a fixture in virtually every home. While we happily let our fingers do the walking, we never let *The Telephone Company* off easily. Whenever service was poor, it denied us access to an essential lifeline or simply frustrated our efforts to do what we most wanted to do — talk to another human being. It seemed an unforgivable transgression.

On January 1, 1984, the telephone company we knew and loved — and sometimes hated — ceased to exist. With it went that comfortable knowledge of who was the source and the solution to all our telephone problems.

In the wake of the Bell System breakup, consumers found themselves in an often bewildering marketplace, confused by choices of equipment and services. They had to select service contracts, buy or lease telephones, sort through dozens of promotional gimmicks to find a long distance provider, and adjust to cryptic new billing procedures.

This intensely competitive environment came to life with AT&T's fulfillment of a January 1982 consent agreement it reached with the federal government. The agreement settled an eight-year-old anti-trust suit against AT&T and required the then-monopoly to divest itself of its local operating companies within two years.

As a result of the breakup of the Bell System, local and long distance services became separate. Until that time, AT&T had inflated long distance rates in order to subsidize the costly maintenance of local services. The federal government carefully regulated AT&T's rate of return, but by the mid-1970s competitors began entering the long distance market. The

pressure to lower rates mounted. AT&T attempted to hold the competition at bay by frustrating its access to customers via the AT&T-owned local companies. The Justice Department and the new competitors answered with a series of anti-trust suits that eventually forced AT&T to divest.

## Issues remain the same

Three years post divestiture, the same issues that loomed over the breakup continue to dominate the public policy agenda for telecommunications. At the core of these issues is the persistent question of whether "universal" telephone service, service that is affordable and accessible to all, can and will remain an American reality.

Though long distance rates have declined since divestiture, consumers are paying an estimated 20 percent more overall for telephone service and 40 percent more for local rates alone, according to the Consumer Federation of America.

"Affordable service is going down the tubes," says Gene Kimmelman, legislative director for the Consumer Federation of America. "... people are paying more and getting less for their phone-service dollar."

The movement toward cost-based rates which reflect the actual cost of service will in all likelihood continue to push local rates upward. Consumer advocates argue that rising rates for a simple telephone hookup threaten universal service, but proponents of deregulation view the gradual price adjustment as a necessary move. In the past the infrequent telephone user subsidized the loquacious, paying the same rate regardless of how much he or she used the telephone. Similarly, inflated long distance rates financed local operations, placing the burden of cost on those

# hard to do

who made the most use of the system. This artificial rate structure distanced consumer costs from the actual cost of providing a service.

Also contributing to the upward push on local rates is a force that many have predicted will prove the demise of universal service: bypass. Bypass refers to the abandonment of the telephone network by big users who create their own closed communications systems. Typically, fewer than 10 percent of a local telephone company's users account for between 50 and 80 percent of its revenues. As large corporate and government users leave the existent network, operating revenues for local companies go with them. Left behind to maintain a costly telecommunications infrastructure are residential and small business users, for whom costs could soar.

And some consumer advocates predict that local telephone companies, which continue to retain a monopoly over local service, will eventually enter more lucrative markets and finance these ventures through higher local rates, a move that only state public service commissions will be in a position to block. The vast majority of residential and small business customers have no alternative to the local operating company, generally the sole source of basic telephone service. And, in Nebraska, even the public service commission check on local rates has been afforded a "bypass" option as long as rate increases do not exceed 10 percent a year.

Though the seven independent telephone operating companies do not have access to some potentially lucrative markets at present, that will likely change. A consent decree provision that bars them from manufacturing equipment or entering the long distance market may soon be lifted per February's Justice Department recommendation to that effect. That will open a path to new markets that consumer advocates fear will be fi-

nanced on the backs of powerless local ratepayers.

Critics of unregulated telecommunications competition also argue that the revolutionary advances in communications technology that were the promised benefits of competition have little chance of ever reaching small town America. As with airline deregulation, service is likely to become concentrated in large urban areas where the rate of return justifies investment in advanced telecommunications offerings. For the rural user, pricing which reflects real costs could render even the most basic phone service a luxury item.

For low-income families, the increased costs of basic telephone service already represent a deeper cut in family income, but that cut has not resulted in a significant decline in telephone use, according to U.S. Census Bureau data. The percentage of families with a telephone has actually increased since divestiture, from 91.4 percent in November 1983 to 91.9 percent in November 1985. Households with incomes below \$5,000 experienced the greatest increase in telephone service, a development that may be a reflection of moves by states to protect low-income users through lifeline legislation. Lifeline rates provide basic telephone service to the elderly and indigent families at an abbreviated monthly cost.

Proponents of complete or partial deregulation argue that government intervention stands in the path of progress, that free to explore, create, and market at will, the industry will rapidly advance America's telecommunications capabilities. Under a free market, they believe consumers will ultimately benefit from a myriad of choices. And given the freedom to create consumer alternatives, proponents believe competition will ultimately force prices downward.

Because of the growing interconnectedness of telecommunications and computer technology, obsta-

cles to rapid advancement are also widely viewed as obstacles to American dominance in the Information Age.

## The regulatory dilemma

State policymakers are faced with the challenge of striking a difficult balance between encouraging technological advancement and protecting the consumer.

To that end such groups as the Midwestern Legislative Conference Utility Regulation Task Force are exploring regulatory avenues open to state leaders in achieving this balance.

In Missouri, Gov. John Ashcroft spearheaded a task force on telecommunications that has yielded proposed legislation aimed at granting greater regulatory flexibility to commissions and protecting universal service. The draft legislation is based upon testimony from industry and consumer spokespersons. It suggests distinctions between those markets which are monopolized by single providers, those that are openly competitive, and those in transition.

From this complex new telecommunications industry and the regulatory maze that surrounds it, states want to emerge as viable competitors for high-tech jobs while preserving basic phone service for their citizens. At the same time, they must enhance the efficiency of their own vast telecommunications networks, often the largest in a state.

The final question from ratepayers and taxpayers is likely to remain, "How much?" State leaders are challenged to find the larger, long-term answers through savings within their own networks and economic opportunity throughout their states. But, in the short-term, the constituent/consumer who wants nothing more than affordable, accessible telephone service is likely to remain a top priority for lawmakers.

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

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

112

REQUEST: \_\_\_\_\_

Bill Version :CSHB 5(Tele)  
Publish Date :HOUSE 3/4/87

Revision Date: \_\_\_\_\_

Commerce & Econ. Dev.

Title: "An Act relating to regulation of telecommunication services"

Agency Affected: \_\_\_\_\_  
BRU: Alaska Public Utilities Commission

Sponsor: Boucher

Components: \_\_\_\_\_

Requestor: \_\_\_\_\_

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-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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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

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

No. 1

**REQUEST:** \_\_\_\_\_  
 Revision Date: \_\_\_\_\_  
 Title: "An Act relating to regulation of telecommunication services"  
 Sponsor: Boucher  
 Requestor: \_\_\_\_\_

Bill Version: CSHB 5(L&C)  
 Publish Date: HOUSE 4/1/87  
 Commerce & Econ. Dev.

Agency Affected: \_\_\_\_\_  
 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						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

<b>CAPITAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
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<b>REVENUE</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
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**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**POSITIONS:**

<b>FULL-TIME</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>PART-TIME</b>						
<b>TEMPORARY</b>						

**ANALYSIS :** (Attach a separate page if necessary)

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

Approved by Commissioner: *[Signature]* Date: 2/22/87  
 Agency: Commerce and Economic Development

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

**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						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>CAPITAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>REVENUE</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**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

# HOUSE COMMITTEE REPORT

(7)

Date referred: 3/4/87

FURTHER REFERRALS:

DATE: 3/26/87  
HB 5

The Labor & Commerce Committee has considered

"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:**

*W. Kozma*  
*W. A. Bush*  
*J. Ellis*  
*Clay D. ...*  
*Dave Donley*

**SIGNING OTHER RECOMMENDATIONS:**

*W. Furnace ...*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

*Dave Donley*  
 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]*

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**SIGNING OTHER RECOMMENDATIONS:**

*[Handwritten signature]*

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*[Handwritten signature]*  
Chairman's signature