

SB

299

SFIN

FILE

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 2/14/96

FURTHER: Finance

Date of 5-Day Notice: 2/22/96
 (in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3/8/96

The Labor & Commerce Committee considered SB 299

Requiring competition in local exchange telephone service.

and recommends:

- be replaced with _____ CS _____
- adopt previous _____ CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
Mike Miller	✓				
John Ferguson	✓				
		J. P. Salo	✓		
CHAIR: <u>Tom Kelly</u>	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
DCE D	3/6/96		135.9

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. SB 299

Revision Date: _____
 Title: "An act requiring competition in local exchange
telephone service"
 Sponsor: Senate Labor & Commerce by Request
 Requestor: Senate Labor & Commerce

Department: Commerce & Economic Development
 BRU: APUC
 Component: APUC
 COMPONENT SERIAL NO. 364

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY00	FY 01	FY 02
PERSONAL SERVICES	97.8	65.2	32.3			
TRAVEL	2.0	1.3	0.7			
CONTRACTUAL	32.9	21.9	10.9			
SUPPLIES	2.3	1.5	0.7			
EQUIPMENT	0.9	0.6	0.3			
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	135.9	90.5	44.9	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES	135.9	90.5	44.9	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Designated PR)	135.9	90.5	44.9	0.0	0.0	0.0
TOTAL	135.9	90.5	44.9	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ _____

POSITIONS

FULL-TIME	1	1			
PART-TIME	2	1	2		
TEMPORARY					

ANALYSIS: (Attach a separate page if necessary)

All expenditure lines other than personal services are pro-rated, based on $97,836/2,616,900 = 4\%$ increment to personal services. The level of contractual funding requested in this note would not be sufficient to carry out the rulemaking required under this legislation. However, a contractual increment for \$98.6 is already included in the APUC's FY 97 budget request and would be combined with the \$32.8 in this fiscal note. Depending on the progress toward competitive markets in the local loop, actual long term savings could be achieved.
 (Continued on attached narrative.)

Prepared by: Robert A. Lohr, Executive Director
 Division: Alaska Public Utilities Commission
 Approved by Commissioner: William L. Hensley
 Agency: Commerce and Economic Development

Phone: 276-6222
 Date: March 6, 1996
 Date: 3-7-96

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
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SB 299 - Preliminary Fiscal Analysis

SB 299 directs the commission to "provide for competition in local exchange telephone service in a timely manner" and to "adopt regulations that eliminate inappropriate impediments to entry for local exchange carriers fit, willing and able to provide service."

In order to successfully implement local competition, the Commission will need to address a number of policy issues including:

- * rules for interconnection
- * universal service and carrier of last resort
- * market power and dominance
- * service quality standards

Rules for interconnection: The Commission will need to establish rules under which competing carriers interconnect to local exchange carriers. Just and reasonable rates will be a primary focus of the Commission in order to ensure that competition is fair to both the incumbent LECs and their competitors. The Commission will need to address the issue of wholesale rates and the degree to which local services should be unbundled into discrete service and rate elements. Other non-rate issues will include the limitations (if any) on resale, number portability, and other issues that could potentially serve as barriers to entry.

Universal Service and Carrier of Last Resort: Competition will place increased responsibility on the Commission to maintain universal service. Market entrants will be attracted to services and sectors with the highest profit margins which will put increased pressure on the incumbent LEC's ability to provide basic services that have, for public policy reasons, been priced closer to cost. In a competitive market with multiple providers, the Commission will need to ensure that there is a carrier of last resort to ensure the continued availability of services to all customers. In addition, the Commission will need to explicitly define what constitutes universal service, which services or customers will need support, what mechanism it will use to support universal service, and how to fund it.

Dominant/Non-dominant: In the intrastate long distance market, the Commission maintains a distinction between carriers that have market power (dominant carriers) and those that do not (non-dominant). Although all carriers have the flexibility to reduce rates without prior Commission approval (provided rates are not below incremental cost), dominant carrier rate increases are subject to a time and resource intensive rate review procedure. The commission will need to determine whether to adopt a similar procedure with local exchange competition. If not, the Commission will need to develop some alternative method to ensure that customers are protected from carriers that have the ability to control market rates.

Service Quality Standards: The Commission will need to determine whether to apply existing local service quality standards uniformly to all competitors.

Each of the above broad policy issues will need to be addressed in one or more rulemaking

proceedings. Although these rulemaking may well tax Commission resources, the Commission's professional staff should be able to handle the associated rulemaking workload, assuming the Commission would have at least one year to complete the rulemaking process.

Personnel Costs:

a) **Review of Applications:** Assuming an average of one new applicant for each local exchange company, the Engineering section could easily double the number of telephone applications it receives in the first year following implementation of competition. The number of application could be even greater if incumbent local exchange carriers seek to enter long distance markets. Minimum estimate of additional staff required: one half-time Engineering Analyst II.

b) **Review of Tariffs:** Assuming competition stimulates the introduction of new services and modification of existing rates, the Commission will see a significant increase in the number of tariff filings. Even if the Commission allows rates to go into effect automatically as is the case with IXC tariffs (after 30 days notice to the Commission), there will still be a need for a basic review of filings to ensure that rates are just and reasonable and that the filings are neither discriminatory nor anti-competitive. Estimate of additional staff required: one full-time Utility Tariff Analyst II.

c) **Clerical Support:** The additional tariff, engineering and common carrier workload will create additional support staff requirements. Estimate of addition support staff required: one half-time Clerk 8.

The Federal Telecommunications Act of 1996, which took effect in February 1996, covers interstate calling. It promotes competition, although its effects on the Alaska telecommunications market remain to be determined.

FISCAL NOTE

No. 1
 Bill Version: SB 299
 (S) Publish Date: 3/8/96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

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Approved by Commissioner:	William L. Hensley <i>[Signature]</i>	Date: 3-7-96
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