

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:10 a.m. on January 20, 2000 in Room 522-S of the Capitol.

All members were present.

Committee staff present: Lynne Holt, Legislative Research Department
Mary Torrence, Revisor of Statutes
Jo Cook, Committee Secretary

Conferees appearing before the committee: Joe Lawhon Legislative Division of Post Audit
Janette Luehring, Chief of Telecommunications,
Kansas Corporation Commission

Others attending: See Attached Guest List

Chairman Holmes requested bill introductions. Rep. McClure stated that during the briefings on 911 by Legislative Post Audit several recommendations were made, including the setting up of a task force. Rep. McClure moved that the committee should introduce a bill or bills carrying out the Post Audit 911 recommendations. Rep. Sloan seconded the motion. Motion carried.

Chairman Holmes introduced Joe Lawhon, Legislative Post Audit, who provided an overview of the Performance Audit Report on "Reviewing Payment From the Kansas Universal Service Fund" (Attachment 1). Mr. Lawhon provided some background information on universal service. He explained that, in simplified terms, the goal of universal service is to have affordable, quality telephone services available to all people. The Kansas Universal Service Fund was created by the 1996 Kansas Telecommunications Act. The KUSF is administered by the National Exchange Carrier Association, which also services at least 6 other states.

There were four questions asked in this audit. For reporting purposes the first two questions were combined. Question 1 is: On What Basis Are Moneys in the Universal Service Fund Collected and Distributed, and Are Reasonable Methods Used to Ensure That Those Amounts Are Appropriate? The Corporation Commission has worked with local telephone companies to determine how much funding they should receive from the KUSF. The Commission decided the companies would recover nearly all lost revenue from in-state access charge reduction from the Fund. To ensure the Fund has enough money, KCC staff calculate the amount companies must pay into the Fund. The Commission and the Fund administrator have established, and generally are carrying out, reasonable procedures for ensuring that the moneys in the Fund are collected and distributed appropriately. Few problems were identified by auditors.

The second question is "What portion of the payments from the KUSF represent "High-Cost Recovery" and what portion represent "Revenue Neutrality"?" During the Fund's first two years more than \$150 million had been paid out on a 'revenue-neutral' basis. This amount has been broken down into "high cost" and "make whole" amounts. Differences of opinion about the KUSF have generally centered on whether payments should be cost-based. Both the law and Fund have been challenged in court and the law is currently being challenged before the FCC. The Kansas Supreme Court has upheld the KCC's decision to not order increases in local services rates to make up for lost revenues, however, it did say that the Commission must move toward making payments based on company costs. The Commission has begun studying local company costs in an effort to move toward making cost-based payments.

CONTINUATION SHEET

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Question 3 asks “How does the KUSF compare with other Universal Service Funds”? Along with Kansas, two other states used the Funds to make up moneys local companies lost when they were required to reduce their intrastate revenues. Other states use their funds for a variety of purposes, including high-cost support, E-911 and support for telecommunications services for schools, libraries and clinics.

Chairman Holmes welcomed Janette Luehring, Chief of Telecommunications for the Kansas Corporation Commission, who provided an update on the KUSF since the audit report (Attachment 2). The KCC staff continues to monitor the companies that submit annual reports and compare that list to the companies that file KUSF reports. The Commission has made significant progress in making the KUSF cost-based consistent with state and federal statutes. Also provided was a listing of dockets directly affecting the KUSF (Attachment 3). Ms. Luehring also distributed information from the KCC Public Affairs Division on the slamming and cramming complaints filed (Attachment 4).

Mr. Lawhon and Ms. Luehring then responded to questions from Rep. Krehbiel, Rep. Klein, Rep. Alldritt and Rep. Holmes.

Meeting adjourned at 9:45 a.m.

Next meeting will be a joint meeting with the House Education Committee on Monday, January 24, 2000 at 9:00 in Room 313-S.