



January 24, 2006

Senator Emler, Chair
Senate Utilities Committee
SB 350

Good morning Chairman Emler and Members of the Senate Utilities Committee. My name is David Wilson and I am a member of the AARP Kansas Executive Council. Thank you for this opportunity to express our comments and opposition to SB 350, which would allow price deregulations for telecommunications services in Kansas.

AARP Kansas has approximately 350,000 members in Kansas, most of whom purchase their residential local telephone service from SBC. Many also purchase long distance and DSL service from the Company as well.

Telecommunications services are important to AARP Kansas members and all Kansans depend on these services in their lives every day. They depend on telecommunications services to maintain their independence, to make contact in an emergency and to keep in touch with family and friends. Thus, any changes made to the regulation of telecommunications services have implications for our members, what they pay for telecommunications services, and potentially what they use as well.

AARP Kansas opposes SB 350 and all efforts toward deregulation of telephone service. We believe that competition is not developed enough to protect consumers from higher rates and lessened service quality.

AARP Kansas maintains that a service must be subject to effective competition prior to deregulation. Premature deregulation not only harms consumers by forcing them to pay higher rates for services for which they have no choice, but it also allows the incumbent provider to remonopolize the service by using predatory pricing to eliminate all nascent competition.

During 2005 the Kansas Corporation Commission determined that SBC, the largest phone company in the state, did not face enough competition to justify removing price controls over most major telephone services offered by the company.

The three-member commission was unanimous in retaining price controls over SBC's basic residential and business phone service, and a majority moved to retain individual price controls over individual extras, such as caller ID. But a majority of commissioners did agree to grant SBC more flexibility in offering rates for packages of services that bundle many extra.

Just months ago, SBC (now AT&T) failed to prove that its basic services should be deregulated under the provisions of current law. The company could not show that consumers had access to alternative providers offering comparable service at comparable price. The competitive situation has not changed, yet with this proposed legislation, AT&T doesn't have to face effective competition before its services will be price-deregulated.

The bill deregulates rates for all telecommunications services in exchanges with 75,000 or more lines. The size of an exchange does not guarantee that competitive choices exist for consumers. AARP maintains that the burden of proof should be on the company to demonstrate to the Commission that effective competition exists in a market for a service prior to it being deregulated. Absent such a showing, a market should remain regulated.

Residential services offered in smaller exchanges would be price-deregulated if the provider can show that there are at least two unaffiliated providers who own their own facilities. Not more than one of these could be a wireless phone service provider. Internet telephone services providers who do not own their own networks would not be considered alternative providers. Still, in most parts of the state this standard will be easily met by one wireless phone service provider and a cable TV provider that also offers a voice service. Wireless phone and cable are not effective competitors for consumers who want basic service.

Wireless service is a complement to, not a substitute for, basic local service, so it is not a true competitor. Although we may hear about consumers who "cut the cord" and go completely wireless, not many do. Nationally, only 4-5 percent of consumers nationwide have cut their wireline cord. Meanwhile, the number of wireless phone lines has grown. The numbers demonstrates the complementary nature of wireless as opposed to it being a substitute and true competitor for wireline. Furthermore, the lack of service quality, reliability rules and consumer protections for wireless service demonstrates that it is not a comparable, considering both function and price.

Cable companies provide voice service by offering Voice over Internet Protocol (VoIP). VoIP is not comparable in function to basic local service because consumers need a broadband connection to use VoIP, which in most places more than doubles the cost of basic service.

The bill deregulates prices for all bundled service packages statewide. It requires that individual components of bundled offerings remain available on a stand alone basis, subject to price caps, only in those exchanges that are smaller than 75,000 lines and have not been deregulated under any other provision of the bill. Thus, very few, if any, consumers will have access to stand-alone service. AARP

opposes forcing consumers into buying bundles in order to get basic phone service. Many consumers with limited incomes subscribe to bare bones service in order to maintain a communications channel. They do not want or cannot afford bundled offerings. The Legislature should require the continued offering of stand-alone basic local exchange service, subject to price caps, statewide.

Lifeline service will remain subject to price cap regulation. AARP supports keeping Lifeline under price caps, but notes that the income limitations on Lifeline mean it is not an option for many families who will nonetheless find basic phone service unaffordable under this legislation.

Now is not the time to deregulate telephone service in Kansas. Competition is not developed enough to protect consumers from higher rates and lessened service quality. The recently approved mergers among telephone industry giants have eliminated competitive options. Wireless and Internet telephony are not comparable in price and quality to the basic service that so many consumers still rely on.

Prior to deregulation of local service, consumers must have competitive options that can discipline the market and ensure that consumers are paying reasonable prices. In addition, the Committee needs to ensure that this competition is sustainable in that these competitors will be around in the long term so that predatory pricing cannot allow for remopolization of the market.

AARP Kansas wants to ensure that our members have telecommunications services that are reliable, of high quality, and reasonably priced. Currently, we are transitioning from monopoly provision of local telephone service to competition to provide these services. Consumers need either the discipline of the market to ensure that their rates are kept reasonable or the oversight of regulators. We fear premature deregulation which will give us the worst of both worlds – deregulated monopolies that can price essential services at any price they choose.

Therefore, we respectfully request that you oppose SB 350 and not approve price deregulation for telecommunications services in Kansas.

Thank you.