

TESTIMONY  
of  
STEPHEN J. HINIKER  
EXECUTIVE DIRECTOR OF THE  
CITIZEN'S UTILITY BOARD

before the  
SENATE COMMITTEE ON HEALTH, UTILITIES, VETERAN'S AND  
MILITARY AFFAIRS

MARCH 23, 1999

Wisconsin has chosen competition as the best way to get the best service to consumers at the best price. Until competition really develops, care has to be taken that monopoly services, including access to the local network are not overpriced and service quality remains acceptable to consumers.

Complaints about telephone service are at an all time high in Wisconsin. Consumers are furious about poor service, high rates and a proliferation of line charges on their phone bills.

Much of the problem stems from federal regulations. Some of the problems can be resolved at the state level. Today, I would like to address a rate gouging scheme involving hidden charges that total \$37 million a year in Wisconsin. These are charges that you, as Wisconsin lawmakers have the ability to repeal and have consumers benefit. SB 91 (?) would remedy this inequity and form the largest single rate reduction for long distance customers that this legislature could require this session.

Local access charges are the charges that local phone monopolies charge to long distance phone companies for the privilege of connecting to the local phone network. Currently these charges are assessed at about ten times to forty seven times the actual cost of the service. These charges do not show up on your phone bill. They are hidden charges that are assessed to the long distance phone company and ultimately end up costing the consumer money in the form of higher long distance phone bills. They are the phantom toll booth of the information superhighway. And there are no traffic police on the road.

The local phone companies provide the exact same service for a fraction of these costs to each other when they provide access service to each other and to their affiliated companies. These charges are a penny a minute for the two largest carriers in Wisconsin and four cents a minute for Century telephone.

In other words, the local telephone monopolies charge each other a bargain rate for interconnection while profiteering on access charges at least twice as high for long distance carriers. This discrimination costs Wisconsin ratepayers \$37 million a year.

Ameritech, the largest telephone monopoly in the state has done quite well with this overcharge. They have registered twenty straight quarters of double digit profits. Their average rate of return for the past five years is nearly 20%. They have used their wealth and their market power to intimidate potential competitors to the point where they still control 98% of the local access lines in their market territory.

We think this is wrong.

We think it is fair that the monopolies charge the same money for the same services no matter who the customer is. If Ameritech can provide access to GTE for a penny a minute, why should MCI, Sprint or AT&T have to pay double for the same service?

These overcharges end up adding as much as twenty percent to the long distance customer phone bill.

Our proposal says simply that there should not be discrimination on access charges. Anything less simply perpetuates the ability of the local monopoly to unfairly gouge the long distance company and ultimately it is the ratepayer who covers these costs.

# WISCONSIN STATE TELECOMMUNICATIONS ASSOCIATION

Ray J. Riordan, Executive Vice President

Testimony on SB 91

## I. Introduction

- WSTA represents the 83 traditional local telephone companies in Wisconsin.
- Senate Bill 91
  - Will cause higher local rates
  - Will not reduce long distance rates
  - Will increase profits for large long distance companies
- Small Companies concerns
  - Small company access rates are generally between 3.5¢ and 4.5¢. It is my understanding AT&T is attempting to reduce access rates to .2¢, .5¢, or .6¢ for each end depending on which AT&T spokesman is speaking.
  - The AT&T rate gives it a free ride on our local network. WSTA fears the PSC, which sets the access rates for small telcos, may say the legislature adopted this philosophy and reduce small companies access rates. I'm certain AT&T will argue that in small companies' cases.
  - When the long distance companies began promoting this legislation last summer, it included small telcos. They only removed the small telcos during the past month. If this passes this session, I'm certain AT&T headquarters in New York City will want to expand it to small telco next session.

## II. Higher Local Rates

- Telephone Companies directly effected by the bill receive from almost 80% of their revenues to over 90% from local service or access.
- Reducing access rates does not reduce the cost of providing service one cent.
- Therefore, the loss in access revenue will force local rates higher.
- Large long distance companies want \$37 million. That means local rates will raise by about \$37 million.
- Consumers who will be hit the hardest are residential, particularly the elderly and poor. These are the people who most dependant on the telephone and use long distance service the least.

- III. Access Reductions Will Not be Used to Reduce Long Distance Rates
- Since 1991 access rates have decreased 47% according to the FCC, yet long distance rates have increased 12% according to the consumer price index.
  - Last year, FCC Chairman Kennard charged that there is a, **“...growing body of evidence that suggests that the nation’s largest long-distance companies are raising rates...even though recent actions of the commission [FCC] have in fact reduced the long-distance companies’ costs.”**
  - History shows AT&T, MCI & Sprint do not pass through reductions
    - Since 1994 Wisconsin local telcos have reduced access by almost \$50 million a year but residential and small business have not seen those reductions in lower long distance rates.
    - The Wisconsin legislature eliminated the Gross Revenue Tax for long distance companies on January 1<sup>st</sup> of last year.
      - AT&T charged a 6.65% “Wisconsin Tax Adjustment” surcharge on its bills to pay for the Gross Revenue Tax. It promised to remove the charge when the GRT tax ended.
      - AT&T continued to charge the 6.65% until it began to lobby legislators on this access legislation. For AT&T this is an overcharge of \$10 to \$15 million.
      - AT&T still has a .78% “Wisconsin Tax Adjustment” surcharge.
    - Last year the FCC reduced access rates by over \$2 billion. Consumers Union and Consumer Federation of America have criticized long distance companies for not passing on the \$2 billion in long distance rates.
    - In January of this year, AT&T began charging a \$3.00 minimum for all its customers. This means that 10,000,000 customers, most all residential saw their long distance bill increase, even when they don’t use the service. The minimum charge for small businesses is increasing to \$7.50.
    - In January of 1998 the FCC restructured access charges. It reduced the per minute rate, but added a per line rate that long distance carriers were to pay of \$0.53 for single line residents. This \$0.53 charge was on residential lines of large local companies, Ameritech and GTE, not on smaller telcos such as Century, Nelson Coop., Manawa, or Mid-Plains. **The change was revenue neutral.** There should have been no increase in charges by long distance companies to residential customers. However, each of the three long distance companies began charging residential customers a per line rate that far exceeds the \$0.53. The Consumers Union revealed that AT&T charges \$0.85 for each residential line, MCI - \$1.07, and Sprint - \$0.80. This is a mark-up of 60% for AT&T, 1.02% for MCI, and 51% for Sprint.
    - More important to customers of small telcos, AT&T is billing customers of the 81 independent telephone companies the same \$0.85, but the independent telephone companies are not billing AT&T the \$0.53 per line charge. The \$0.85 is pure profit.
    -

- Prior to January of last year an elderly person with AT&T as her long distance company paid nothing for long distance service during months she made no toll calls. Now AT&T bills her \$5.18 for not placing any long distance calls. There's something wrong here. This is not a company that is attempting to provide service to the rural, poor, elderly and others in need in our society.
- Recently the FCC ordered long distance companies to pay \$.24 to payphone owners for each call that did not require a coin be inserted (i.e. credit card, calling card, collect, etc). AT&T began charging the customers placing such calls \$.30 plus the cost of the call. This provides an additional profit of \$.06 a call or 25%.

#### IV. Toll Access and Local Interconnection are Not the Same

- Representatives of the long distance companies have claimed access and interconnection are the same. This is like comparing two apples to one orange.
- First, toll access is **both** the origination and termination of a toll call. Local interconnection provides **either** the origination or termination of a call, but **not both**.
- Second, the services and facilitates provided are different.
  - AT&T, MCI and Sprint want the local telco to give them a free ride on our local network. Generally we have reciprocity between a local competitor and us. We don't charge them and they don't charge us for the use of each other's local lines. However, long distance companies don't have local lines to trade but they still want to use ours free.
  - For toll access local telephone companies must bring the call to the location of the long distance carrier. This is often many miles away, particularly in the rural areas of Wisconsin. A competing local telephone company usually brings its facilities into the office of the other telco.
  - Access rates contain an information surcharge element for carrying calls for long distance carriers for directory assistance. Local telcos provide directory assistance for their customers without using the interconnection so there is no charge.
- Third, the FCC and PSC want to provide an incentive to kick-start local competition. Therefore, they approved artificially low interconnection rates. There is no need to give large long distance companies this incentive.

- V. I have not addressed the payphone issue because it is new and WSTA has not had the opportunity to fully consider it. WSTA is concerned about a legislative mandate of a specific method to charge for these lines. We also think the FCC may have preempted the states in the amount to bill for such lines. We are concerned about the constitutionality of the retroactive aspect of the proposal. Finally, we need to determine if there is any fairness in the proposal.

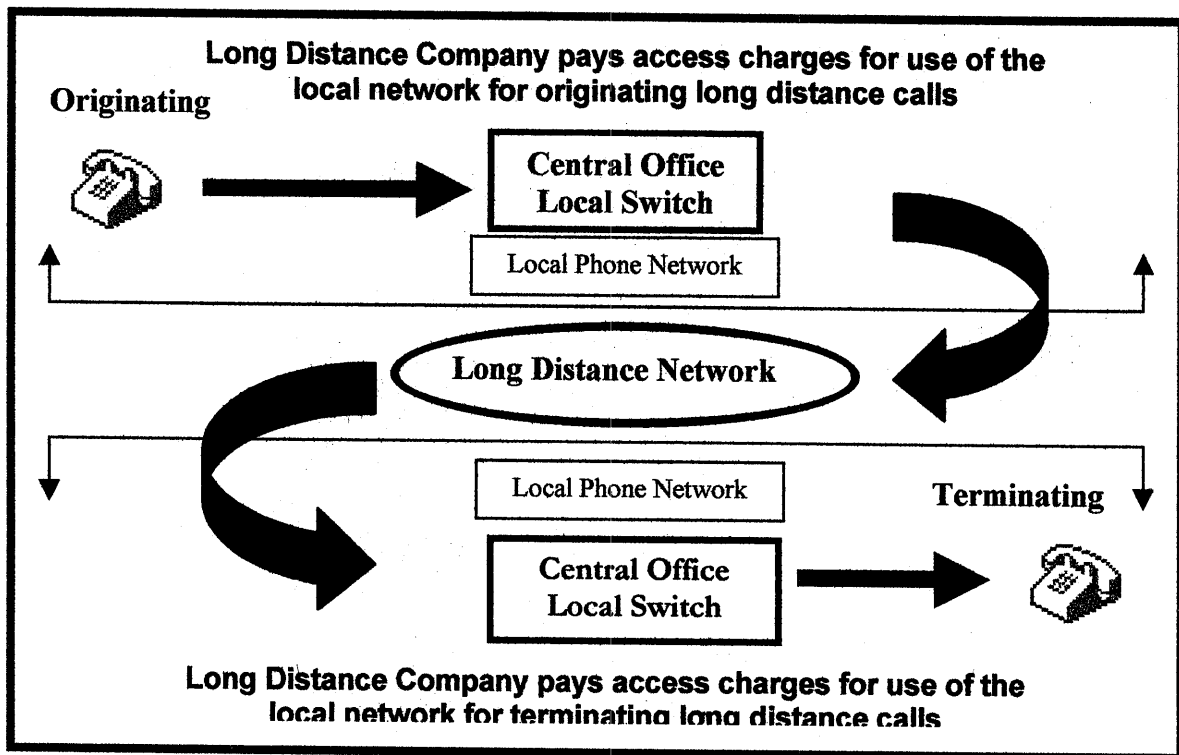
VI. Conclusion

- You'll need to decide whether the bottom lines of AT&T, MCI and Sprint are more important than reasonable local rates for Wisconsin customers.
- We request on behalf of the Wisconsin local telephone customers that use subscribe to over 3,000,000 of our lines and our 10,000 Wisconsin employees to vote against this bill which will flow tens of millions of dollars from Wisconsin to pockets of the large long distance companies.
- Wisconsin's access rates are among the lowest in the nation. There is no need for this drastic and arbitrary cutting of access rates.
- The Monroe County Telephone Company, which is one of the Century companies effected by this bill, derives over 90% of its revenue from local and access service. If access rates are cut significantly, as this bill requires, those 11,000 customers in Sparta and the surrounding area will see significant increases in their local rates because there is no other source of revenue. Similar increases will be necessary in Wausaukee, Tomah, Pembine, Footville or many other rural communities in Wisconsin.
- The FCC and PSC have authority over access rates. Those agencies have substantially reduced access rates over time without causing substantial increases in local rates. They have the expertise and ability to monitor access and local rates and balance those rates to avoid the rate shock this legislation will cause. They have reduced access rates by 47% in the past 8 years.

**Ameritech Opposes SB 91 because it won't benefit a single customer in Wisconsin. And, that's why we think you shouldn't support it either.**

What is an access charge?

Access charges were created in 1984 as one part of the break-up of AT&T. These charges compensate local phone companies for the use of their local phone network allowing long distance companies to complete long distance calls.



How does the money flow?

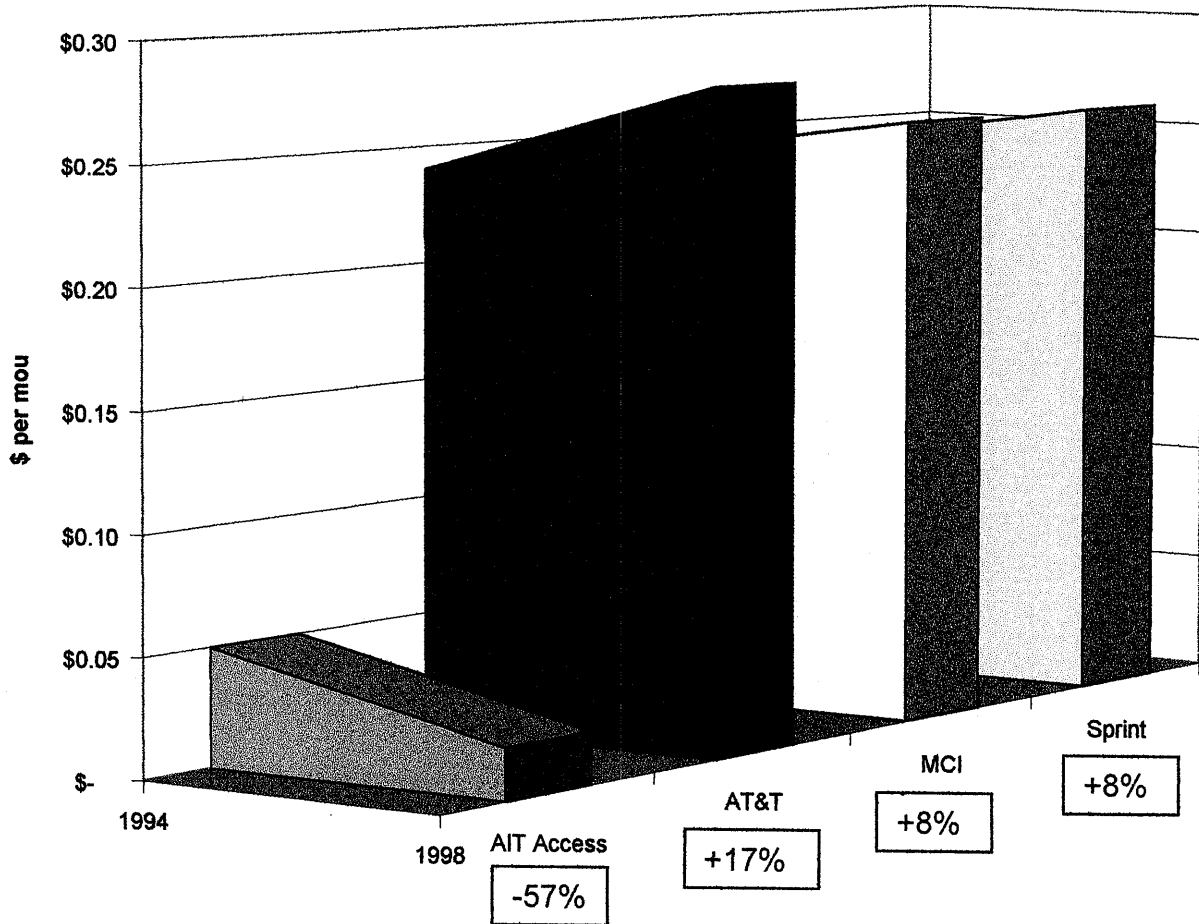
Example:

- 1) A basic rate residential customer pays AT&T \$.25 per minute.
- 2) AT&T pays Ameritech approximately \$.01 per minute to originate the call.
- 3) AT&T pays the terminating local phone company a similar rate per minute to terminate the call.

Who has received the benefits of access reform so far?

- Ameritech has lowered access rates by \$3 billion over the last 5 years, while long distance companies continue to raise long distance rates.

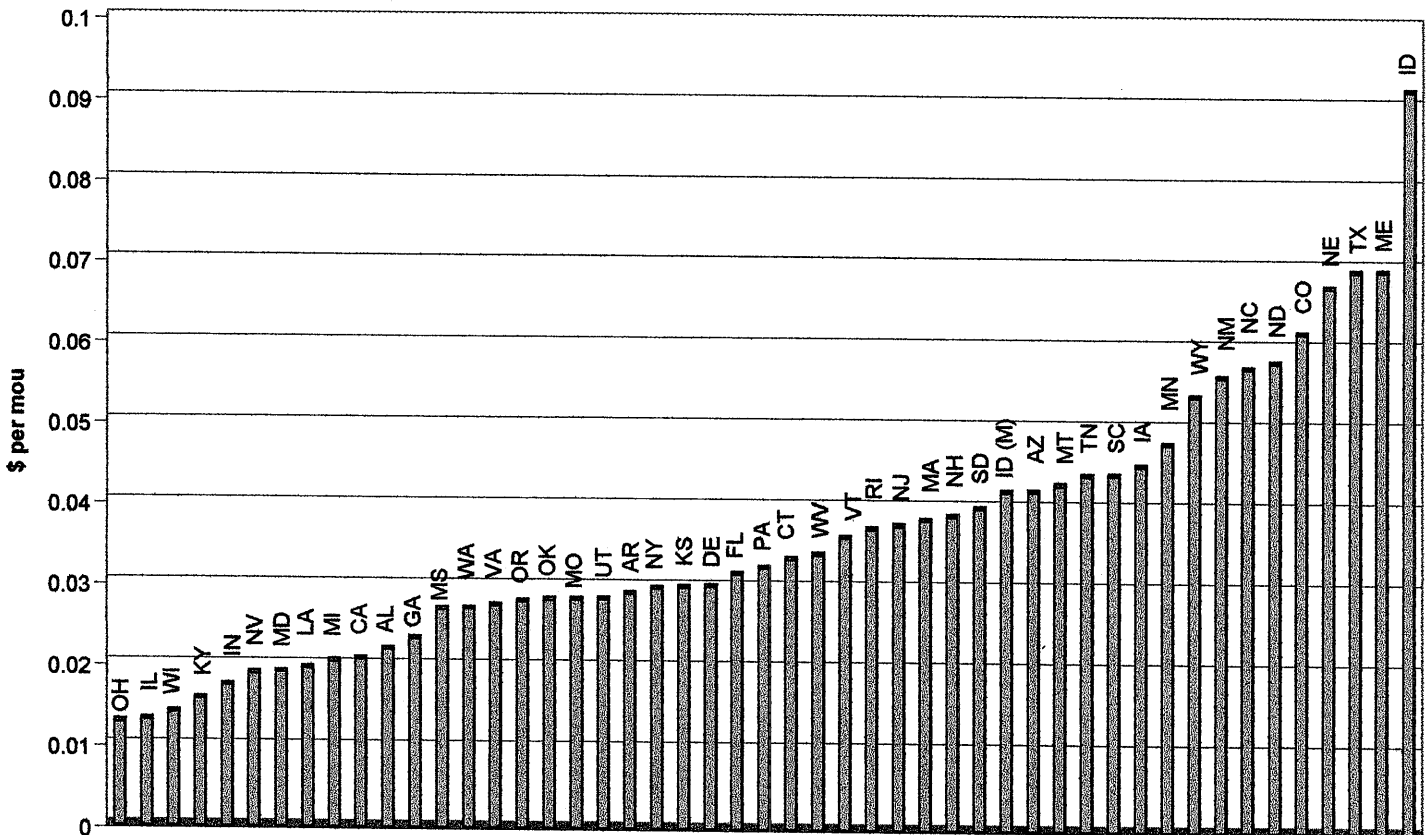
**Ameritech Interstate Access Charges vs. Basic Long Distance Rates**





- Ameritech's access rates are among the lowest in the country and are the lowest in Wisconsin.

### RBOC Intrastate Access Charges



- Act 496 reduced intrastate access rates by \$40 million annually due to the elimination of intrastate CCL.
- The cost of business (access rates) for long distance companies is falling yet they are raising rates to consumers.
  - *"They said that if we cut access charges, then they would cut long-distance bills. Have they done so? Well, they have yet to show me that consumers got the promised savings."* **FCC Chairman, William Kennard**
- There should be significant concern that any additional savings from reductions in intrastate access rates will ever flow into the hands of Wisconsin consumers.

### How are access rates regulated?

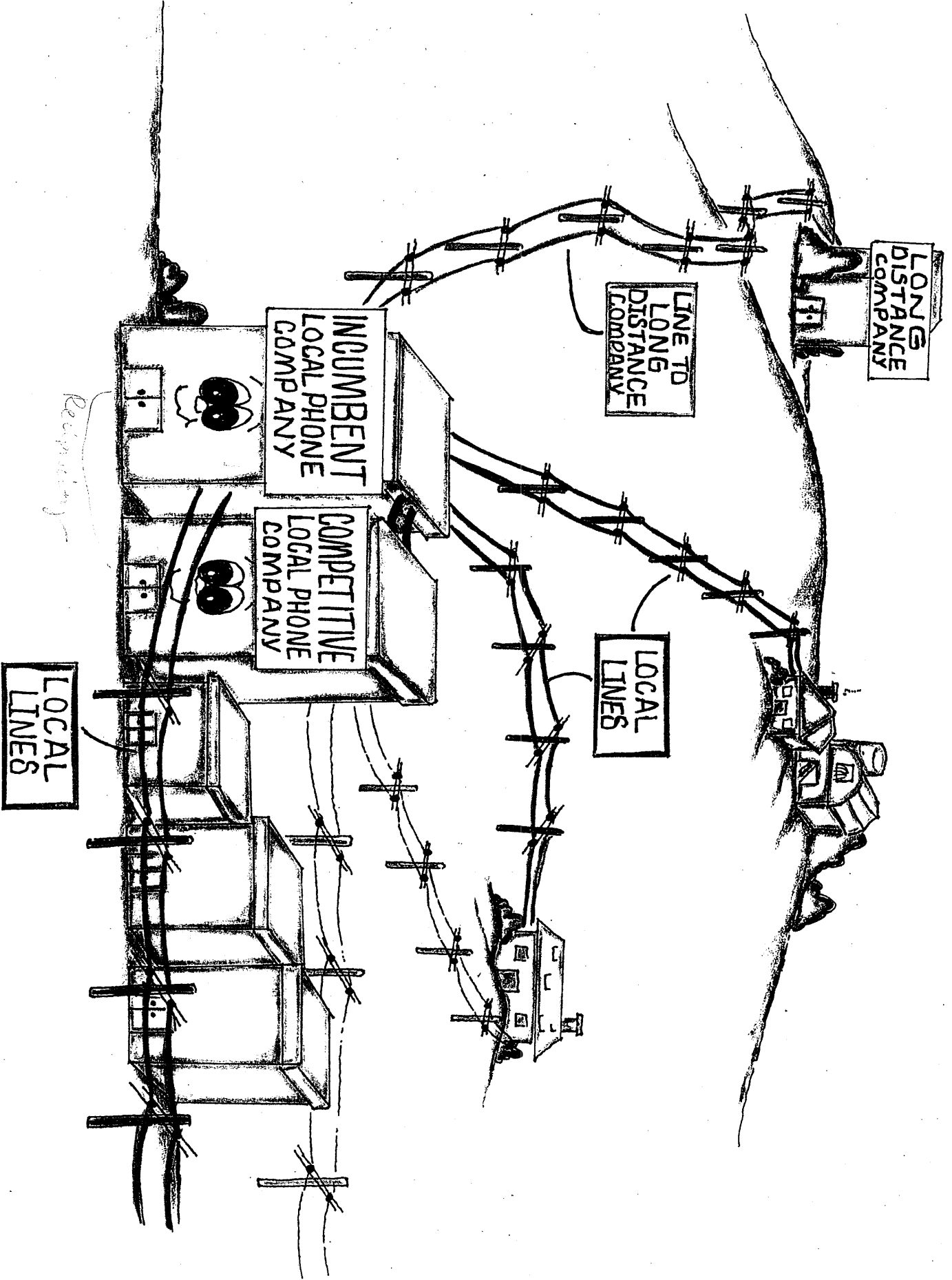
- The Federal Communications Commission (FCC) is responsible for regulating the pricing of interstate access.
- Wisconsin Act 496 established a policy where reductions in interstate access rates are automatically flowed through (assuming long distance rates are reduced) to customers in Wisconsin via reductions in intrastate access rates.

### "Access" rates and payphone providers.

- The payphone providers are asking the Wisconsin State Legislature to revisit issues and rules already addressed and established by the FCC. Ameritech fully complies with the existing rules.
- Payphone providers are attempting to get the benefits (including wholesale pricing) associated with being a telecommunications carrier, as defined by TA 96, without any of the associated obligations.
- Payphone providers are treated consistent with any other business end user. Establishing a policy of preferential pricing for payphone providers is both unwarranted and discriminatory.
- Payphone customers will see no benefits from this proposed change.

Ultimately, the pricing of access services should be constrained by the marketplace as envisioned by the FCC. Until then the FCC has established a system which mandates reductions in access prices. These interstate reductions are automatically shared with long distance companies in Wisconsin through the intrastate access "mirroring" process. Access charges recover actual costs to provide the local network necessary to complete a long distance call. If the "mirror" is broken, Ameritech will raise other rates (ie local) to offset the reduction in access rates.

**So, the choice comes down to a single question:  
Will Wisconsin consumers benefit as a result of this bill?  
The answer to that question is a resounding NO.  
And that's why Ameritech opposes this bill.**



# Wisconsin State Telecommunications Association, Inc.

ROBERT HEWITT, President  
PAUL D. BERG, Vice President  
RAY J. RIORDAN, J.D., CAE  
Executive Vice President and General Counsel



6602 NORMANDY LANE  
MADISON, WISCONSIN 53719  
PHONE: (608) 833-8866  
FAX: (608) 833-2676  
E-mail: [wsta@madison.tdsnet.com](mailto:wsta@madison.tdsnet.com)  
Website: <http://www.wsta-net.org>

**To: Members of the Wisconsin Legislature**

**From: Tom Engels, Manager of Legislative Affairs**

**Date: Tuesday, March 23, 1999**

By now your office has received information from the Wisconsin State Telecommunications Association stating its opposition to Senate Bill 91. The Wisconsin Grocers Association and the Wisconsin Federation of Cooperatives join WSTA in opposing Senate Bill 91.

WSTA and its 83 local telephone company members provide over 10,000 good paying jobs to Wisconsin citizens. Last year the local telephone companies paid \$150,000 million in taxes to the State of Wisconsin. WSTA member companies have invested over \$5 billion in Wisconsin and that number continues to increase. All of this adds up to a very serious commitment by the local telephone companies to provide the very best service for our customers at reasonable rates.

Today, during a public hearing before the Senate Committee on Health, Utilities, Veterans and Military Affairs, letters were presented to the committee from WSTA members outlining their opposition. I have attached a few of those letters for your review. Additionally, I have included WSTA President Bob Hewitt's testimony before the committee. We have also attached a one-page fact sheet for your office to use as a reference.

As always, if you have any questions or need additional information, please do not hesitate to contact at (608) 833-8866 or Email me at [accesslegis@chorus.net](mailto:accesslegis@chorus.net).

## Attachments

## BOARD OF DIRECTORS

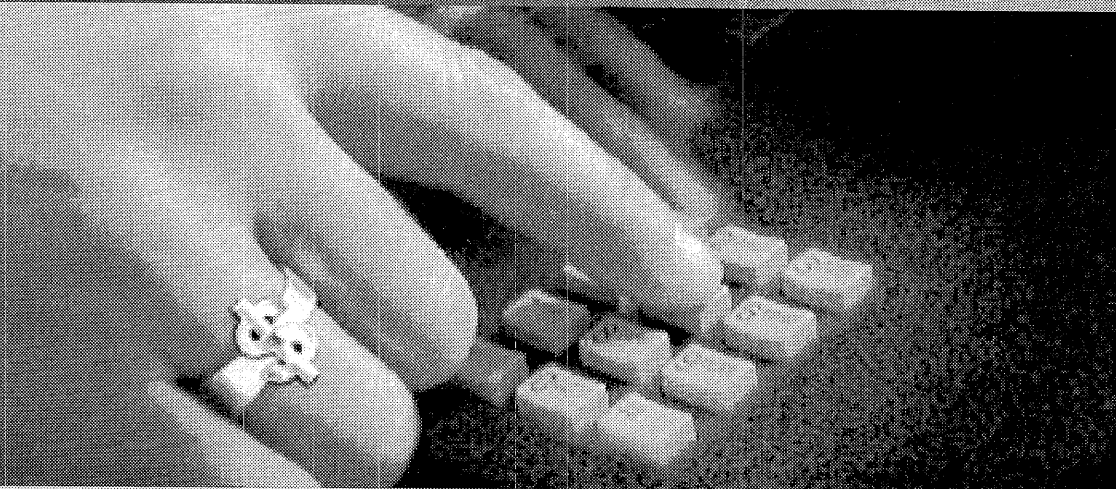
PAUL D. BERG, Camp Douglas  
ROBERT HEWITT, Wisconsin Rapids  
MICHAEL D. JENSON, Amery  
JOHN KLATT, Luck  
DIANA LaPOINTE, Oxford

DANIEL W. MATSON, Sun Prairie  
LOUIS D. REILLY III, Madison  
DUANE W. RING, JR., La Crosse  
PATRICK D. RIORDAN, Pulaski  
TODD C. SCHAFER, Clintonville

RANDY R. SILER, Downsville  
THOMAS R. SQUIRES, Manawa  
BARBARA ULICHNY, Milwaukee  
DEAN W. VOEKS, Middleton  
WILLIAM C. WISWELL, Elkhorn

FOR YOUR CONSTITUENTS, FOR WISCONSIN'S CONSUMERS  
SB 91 IS A  
**WRONG NUMBER**

*Get the facts before you dial that long-distance call. Access rates have already been reduced and savings are NOT being passed along to Wisconsin consumers.*



*Before you support SB 91 you should have the facts about the negative impact this bill will have on Wisconsin's consumers ... and your constituents ... who depend on access to affordable and up-to-date local phone service.*

**The fact is, SB 91 will raise their rates.**

The Big Three National Long-Distance Companies — AT&T, MCI and Sprint — want to pay less to our local phone companies for the use of lines and equipment ... lines and equipment our local companies and their customers have invested in and maintain.

In other words, these giant, national long-distance companies which have no interest in serving the residential customers who live and work in our local communities are asking you to legislate lower costs for them.

Before you agree to do that, you should have some facts.

**• WI access rates are already among the lowest in the nation.**

Previous actions taken by the FCC, the WI PSC, not to mention the WI Legislature, toward reducing intrastate access charges in Wisconsin, have been pivotal. In fact, through a mandated plan, local telephone carriers — companies based right here in Wisconsin — have reduced the cost of access to their lines by almost \$50 million per year since 1994. Currently the state of Wisconsin and its residents enjoy the 5th lowest access charge rate in the nation.

**• The national long-distance companies are not passing savings along to the consumer.**

Those reductions in access charges should mean consumers are paying about \$11 less per year for long-distance services. Have you — or your constituents — seen those savings?

Probably not, since these same long-distance companies that want lower costs by law have increased their long-distance rates: between 1994 and 1998, customer-dialed calling card rates increased 27.5% ... operator-dialed credit card calls increased 28.8% ... and third-party billing increased 27.5%. If that's not enough, AT&T has already started charging customers \$3 per month ... even if they don't make any long-distance calls.

**• If the Big Three get their way, as much as 37 million dollars would leave the Wisconsin economy. And local phone rates will go up.**

The Big Three are looking for a free ride ... they want lower costs and higher profits without contributing to the upkeep and maintenance of the local lines they'll be using to make those profits. The fact is access fees have always been intended to do just what they are doing now: offset the price of basic local service, keeping it affordable and available to all. Taking \$37 million out of Wisconsin's economy will only mean one thing — increased phone rates for residential customers and small businesses.

**Hang up on SB 91**

**NO SB 91**



# Wisconsin State Telecommunications Association, Inc.

ROBERT HEWITT, President  
PAUL D. BERG, Vice President  
RAY J. RIORDAN, J.D., CAE  
Executive Vice President and General Counsel



6602 NORMANDY LANE  
MADISON, WISCONSIN 53719  
PHONE: (608) 833-8866  
FAX: (608) 833-2676  
E-mail: [wsta@madison.tdsnet.com](mailto:wsta@madison.tdsnet.com)  
Website: <http://www.wsta-net.org>

## Testimony by Bob Hewitt

### President of the Wisconsin State Telecommunications Association

### Before the Senate Health, Utilities, Veterans and Military Affairs Committee

### On 1999 Senate Bill 91

Thank you Chairman Moen and members of the Senate committee on Health, Utilities, Veterans and Military Affairs for allowing me this opportunity to speak on Senate Bill 91.

My name is Bob Hewitt, I'm the Executive Vice President and General Manger of Wood County Telephone Company located in Wisconsin Rapids. I am also President of the Wisconsin State Telecommunications Association. Both Wood County Telephone and WSTA are adamantly opposed to Senate Bill 91 because it will directly cause local telephone rate increases and is certain to affect the long established challenge of making local service affordable to all. Increases that will impact our state's elderly, people living on fixed incomes, families, and small business owners.

WSTA is comprised of 83 local telephone companies in Wisconsin. That includes Ameritech, GTE and CenturyTel, which are the companies that are initially affected by this bill. WSTA member companies provide over 10,000 good paying jobs to Wisconsin citizens. Last year the local telephone companies paid \$150 million in taxes to the State of Wisconsin. Our members have invested over \$5 billion in Wisconsin and that number continues to increase as we strive to bring demand technology to Wisconsin. All of this adds up to a very serious commitment by the local telephone companies to provide the very best service for our customers at reasonable rates.

Although this legislation will only directly impact a telecommunications provider that has 150,000 access lines or more in Wisconsin, WSTA believes that this is only a divide and conquer strategy being conducted by the large long distance carriers. Our members are very united in opposing Senate Bill 91 and that is why I am here today to testify in opposition.

#### BOARD OF DIRECTORS

PAUL D. BERG, Camp Douglas  
ROBERT HEWITT, Wisconsin Rapids  
MICHAEL D. JENSON, Amery  
JOHN KLATT, Luck  
DIANA LaPOINTE, Oxford

DANIEL W. MATSON, Sun Prairie  
LOUIS D. REILLY III, Madison  
DUANE W. RING, JR., La Crosse  
PATRICK D. RIORDAN, Pulaski  
TODD C. SCHAFER, Clintonville

RANDY R. SILER, Downsville  
THOMAS R. SQUIRES, Manawa  
BARBARA ULICHNY, Milwaukee  
DEAN W. VOEKS, Middleton  
WILLIAM C. WISWELL, Elkhorn

**TESTIMONY BY BOB HEWITT  
1999 SENATE BILL 91  
PAGE TWO**

This very same issue surfaced in Nebraska last year. The three largest telephone companies in that state estimated that the average monthly local rate of \$16.35 a month would increase to \$30 or more and \$100 per month in some remote rural areas. This issue was placed in the hands of the voters through a referendum ballot and was rejected by 58 percent of the voters.

We have subscribers that make few or no long distance calls. I suspect most of these consumers need a telephone for local calling but cannot afford the luxury of long distance calling. This bill is asking these telephone users to subsidize the interexchange carriers and large toll users if savings are indeed passed to the end user.

Please keep in mind that the residential telco subscriber has made sacrifices to reduce toll charges. In the serving area of the three companies named in Senate Bill 91, residential subscribers are currently subsidizing the long distance carriers for a mandated FCC charge of \$3.50 per month, a primary interexchange carrier charge of 85 cents per month for each single line. In addition, many of the interexchange carriers charge ~~\$7.00~~ <sup>3</sup> or more minimums.

Supporters of this bill will have you believe that if this bill becomes law Wisconsin long distance consumer will save 20 percent on their long distance bills. A savings that the long distance carriers want you to believe is \$37 million a year. But history tells another story.

In 1994, Wisconsin local telephone companies working with the Public Service Commission and the Wisconsin Legislature agreed to lower their access rates by almost \$50 million dollars a year---and they have. But these savings to the large long distance carriers were not passed on their ratepayers. As Wisconsin's local telephone companies were investing millions of dollars in their outside plant to improve service to their customers AT&T was shutting down facilities and laying off employees. For information purposes, Wood County Telephone Company has more employees and asset investment than AT&T has in the entire State of Wisconsin. We have made a commitment to Wisconsin and so have the other Wisconsin local telephone companies. But the same cannot be said for AT&T and the other large long distance companies.

Wisconsin local telephone companies already have some of the lowest access rates in the nation. Our industry conclusion is the same as the voters in the State of Nebraska, that this bill is bad for our customers and your constituents. I urge the members of this committee to oppose Senate Bill 91.

Thank you for time and I will be glad to answer questions that committee members may have.

P.O. Box 5158  
Madison, WI 53705-0158  
301 S. Westfield Road  
Madison, WI 53717-1799

Telephone: 608-664-4000  
FAX: 608-664-4184

**TDS TELECOM**

***Government and Regulatory Affairs***

March 15, 1999

Dear Legislator:

We are writing to bring to your attention LRB 2452 and urge your strong opposition to this legislation being proposed by State Senator Rod Moen.

As you are well aware, inter-exchange carriers or long distance telephone providers doing business in Wisconsin, are waging a verbal battle based on "scare tactics" to suggest that local telephone access rates in Wisconsin are too high and need further reductions.

These transparent attempts to pad corporate balance sheets in such distant cities as Kansas City, Washington, DC, and New York City will have little to no benefit to Wisconsin consumers. History, as well as several nationwide studies have shown that in many cases, unwarranted intrastate access charge reductions will force Wisconsin's low income, elderly, small business owners and family farmers to pay higher local telephone rates than they are currently enjoying.

TDS TELECOM, which owns and operates 15 local exchange telephone companies in Wisconsin, has made reductions to access charges in the past while few, if any, of our telephone customers have seen a decrease in their long distance telephone bill from companies like AT&T, MCI or Sprint.

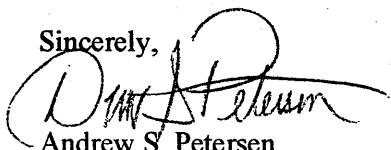
It is our strong belief that previous actions taken by the Federal Communications Commission, the Wisconsin Public Service Commission, not to mention the Wisconsin Legislature toward reducing intrastate access charges in Wisconsin have been pivotal. Currently, the State of Wisconsin and its residents enjoy the 5<sup>th</sup> lowest nationwide access charge rates in the country.

With compelling statistics such as this, not to mention the tremendous amount of investment and jobs the local exchange telephone companies of Wisconsin provide, it should come as no surprise that the Wisconsin State Telecommunications Association (comprised of 83 local telephone companies), the Wisconsin Grocers Association, the Wisconsin Federation of Cooperatives and numerous other statewide associations adamantly oppose this bill.

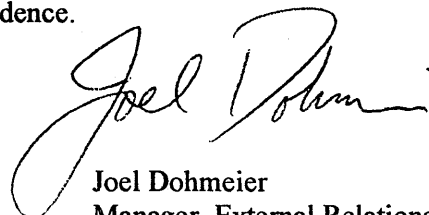
As one of the region's largest employers, with facilities and operating companies in over 50 Wisconsin communities, we urge you to consider the negative effects associated with this legislation and encourage you to oppose this anti-consumer effort in any or all forms which it may take. If you have any questions or need any clarification on this important public policy matter, please contact Drew Petersen (608) 664.4155 or Joel Dohmeier (608) 664.4168.

Thanks again for taking the time to review our correspondence.

Sincerely,



Andrew S. Petersen  
Manager, Government Relations



Joel Dohmeier  
Manager, External Relations





# Northeast Telephone Company

March 18, 1999

Dear Legislator:

We are writing to ask your support in opposing Sen. Moen's LRB 2452, which would reduce access rates, the price local telephone companies charge long distance companies to complete calls on our networks.

Please consider the following in access discussions:

- Northeast Telephone Company, which owns and operates four exchanges north and west of Green Bay, has a \$14 million investment in a state-of-the-art network that provides advanced services to the schools, businesses and residents we serve. Access charges help offset the cost of staffing, building, maintaining and upgrading this network.
- Wisconsin has the *fifth lowest access costs* in the U.S. If the long distance companies want to reduce costs, we suggest they review costs in other areas or other states. As part of Wisconsin's Telecommunications Act, the two largest telephone companies in Wisconsin reduced their access rates, saving long distance companies nearly \$50 million a year since 1994.
- The bottom line is lower access fees will mean higher local telephone prices for Wisconsin telephone customers. Our preliminary estimates indicate that Northeast's local telephone service could jump from around \$12 a month to \$30 a month.
- We do not believe rural Wisconsin telephone customers should subsidize multi-billion dollar, multi-national corporations.

Please feel free to call me directly at 920.498.1769 or Tom Engels or Ray Riordan at the Wisconsin State Telecommunications Assoc. in Madison, 833.8866 if you or your staff have questions on access charges. We trust you will put Wisconsin consumers first.

Sincerely,

  
Cheryl Barnes  
Government Relations

cbarnes@netnet.net



PO Box 164, 110 N. SECOND AVENUE  
DALLAS, WI 54733  
TELEPHONE: 715.837.1011  
TOLL FREE: 1.800.924.3405  
FAX: 715.837.1196



**Telephone Cooperative, Inc**  
COMMUNICATING SOLUTIONS.  
IT'S WHAT WE DO.

CTC LONG DISTANCE  
CTC WIRELESS  
CTC TELCOM  
CTC CABLE  
CTC NET

March 22, 1999

Dear Legislator:

On behalf of the subscribers of Chibardun Telephone Cooperative, I would like to take this opportunity to bring your attention to LRB2452 and the harm that would result from its passage. LRB2452 will lead the way for long distance carriers to demand access charge reductions from all local telephone companies. At first glance, the concept of access charge reduction seems promising due to the long distance carrier claims that long distance charges will be reduced as a result. However, careful examination reveals that the long distance carriers have already received substantial access charge reduction without passing the savings on to their customers.

The reality of lower access charges is that local telephone service rates will rise dramatically. In short, a vote for LRB2452 will be a vote for higher monthly telephone bills for your constituents. Unfortunately, it won't end there. Customer access to the high-tech information services acclaimed by our State and Federal government, will be seriously hindered. Local telephone companies simply will not have the resources for necessary network upgrades.

We, at Chibardun Telephone Cooperative, would urge you to consider the negative impact of LRB2452 on the telephone subscribers throughout Wisconsin. In doing so, we believe that you'll determine that opposition to LRB2452 is necessary if Wisconsin's residents are to have reasonable telephone rates and a modern telecommunications infrastructure.

Thank you for your time and consideration.

Sincerely,

Rick Vergin  
General Manager  
Executive Vice President  
CHIBARDUN TELEPHONE  
COOPERATIVE, INC.



## Lemonweir Valley Telephone Company

122 Main Street • P.O. Box 267  
Camp Douglas, Wisconsin 54618-0267  
Tele: 608-427-6515 Fax: 608-427-3438

March 17, 1999

Dear Legislator:

Lemonweir Valley Telephone Company is writing to bring to your attention LRB 2452 and the harm that would be caused if this legislation were passed. We have no doubt, if this legislation is passed, that the long distance carriers will eventually want access charge reductions for all local telephone companies.

If LRB 2452 is passed and access charges are reduced substantial harm would be incurred by all telephone companies in Wisconsin. By supporting this legislation, you will be, also supporting an increase to your constituents local telephone rate. Unfortunately, not only will local telephone rates increase, but also the ability of companies like ours, to continue to improve our infrastructure is in jeopardy.

Lemonweir Valley Telephone Company has a six-year construction plan, whereby all of our customers would have access to the high-speed information highway that has been touted by both the state and federal government. Reducing access charges would seriously hinder our ability to continue with our efforts to provide this infrastructure to our customers.

Lemonweir Valley Telephone Company would urge you to oppose LRB 2452 and support reasonable telephone rates and the building of a modern communications infrastructure for Wisconsin.

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul D. Berg". The signature is fluid and cursive, with a prominent initial "P" and a long, sweeping underline.

Paul D. Berg  
Secretary, General Manager



**HAGER TELECOM**  
Tools For The Information Age

March 22, 1999

Dear Legislator:

Hager Telecom, Inc. would like to bring to your attention LRB 2452 and the harm that would be caused if this legislation were passed. We have no doubt, if this legislation is passed, that the long distance carriers will eventually want access charge reductions for all local telephone companies.

If LRB 2452 is passed and access charges are reduced, substantial harm would be incurred by all telephone companies in Wisconsin. By supporting this legislation, you will be also supporting an increase to your constituents local telephone rate. Unfortunately, not only will local telephone rates increase, but also the ability of companies like ours to continue to improve our infrastructure would be in jeopardy.

Hager Telecom, Inc. would urge you to oppose LRB 2452 and support reasonable telephone rates and the building of a modern communications infrastructure for the State of Wisconsin.

Sincerely,



Michael J. Walsh  
General Manager



930 Maple Street • P.O. Box 420 • Baldwin, WI 54002  
Phone 715-684-3346 • WIS-IN-WATS 800-423-1450 • Fax 715-684-4747  
www.baldwin-telecom.net • email info@baldwin-telecom.net

March 19, 1999

Dear Legislator:

As the Manager of Baldwin Telecom, Inc. I am writing to you regarding Bill LBR-2452. I think that every telephone company in the state will be affected if this bill is passed. A similar bill was defeated in Nebraska last year because the long distance companies have not passed on rate reductions to their customers. If LBR-2452 passes we will need to increase local rates as we must continue to upgrade our infrastructure so all customers have access to the high-speed information highway. I think that this bill should not be included in the State budget plan.

I and the Directors of Baldwin Telecom, Inc. urge you to oppose LRB-2452 and support affordable telephone rates.

Sincerely,

A handwritten signature in cursive script that reads 'Larry Knegeford'. The signature is written in black ink and is positioned above the printed name.

Larry Knegeford  
General Manager

*Your Future in Communications Is With Us*

318 Third Avenue West  
P.O. Box 228  
Durand, Wisconsin 54738  
Phone 715-672-4204



---

---

**NELSON TELEPHONE CO-OPERATIVE**

March 19, 1999

The Honorable Senator Rodney C. Moen  
Wisconsin State Senate  
331 S State Capitol  
PO Box 7882  
Madison, WI 53707-7882

Dear Senator Moen:

Nelson Telephone Cooperative is writing to bring to your attention LRB 2452 and the harm that would be caused if this legislation were passed. We have no doubt that if this legislation were passed that the long distance carriers will eventually want access charge reductions for all local telephone companies.

If LRB 2452 is passed and access charges are reduced, substantial harm would be incurred by all telephone companies in Wisconsin. By supporting this legislation, you will be also supporting an increase to your constituents local telephone rate. Unfortunately, not only will local telephone rates increase, but also the ability of companies like ours to continue to improve our infrastructure is in jeopardy.

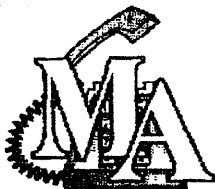
Nelson Telephone Cooperative has a six-year construction plan, whereby all of our customers would have access to the high-speed information highway that has been touted by both the state and federal government. Reducing access charges would seriously hinder our ability to continue with our efforts to provide this infrastructure to our customers.

Nelson Telephone Cooperative would urge you to oppose LRB 2452 and support reasonable telephone rates and the building of a modern communications infrastructure for Wisconsin.

Very truly yours,

Jerry L. Levenske  
Executive Vice President

JLL/biw

**MARQUETTE-ADAMS TELEPHONE CO-OPERATIVE, INC.**

113 North Oxford Street P.O. Box 45 Oxford, Wisconsin 53952 Diana LaPointe, Manager

March 22, 1999

**Robert Welch**  
Wisconsin State Senate  
PO Box 7882  
Madison, WI 53707-7882

Dear Senator Welch:

Marquette-Adams Telephone Cooperative, Inc. is writing to ask that you oppose Senate Bill 91, as a means of protecting the consumers of Wisconsin from the effects of this legislation. Substantial harm would be incurred by local exchange carriers, eventually resulting in higher local rates to their subscribers. Should this legislation pass, it will also affect the ability of companies to improve their infrastructure.

Marquette-Adams Telephone Cooperative, Inc. serves four exchanges in central Wisconsin. We are in the midst of a three-year construction program to provide all of our customers with access to the high-speed information highway which is being promoted by federal and state governments. At the same time we will complete a major switch replacement to offer the latest features to all customers. Our cooperative is proud of their continuing efforts to serve all consumers at reasonable rates. Our hope is to be able to continue with that tradition.

Marquette-Adams Telephone Cooperative, Inc., therefore, is asking that you oppose the passage of Senate Bill 91, allowing the citizens of all areas of Wisconsin to continue receiving the services they rely upon at affordable rates.

Thank you for your consideration.

Sincerely,

**Diana LaPointe, General Manager**  
Marquette-Adams Telephone Cooperative, Inc.

# CLEAR LAKE TELEPHONE COMPANY



316 Third Ave., P.O. Box 47 • Clear Lake, WI 54005

715 - 263 - 27

March 23, 1999

Dear Legislator:

I am writing to bring your attention to LRB 2452. If enacted this legislation will cause harm to the local telephone companies in Wisconsin. This bill would mandate reductions in access charges (these are the charges made to long distance carriers such as AT&T and MCI for use of the local telephone company facilities needed to complete long distance calls) for large telephone companies in Wisconsin.

If reductions in access charges are mandated it will impact the local telephone companies and their customers (your constituents). With a reduction in access charges the flat rates charged to the local customer will have to be increased. If these increases do not fully replace the access charge revenue losses the local telephone companies will experience a reduction in funds available for infrastructure development.

As you are aware the telecommunications industry is being revolutionized by the need for advanced services and high-speed data transmission to customers for Internet, distance learning, business video conferencing, etc. This is requiring telephone companies to invest very heavily in fiber optic cable, electronic equipment and new copper cable facilities to provide these services to our customers.

LRB 2452 would significantly slow or halt the upgrade of local telecommunications service in Wisconsin due to reduced access revenues. This would be in direct opposition to the legislative initiatives and intent of telecommunications legislation passed at the State and Federal level over the last few years.

This bill would result in a large financial benefit to long distance companies such as AT&T and MCI to the detriment of local telephone companies and their customers. These long distance companies have a relatively small investment and employee base here in Wisconsin compared to the local telephone companies. Granting windfalls to these large corporations will not provide a net benefit to customers in Wisconsin.

As the manager of a small telephone company I feel that this bill is just a stepping stone to bring access reductions to all local telephone companies in Wisconsin. I would urge you to oppose LRB 2452 and ask for your continued support of reasonable rates to the local telephone customer and the modernization of the local telecommunications infrastructure.

Sincerely,

*Mark S. Anderson*

Mark Anderson  
General Manager



Richard A. Bohling  
Government Affairs-  
State Director



GTE Telephone  
Operations

100 Communications Dr.  
P.O. Box 49  
Sun Prairie, WI 53590-0049  
608 837-1480  
Fax: 608 837-1128

To: Legislators Representing GTE Customers

## **GTE Opposes Co-Sponsorship of LRB2452**

Relating to Access Charges

**Senator Moen has circulated LRB 2452 requesting co-sponsors for legislation relating to access charges. The Wisconsin legislature already has addressed this issue when they mandated that local telephone companies, GTE and Ameritech, be mandated to mirror the interstate access rates set by the Federal Communications Commission (FCC) in Wisconsin. This has occurred and resulted in GTE's Wisconsin access rates being the second lowest in Wisconsin at 1.57 cents per minute.**

- This bill may cause *higher* local telephone rates for your constituents.
- This legislation will benefit primarily the large long distance companies with headquarters in New York, Washington, D.C. or Kansas City and *not* Wisconsin consumers.
- Access rates should continue to be set by the FCC who have established a plan to reduce these charges along with assuring continued affordable local service in rural states such as Wisconsin.
- Local telephone companies have already reduced access charges by about \$50 million since 1994 and the long distance companies have *not* passed that savings on to Wisconsin consumers as promised.

**We are asking that you join the 83 local telephone companies, who employ over 10,000 Wisconsin residents, and the Wisconsin State Telecommunications Association (WSTA), in opposing the proposed legislation.**

**If you have any questions please contact Dick Bohling at 608-837-1480.**

## **Ameritech Opposes Co-Sponsorship of LRB2452 Related to Access Charges**

**Ameritech and over eighty local telephone companies, co-ops and grocers adamantly oppose Senator Moen's LRB draft 2452 which is being circulated for co-sponsorship.**

LRB draft 2452 imposes unduly burdensome regulations on the access rates charged by local phone companies.

### **Reasons Wisconsin should not get involved --**

- The Federal Communications Commission (FCC) has already addressed this issue.
  - State access rates can be no higher than FCC determined rates.
  - Ameritech has lowered access rates by \$3 billion over the last 5 years.
  - Ameritech's access rates are among the lowest in the country and are the lowest in Wisconsin.
- In 1994, Wisconsin Act 496 reduced access rates by more than \$40 million annually.
- Consumers have not realized the promised savings; long distance rates have not followed the reductions in access rates.
- Substantial access reductions will impact your constituent's local phone bill.
- Residential and small business customers would likely see increases in their local phone bill.

### **Contrary to the allegations of some, access rates do not hinder local competition.**

- There are 46 companies certified to provide local phone service in Wisconsin.
- As expected, competition is flourishing in the business market.
- The historical pricing of residential service (at or below cost) makes this market less attractive, because of this; competitors have been slow to address this market.

### **Long Distance Carriers have options to compete for local business.**

- AT&T's acquisition of TCI and their joint venture with Time Warner are strong indications that they intend to bypass the incumbent's local network.
- AT&T has grown to be the largest U.S. long-distance company, largest wireless provider, the largest international telecommunications firm and now the largest cable monopoly.
- By not using the incumbent's local network, long distance carriers avoid access charges.

**We hope you will join the local telephone companies, and their 10,000 employees in opposing the proposed legislation. If you have any questions, please contact Mary Ruble (608) 282-7878 or Lorenzo Cruz (608) 282-7874.**

## GTE's Position on Senate Bill 91

### TESTIMONY OF THOMAS L. VOGEL

#### Introduction

My name is Thomas L. Vogel. My business address is 600 Hidden Ridge, Irving, Texas. I am the Manager – Access Pricing for GTE Service Corporation. My responsibilities include managing the pricing for all federal and state access filings, intraLATA toll filings, and various ancillary service filings for GTE (“the Company”). I have been involved in numerous pricing issues in Wisconsin for the last 15 years. I am appearing today in opposition to Senate Bill 91.

#### Background

I believe it is appropriate to explain the term “access charges” and how they are applied in the state of Wisconsin. Access charges are the rates applied by local phone companies to the long distance carriers for originating or terminating calls in their local phone operating areas. For example, presume that AT&T provided Mr. Jones in Milwaukee his long distance service. Further suppose that Mr. Jones wanted to call Mr. Smith in Wausau. AT&T would bill the long distance charges to Mr. Jones. Ameritech, Mr. Jones’ local phone company in Milwaukee, would bill AT&T access charges for originating the call in their local service area. Similarly, GTE, Mr. Smith’s local phone company in Wausau, would bill AT&T access charges for terminating the call. Access charges are payments made by long distance carriers to the local phone companies for the use of their networks. Typically, the charges are paid by the long distance carriers based on their minutes of use, though the FCC has recently initiated some changes whereby the long distance carriers pay on a monthly basis for each of their customers. Access charges should not be confused with “network access rates”. Network access rates are the monthly charges to end user customers like you and me for our local phone service.

I believe it is important to explain the types of service areas in which GTE operates in Wisconsin. GTE is a rural phone company in this state. Wausau is our largest exchange, but more typical exchanges would include areas like Whitehall and Eagle River. We serve mostly low-density exchanges (26 access lines per square mile versus 266 for Ameritech) which are very costly to maintain and operate within.

It is important to understand the historical trend for GTE’s access charges in the state. GTE’s access charges have decreased steadily and dramatically over the years. In 1986, during the early days of access charges after the break-up of AT&T, GTE charged the long distance carriers almost \$.10 per each minute of use. Today, GTE charges less than \$.02 per minute for the same services. This represents an 80% reduction in access charges assessed to the long distance carriers. Keep in mind that these reductions have occurred on both the originating and terminating ends.

Thus a long distance call from Wausau to Sun Prairie now costs a long distance carrier less than \$.04 per minute for access, as opposed to nearly \$.20 per minute in 1986. In fact, if GTE charged its 1986 rates on today's usage level, this would generate nearly \$85M in annual access revenues. Instead, today's annual access revenues are about \$17M. Hopefully, though not surely, the long distance carriers have similarly reduced their long distance calling charges to end users to reflect these much lower access payments to GTE. My attached Exhibit 1 graphically portrays the reduction in access charges over the years. It should be further pointed out that in conformance with its price regulation plan contained in Wisconsin statutes 196.196, GTE's access charges are generally priced at the same level as the FCC access charges. In fact, the per minute charges are actually lower on the state side given that certain FCC elements are not assessed, again in conformance with our price regulation plan.

Some participants in this hearing today, namely the long distance carriers themselves, likely will make the case that GTE's and other local phone companies' access charges still exceed underlying costs. Indeed they would be correct. However, access charges have historically been a major source of subsidization for local service rates in Wisconsin. Stated another way, access charges are priced above costs to support the local service rates that are generally priced below cost. For example, our residence customers can receive an access line for as low as \$11.40 per month, less than \$15.00 per month with the FCC end user charge. Yet the cost of an average access line greatly exceeds this price. If access charges are reduced, it is likely that local service rates would need to increase to reflect the lessened support from carrier access charges. Additionally, it seems inappropriate that long distance carriers, who are not regulated in this state, want to force regulated entities like GTE into situations where they cannot recover their costs. Yet they remain unfettered in their actions. This would be analogous to the Dallas Cowboys requiring the Green Bay Packers' linemen to be limited to 200 pounds, while the Cowboys' own linemen approach 300 pounds. Surely this does not represent public policy that will serve Wisconsin's end users well into the new millenium. I caution that blind and reckless movement toward cost on the part of the access charge reduction brigade, without the simultaneous movement toward local rate restructuring or some type of universal service funding mechanism, would represent a failure of public policy responsibility.

### **The Proposed Legislation – Senate Bill 91**

My first comment on the proposed Senate Bill 91 relates to the applicability of the Bill. It should apply to all carriers providing local phone service in the state, regardless if local phone operations are only a small part of one's business. Otherwise, the Bill would be discriminatory and ill suited to the creation of a level playing field for telecommunications providers in Wisconsin.

I would also like to comment on four key issues addressed by the Bill. I have summarized these four issues below:

1. Establishing access charges at cost, inclusive of common overhead costs.
2. Attempts to relate access charges to services provided to pay phone providers.
3. Establishing access rates at the prevailing rate for local interconnection.
4. Petitioning rates that are in the public interest.

Relative to Number 1, I am troubled by the fact that the proposed bill would essentially cap access charges at cost, inclusive of common overhead costs. My concerns relate to the fact that such a level would by definition eliminate any universal service support inherent in access charges today. This proposal clearly ignores the role of access charges in supporting universal service in Wisconsin. Today, nearly 95% of Wisconsin residence customers have a telephone access line. Such a level of universal service may not be achievable without the support from access charges. I would not be opposed to eventually moving access charges closer to their underlying costs within the context of local rate restructuring or some kind of universal service funding. However, I am opposed to blindly and recklessly pursuing such a policy without these considerations.

In regard to Number 2, I believe it is inappropriate to address pay phone issues within the context of a Senate Bill addressing access charges. As I have clearly articulated earlier in my explanation of access charges, network access provisioning to pay phone providers and access charges to long distance carriers are clearly two separate issues. Pay phone providers don't pay access charges; long distance carriers pay access charges. In some cases pay phone providers may be long distance carriers as well, but that doesn't change the issue. Their interest then becomes one of a long distance carrier, not network access for pay phone providers. I advise this committee to avoid the notion that pay phone providers pay access charges; they do not and thus should not be an issue in this hearing.

Issue Number 3 represents an attempt to legislate reductions in access charges without consideration of their historical role in subsidizing local service rates. Local interconnection charges are those paid by the new competitive local exchange carriers for terminating calls on a local phone company's networks. Although functionally the service resembles access services, the industry clearly understands the difference. These rates are for local traffic; access charges are for long distance traffic. These distinctions have been litigated and deemed appropriate. The industry, including those raising the issue, clearly understands the difference. To codify such a requirement in this Senate Bill would represent a major undermining of access charges and their historical role in supporting local services.

Relative to Issue Number 4, my concerns center on the issue of universal service, the provisioning of local phone services to the vast majority of households in Wisconsin. Clearly this is in the public interest. My position is the same as I have previously articulated in Issue 1. Access charges cannot be addressed independently of universal service.

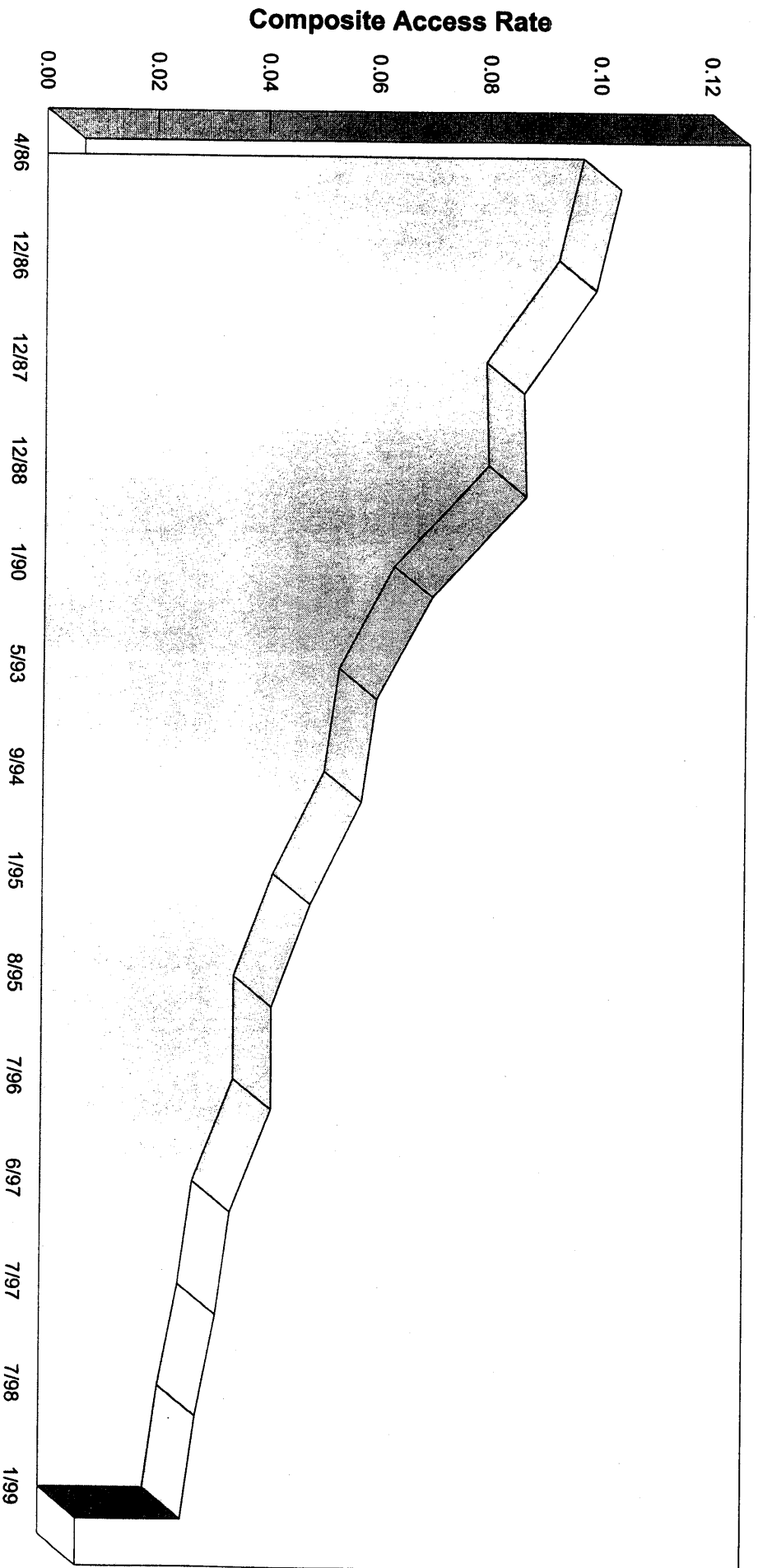
To proceed with further access charge reductions with no consideration for universal service concerns would be inappropriate. Reductions should occur only when accompanied by local rate restructuring or through some type of universal service funding. To do otherwise would represent a major remission of public policy responsibility.

### **Conclusion**

I would like to conclude my testimony by stating that Senate Bill 91 would not serve GTE's customers well in Wisconsin. It could threaten universal service, particularly in the rural areas of the state in which it is so costly for GTE to operate. It would require the Commission to return to a role of prescribing rates, inconsistent with the evolution of public policy in this state. Additionally, it could undermine the quality of service to which Wisconsinites have become accustomed. Finally, this legislation could reduce the total revenues of GTE and other local phone companies, perhaps resulting in the need for other rate increases. This legislation would not be in the public interest for the many reasons described in my testimony.

# GTE WISCONSIN SWITCHED ACCESS RATES

1986 - 1999





# Wisconsin Merchants Federation

*The Voice Of Wisconsin Retailing*

30 West Mifflin Street  
Madison, Wisconsin 53703  
Telephone 608/257-3541  
Fax 608/257-8755  
E-mail wimerfed@execpc.com

## MEMORANDUM

### OFFICERS

**Chairman of  
The Board**  
Alan Rudnick  
R. Rudnick, Inc.  
Sheboygan

**Vice Chair**  
Dave Liebergen  
Shopko Stores  
Green Bay

**Secretary**  
Jeff Rusinow  
Kohl's Department Stores  
Menomonee Falls

**Treasurer**  
Fritz Ragatz  
Oriental Specialties  
Madison

### EXECUTIVE STAFF

**President/CEO**  
Chris C. Tackett

**Sr. Vice President  
& General Counsel**  
Douglas Q. Johnson

**V.P./Administration**  
Mary C. Kaja

**TO:** Members of the Senate Committee on Utilities  
**FROM:** Douglas Q. Johnson, Sr. V.P./General Counsel  
**DATE:** March 23, 1999  
**RE:** Senate Bill 91: Access Charges

The Wisconsin Merchants Federation strongly supports competitive markets and SB 91. Competition is the driving force in this state's and nation's vibrant economy. It gives consumers choice, price and service and keeps businesses productive and efficient. When consumers shopping for hammers can "go next door or across the street" there is no better "consumer protection".

When this state legislature enacted the telecommunications laws of 1994 to put deregulation in motion it was done to foster competition in long distance and local markets. We've got the former; we're in critical need of the latter. To date not much more than 2% of the local phone market is competitive. More needs to be done starting with passage of SB 91 and the reduction of excessive access charges.

The deregulated local phone monopolies that have emerged over the last 5 years is not what the legislature intended. This must be fixed. SB 91 is a good place to start.

Our members live in a highly competitive world that becomes more competitive each day with the advent of the Internet and e-commerce. The rates of return enjoyed by local phone monopolies are incredible. The WMF does not begrudge successful competitive businesses their earned returns; we do not think that profit is a dirty word. We do take great exception to gouging.

We find it almost humorous to hear monopoly phone companies argue that access charges have fallen over the years. We know that our members to continue to pay inflated access charges that would not even be an issue if the local phone companies lived in our retail world of competition. Gouging is gouging.

This legislature has a responsibility to fix the flaw in the 1994 telecommunications deregulation laws. The PSC can't do it and re-regulation is not the answer. Truly competitive long distance and local phone markets are what was envisioned and something that SB 91 will help us reach.

Thank you.





# Wisconsin Merchants Federation

*The Voice Of Wisconsin Retailing*

30 West Mifflin Street  
Madison, Wisconsin 53703  
Telephone 608/257-3541  
Fax 608/257-8755  
E-mail wimerfed@execpc.com

## MEMORANDUM

### OFFICERS

#### **Chairman of The Board**

Alan Rudnick  
R. Rudnick, Inc.  
Sheboygan

#### **Vice Chair**

Dave Liebergen  
Shopko Stores  
Green Bay

#### **Secretary**

Jeff Rusinow  
Kohl's Department Stores  
Menomonee Falls

#### **Treasurer**

Fritz Ragatz  
Oriental Specialties  
Madison

### EXECUTIVE STAFF

**President/CEO**  
Chris C. Tackett

**Sr. Vice President  
& General Counsel**  
Douglas Q. Johnson

**V.P./Administration**  
Mary C. Kaja

**TO:** Members of the Senate Committee On Utility Regulation

**FROM:** Douglas Q. Johnson, Sr. V.P. & General Counsel

**DATE:** February 4, 1999

**RE:** Telecommunications: Access Charges & Competition  
(Ameritech & SBC Merger)

The Wisconsin Merchants Federation strongly supports a highly competitive telecommunications market. Our members live in a highly competitive retail market. They look forward to the competitive prices and improved service that they know from experience will come from phone companies that truly compete.

At this time, the WMF takes no position on the question of the proposed merger between Ameritech and SBC Communications. We do take the opportunity to urge this committee to take whatever action it can now and in the future to reduce local access charges. One of WMF's more senior members has often advised "buy something for \$1 and sell it for \$10...9% is enough for anybody." When it comes to phone costs our members don't like this math.

Access charges are excessive. It costs Ameritech about .2 cents to initiate and complete a long distance call. The charge to business and residential consumers averages 2.2 cents. Among WMF's 6000 members are several hundred jewelers and even they would blush at retail prices at 10 times over cost. Why this charge? There is a desperate need for local phone competition. What we seem to have in this transition stage from monopolies to competitive companies are de-regulated monopolies and our members resent paying monopoly rent.

Please consider this access charge issue when considering this merger. Again, the WMF takes no position with regard to this merger but if it is to proceed or not access charges must be reduced either way. It concerns our members that SBC's access rates range from 6 cents to 13 cents in other states (intrastate rates...interstate rates are just over 3 cents).

Our members understand that a telephone company may elect to combine its operations in multiple states into a single "study area" for rate making purposes, thereby averaging its costs over a broader area. We are concerned about cost shifting from other states.

Our members also recognize that on the intrastate level in Wisconsin access rates must "mirror" the federal rates. While it is argued that the merger will not result in higher access rates we aren't so sure. Will there be a full court press as there has been in other states to persuade regulators to increase current access charge limitations (or, at least, to keep rates where they are)?

Even at 2.2 cents the access rates that our members pay are too high. The issue shouldn't be will rates rise but rather if and when they will fall. In fact, California's PSC weeks ago ordered SBC to reduce its local service charges by 1.4 cents per line which resulted in a \$220 million benefit to consumers. In a truly competitive local phone market, this excess charging issue will take care of itself.

John Dillinger was once asked why he robbed banks. He responded that that was where the money was. Mainstreet merchants aren't banks. They need your help.

Thank you.

March 23, 1999

TESTIMONY OF AT&T  
ON  
SENATE BILL 91

Thank you Chairman Moen and members of the Committee for receiving AT&T's comments regarding the need for access reform in the telecommunications industry in Wisconsin.

AT&T's comments are largely in response to an Ameritech memorandum that circulated in the Legislature recently opposing LRB2452/SB91. I would like to briefly address key points raised in that memorandum:

1. Ameritech suggests that the FCC has already completed the necessary work to bring access rates to the appropriate levels. Ameritech's position is misleading. The Wisconsin Legislature should become proactive with respect to access rate reductions. Even with FCC action, there is a role for the states with respect to intrastate access charges. The question of what the appropriate levels of access charges within the states must be resolved by the state governmental bodies and has in no way been preempted by the federal government. Moreover, even though the FCC addressed access rate reduction in its Access Charge Reform Order (First Report and Order, In the Matter of Access Charge Reform, CC Docket No. 96-262, FCC 97-158, ¶ 28 (rel. May 16, 1997)), it has recently asked that the record be refreshed because its plan for access rate reductions has not been effective.
2. Ameritech argues that the requirement of 196.196(2)(b)1., that intrastate access rates not exceed those set by the FCC, is sufficient protection for consumers. There is no protection in the state requirement that local exchange carriers' access rates not exceed those rates set by the FCC for interstate calls. First, Ameritech has repeatedly violated that rule. Currently, the PSC is presently considering Ameritech's alleged violation in response to several complaints (including one by AT&T). Such a rule does not address the fact that the three largest local exchange companies in Wisconsin charge long distance companies 10 to 50 times more than their cost. By this legislation, long distance companies would still be paying the

three largest local exchange companies at least 400% more than what they charge their affiliates or other local exchange companies for the same service. Section 196(2)(b)1 completely reduces the Commission's authority to redress these problems.

3. Ameritech states that it has lowered its access rates over the last 5 years and suggests that access rate reductions are not now necessary. What Ameritech fails to tell the Legislature is that it did not have any access rate decreases in 1998. In fact, it instituted a completely new access related charge – the P ICC – based upon a claimed need for “revenue neutrality.” Moreover, Ameritech increased its access rates in January of this year. This proves that the FCC's initiative has been ineffective in lowering intrastate access charges.
4. Ameritech argues that its access rates are among the lowest in the country and the lowest in Wisconsin. This is a comparison without real meaning. The real concern is how much Ameritech's access rates exceed its costs for providing the service. Ameritech's cost for providing service in Wisconsin are lower than, for example, U.S. West's cost for providing service in Idaho. The appropriate comparison is how much more Ameritech charges for providing the access service that its costs for providing the service.
5. Ameritech wants to rely on its reduction in cost brought about by Wisconsin Act 496 in 1994 as a reason to avoid access rate reductions now. This would be a mistake. Recall that Ameritech's reductions for access rates were a result of Ameritech's decision to enter into an alternative regulatory scheme in which it would obtain regulatory flexibility. This was the cost of Ameritech's choice. Keep in mind that Ameritech's most significant reduction of access charges occurred as a result of legislative action and not market forces. AT&T believes that legislative action is necessary again.
6. Ameritech contends that consumers to do reap the benefits of access rate reductions. Ameritech's position in this regard is disingenuous at best. Ameritech's position relies on price comparisons to long distance companies' basic schedule. Ameritech is not considering the benefits of calling/savings plans. Such savings plans are largely possible because of access rate reductions. Generally speaking, the FCC's 1997 Telecom Industry Revenue Report states that Interexchange Companies'

revenue per conversation minute net of access costs has consistently declined. In other words, Interexchange Companies have passed through the benefits of access rate reductions to consumers. A ten year review of "savings exceeding access reductions" in Wisconsin is available from AT&T.

7. Ameritech threatens that substantial access rate reductions will result in increased residential and small business local phone bills. This would only be true if Ameritech chose to maintain its current inflated rate of return. Ameritech is assuming that it should remain revenue neutral. There is no justification for revenue neutrality when Ameritech has a corporate return on equity exceeding 30% (Business Week 12/28/98). GTE showed a 28.5% return in the same report.
8. Ameritech has taken the position that its access rates have not hindered competition in the local exchange market. In support of its position, Ameritech points to the 46 companies certified to provide local service in Wisconsin. What Ameritech does not tell the Legislature is that there are less than 12 companies actually providing local exchange service in competition with Ameritech and that all of these competitors are concentrating almost exclusively on business customers. Ameritech does not tell the Legislature that it still has over 98% of the local exchange market in its service areas. Finally, Ameritech does not inform the Legislature that a FCC report found that Wisconsin is virtually at the bottom when compared to other states in the region in terms of competition in the local exchange market.
9. Ameritech states, without support, that local exchange competition is flourishing in the business market. Any competition that exists is a result of individual company facilities build-outs and not to any action of Ameritech. Resale has proven to be a road to bankruptcy. US Network, Ameritech's poster child of competition, has gone bankrupt because it could not compete with Ameritech and its uncompromising tactics. Finally, none of the competition in the business market has spilled over to the residential market, which is where the largest benefit will be in Wisconsin. Access reductions will be necessary in order to make competition occur in the residential market.

10. Ameritech asserts that the historical pricing of residential services (below TSLRIC) makes this market less attractive. In other words, Ameritech wants the Legislature to believe that there is no competition because competitors do not want to enter the business. Not true! Ameritech's argument assumes that residential service pricing is below TSLRIC. This is a position that Ameritech has not established on the record, and it strains credulity to believe that a company making better than 18% return in Wisconsin is pricing its products at below cost. The real reason competitors have not been able to penetrate the market is the refusal of Ameritech to offer the unbundled network element platform as required by the FCC.
11. Finally, Ameritech posits that it should not be required to provide its access service in a nondiscriminatory manner because AT&T has acquired TCI and entered a joint venture with Time Warner. Ameritech is again attempting to shift the attention of the Legislature on the facts that are relevant to this discussion. First, the fact that AT&T needed to look for alternative routes into the consumers residence only proves that Ameritech has been more than uncooperative in allowing competitors enter its markets. Second, even after AT&T has completed and effectuated its merger and joint venture (something that is not immediate), AT&T will be wholly reliant upon the local exchange companies for access to many residential centers.

As with other major telecommunication reform issues in Wisconsin, the local exchange companies with less than 150,000 access lines are not included in this access reform initiative. When their environment changes--more mergers involving small telcos, more subsidiaries that provide additional revenue streams, etc., it may be appropriate to reconsider their contribution to this consumer benefit.

One final note, is it a serious imposition to ask a company (Ameritech), that is the largest foreign investor in European telecommunications, to reduce Wisconsin intrastate access for the benefit of Wisconsin consumers?

Is it inappropriate to ask a company (GTE), that has been in the competitive long distance business since 1996, to reduce access rates on the side of their business that maintains a virtual monopoly?

Should a company (CenturyTel) be permitted to increase access charges by 480% after procuring 20 telephone exchanges from Ameritech?



8140 Ward Parkway  
P.O. Box 8417  
Kansas City, MO 64114-0417

**TESTIMONY OF PATRICK FUCIK ON SB 91 - ACCESS REFORM LEGISLATION  
BEFORE THE WISCONSIN STATE SENATE  
COMMITTEE ON HEALTH, UTILITIES, VETERANS AND MILITARY AFFAIRS  
MARCH 23, 1999**

Good afternoon Mr. Chairman and members of the committee. My name is Patrick Fucik and I manage State Government Affairs for Sprint in nine mid-western states including Wisconsin. I am here today in support of Senate Bill 91. Senate Bill 91 reduces the rates large telecommunications utilities may charge for providing access to their local networks and gives the Wisconsin Public Service Commission the authority to review and set rates for intrastate access services.

Access charges are the fees that local telephone companies collect from long distance companies and their customers to carry and complete long distance calls over local telephone company networks. The access charge is designed to compensate the local telephone company for the use of its network and is a significant part of the cost of a long distance call. Today, local companies charge long distance companies as much as ten times or more than the economic cost attributable to the use of their network for access services. Long distance customers pay the cost of these inflated access charges in the price they pay for long distance services.

Sprint supports initiatives, such as Senate Bill 91, that require access rates charged by local telephone companies to be more reflective of the actual cost of providing access to their networks. Access charges should be structured so that they recover only the costs of providing interconnection between long distance carriers and their customers to complete long distance calls.

For 98% of the long distance calls in Wisconsin, the only option for completing the call is through incumbent local telephone companies. The monopoly local service environment that existed in 1994, when Wisconsin passed pro-competition legislation, is virtually unchanged. If a competitive local telephone market existed, the local companies would have to price their access charges at economic cost. However, knowing that long distance companies, in most instances, have no other source from which to obtain access service, local companies' charge access rates that are significantly higher than their actual cost of providing such service.

As the result of more than ten years of competition in the long distance market, there is abundant evidence that long distance competition has been good for consumers. By all accounts, long distance prices have declined substantially and quality has increased. Opponents to Senate Bill 91 claim that because there are 46 companies certified to provide local phone competition in Wisconsin, "competition is flourishing." When the incumbent local provider maintains 98% of the local market share, Sprint does not view that as flourishing competition. With no real local market competition, there is no incentive for the incumbent local telephone company to reduce the access rate it charges to long distance carriers.

If you like what has occurred with long distance prices over the years, and you want to see a similar decline in local residential prices, you need to start by reducing access charges as proposed in Senate Bill 91. As long as access charges remain exorbitantly above cost, consumers will continue to be denied the benefits of local market competition.

Opponents to Senate Bill 91 state that the Federal Communications Commission (FCC) has already addressed the issue of access reform and that state access rates cannot be higher than FCC determined rates. The FCC does not regulate intrastate access charges, which are addressed in Senate Bill 91, and while some intrastate access rates in Wisconsin cannot be higher than FCC rates for interstate access, local telephone companies are still charging many times the actual cost of providing access service.

Ameritech's statement that it has lowered access rates by \$3 billion over the last five years does not address reductions that are specific to Wisconsin and includes interstate access reductions as mandated by the FCC. Since legislation was passed in Wisconsin in 1994 mandating Ameritech to reduce its access charges by \$40 million, the only modest reductions in access charges that have occurred have been government mandated reductions. These reductions were made to maintain compliance with state rules that provide intrastate rates cannot be higher than federal interstate access rates. Ameritech has never on its own initiative, without a government mandate, reduced its access charges. Clearly this is the action of a monopoly provider that knows that long distances customers essentially cannot get this service anywhere else.

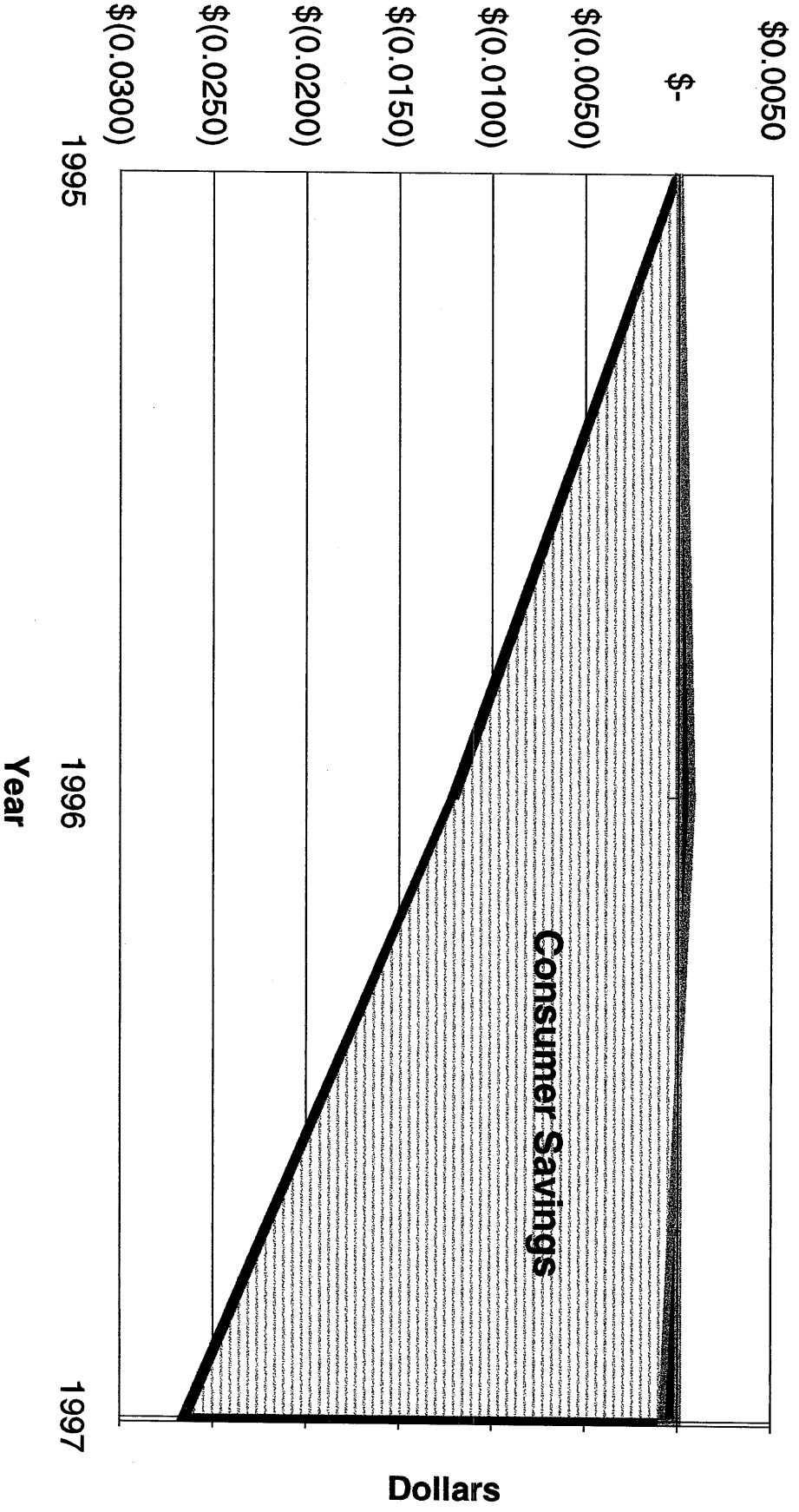
The accusation that Wisconsin consumers have not benefited from previous access charge reductions because long distance carriers have not passed the savings on is simply not true. The competitive process of the long distance market has and will continue to ensure that Wisconsin consumers receive the benefits of access reductions through lower long distance prices. Attached to my testimony is a graph which demonstrates that Sprint's reduction in revenues per minute have far out-paced the reduction of access charges in Wisconsin. Competitive market forces ensure that reductions in access charges result in lower prices for long distance customers without the need for regulated price decreases. The basic characteristics of the long distance market create pressure that ensures that all cost savings, including access cost savings, are reflected in lower long distance prices.

Sprint encourages the passage of Senate Bill 91 in an effort to bring competition to Wisconsin's local telephone market and to reduce the cost of consumer's long distance telephone bills.

Thank you for this opportunity to present Sprint's position on this issue and I would be happy to address any questions members of the committee may have.

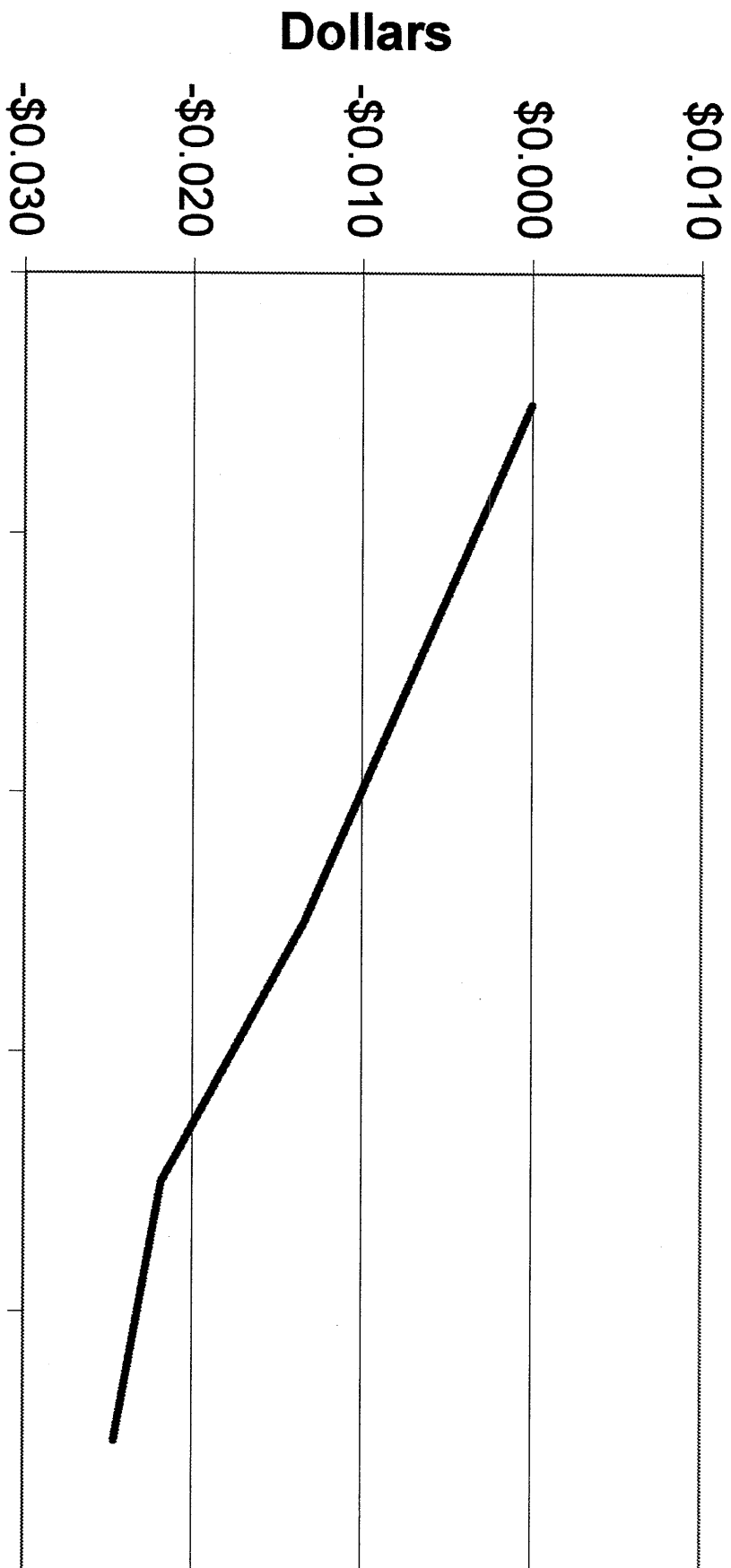


### Wisconsin Intrastate Consumer Savings 1995 to 1997



Change in Revenue per Minute Change in Access Cost per Revenue Minute

# Change in Billed Revenue per Interstate Domestic Minute 1992 - 1996



Source: FCC "Telecommunications Industry Revenue: TRS Fund Worksheet Data," November 1997