

05hr_SC-JCEDCA_sb0111_pt01



(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Senate

(Assembly, Senate or Joint)

Committee on ... Job Creation, Economic Development and Consumer Affairs (SC-JCEDCA)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
(**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
(**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

Senate

Record of Committee Proceedings

Committee on Job Creation, Economic Development and Consumer Affairs

Senate Bill 111

Relating to: retained earnings of telecommunications cooperatives.

By Senators Brown, Erpenbach, Grothman, Harsdorf, Jauch, Kanavas, Olsen and Zien; cosponsored by Representatives Freese, Gronemus, Albers, Gard, Hahn, Hines, Hubler, Kreibich, Loeffelholz, Musser, Nerison, Ott, Petrowski, Schneider, Sherman, Townsend, Vos and Wood.

March 10, 2005 Referred to Committee on Job Creation, Economic Development and Consumer Affairs.

March 31, 2005 **PUBLIC HEARING HELD**

Present: (5) Senators Kanavas, Zien, Reynolds, Lassa and Decker.
Absent: (0) None.

Appearances For

- Ron Brown, Madison — Senator
- Steve Freese, Madison — Representative
- Ms. Christy Berger, Durand — Nelson Telephone Coop
- Mr. Bill Oemichen, Madison — Wisconsin Federation of Cooperatives
- Mr. Matthew MacDonald, Madison — Kiosling Associates LLP
- Mr. David Jenkins, Madison — Wisconsin Electric Cooperative Association
- Mr. Ed Brooks, Reedsburg — Wisconsin Federation of Coops
- Mr. Rick Vergin, Dallas — Chibardun Telephone
- Ms. Lori Roemhild, Barron — Chibardun Telephone
- Mr. Dennis Bachman, New Auburn — Citizens Telephone Cooperative
- Mr. Jeff Kostner, Cochrane — Cochrane Coop Telephone
- Mr. Dave Lull, Blue River — Richland Grant Telephone Coop
- Mr. Dave Carter, Cable — Chequamegon Communications Coop
- Mr. Rod Olson, Westby — Vernon Telephone Coop

Appearances Against

- Mr. Wally Purdun, Madison — CenturyTel Service Group LLC
- Mr. Lorenzo Cruz, Madison — CenturyTel Service Group LLC
- Mr. Dan Mumm, Madison — CenturyTel Service Group LLC
- Mr. R.J. Pirlot, Madison — Wisconsin Manufacturers and Commerce
- Mr. Tom Hanson, Madison — Wisconsin Cable Communications Association
- Mr. Tom Mullooly, Milwaukee — Wisconsin Cable Communications Association

- Mr. David Walsh, Madison — Wisconsin Cable Communications Association

Appearances for Information Only

- None.

Registrations For

- Mr. Randy Siler, Downsville — West Wisconsin Telecommunications Coop
- Mr. Dan Anderson, Grand View — Chequamegon Communications Coop
- Ms. Cheryl Rue, Strum — Tri-County Telephone Coop Inc.
- Mr. Bryan Amundson, Oxford — Marquette-Adams Telephone Coop
- Ms. Ruthann Nelson, Waunakee
- Mr. Jeff Wiswell, Madison — Wisconsin Sheriffs and Deputy Sheriffs Association
- Ms. Melissa Duffy, Madison — Wisconsin Federation of Cooperatives

Registrations Against

- Mike Huebsch, Madison — Representative
- Mr. Raymond R. Carey, Madison — T.D.S Telecom
- Mr. Scott Stenger, Madison — Verizon
- Mr. Brandon Scholz, Madison — Wisconsin Grocers Association

October 21, 2005

EXECUTIVE SESSION HELD

Present: (5) Senators Kanavas, Zien, Reynolds, Lassa and Decker.
Absent: (0) None.

Moved by Senator Kanavas that **Senate Bill 111** be recommended for passage.

Ayes: (4) Senators Zien, Reynolds, Lassa and Decker.
Noes: (1) Senator Kanavas.

PASSAGE RECOMMENDED, Ayes 4, Noes 1

Jeremy Shepherd
Committee Clerk

SENATE BILL 111 (LRB -2361)

An Act to renumber 196.204 (1); and to create 196.204 (1) (b) of the statutes; relating to: retained earnings of telecommunications cooperatives. (FE)

2005

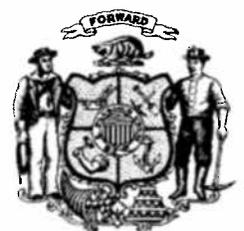
- 03-10. S. Introduced by Senators **Brown, Erpenbach, Grothman, Harsdorf, Jauch, Kanavas, Olsen and Zien**; cosponsored by Representatives **Freese, Gronemus, Albers, Gard, Hahn, Hines, Hubler, Kreibich, Loeffelholz, Musser, Nerison, Ott, Petrowski, Schneider, Sherman, Townsend, Vos and Wood.**
- 03-10. S. Read first time and referred to committee on Job Creation, Economic Development and Consumer Affairs 116
- 03-31. S. Public hearing held.
- 10-21. S. Executive action taken.
- 10-24. S. Report passage recommended by committee on Job Creation, Economic Development and Consumer Affairs, Ayes 4, Noes 1 403
- 10-24. S. Available for scheduling.

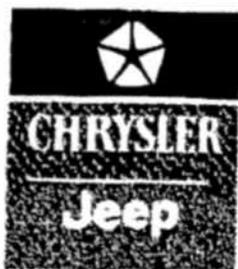
2006

- 05-11. S. Failed to pass pursuant to Senate Joint Resolution 1 853



WISCONSIN STATE LEGISLATURE





GILLIS MOTORS, INC.

316 East First Street
P.O. Box 940
Hayward, Wisconsin 54843
715-634-2651 • 1-800-427-4349 • Fax 715-634-8978
gillmtrs@cheqnet.net • gillismotors.com



Honorable Representative Scott Jensen
Wisconsin State Assembly
P.O. Box 8952
Madison, WI 53708

for SB 111?

01-29-2004

Dear Representative Jensen:

We are writing to request your assistance in a matter involving the communications services we receive from Cheqtel Communications, a competitive local exchange carrier, in northern Wisconsin. Cheqtel Communications is a subsidiary of Chequamegon Communications Cooperative, Inc.

Historically, cooperatives have been one of the most successful business ventures in our nation. Legislation is necessary to allow local telephone cooperatives to use any and all available capital to build, maintain and improve existing technological services to our rural area.

Prior to Cheqtel providing services in the city of Hayward and surrounding area, existing telephone service was in a state of decline. Cable television service was of poor quality. The competition created when Cheqtel began offering services forced other providers to significantly improve the quality of their services.

Rural businesses in particular sorely need the benefit of all new telecom technologies that are developed, since they are geographically inaccessible. When small rural businesses can grow and expand, that helps the local, rural economy by creating more jobs.

Changing the PSC ruling is not only very important to Chequamegon Communications Cooperative, but it is a dire necessity to the future businesses in northern Wisconsin that get their services from the cooperative.

I urge you to support legislation allowing telephone cooperatives to use all capital, including patronage capital, to provide broadband and other communication services.

Sincerely Yours,

Steve Gillis
Sales Manager
Gillis Motors, Inc.

csk



Hayward Area Memorial Hospital

Hayward Nursing Home

11040 N. State Road #77
Hayward, WI 54843-8391

(715) 634-8911 Phone
(715) 634-2515 Fax

January 30, 2004

Honorable Representative Scott Jensen
Wisconsin State Assembly
Box 8952
Madison, Wisconsin 53708

Dear Representative Jensen:

I am writing to request your assistance in a matter involving the communications services we receive from Cheqtel Communications, a competitive local exchange carrier, in northern Wisconsin. Cheqtel Communications is a subsidiary of Chequamegon Communications Cooperative, Inc.

Historically, cooperatives have been one of the most successful business ventures in our nation. Legislation is necessary to allow local telephone cooperatives to use any and all available capital to build, maintain and improve existing technological services to our rural area.

Prior to Cheqtel providing services in the city of Hayward and surrounding area, existing telephone services was in a state of decline. In fact, at our hospital, that provider we were using could no longer service the in house equipment which they had sold us, and we had an inadequate number of outside lines available to us. Cable television service was of poor quality. The competition created when Cheqtel began offering services forced other providers to significantly improve the quality of their services, something which we had been trying to get them to do for several years.

Rural businesses in particular sorely need the benefit of all new telecom technologies that are developed, since they are geographically inaccessible. In our business, access to telemedicine is becoming an ideal way to more adequately provide needed health care services without leaving the area.

Changing the PSC ruling is not only very important to Chequamegon Communications Cooperative, but it is a necessity to the future of businesses in northern Wisconsin that get their services from the cooperative.

I urge you to support legislation allowing telephone cooperatives to use all capital, including patronage capital, to provide broadband and other communication services.

Sincerely,

Barbara Pelckert
Chief Executive Officer

January 29, 2004



Honorable Representative Scott Jensen
Wisconsin State Assembly
PO Box 8952
Madison WI 53708

Dear Representative Jensen:

We are writing to request your assistance in a matter involving the communications services we receive from Cheqtel Communications, a competitive local exchange carrier, in northern Wisconsin. Cheqtel Communications is a subsidiary of Chequamegon Communications Cooperative, Inc.

Historically, cooperatives have been one of the most successful business ventures in our nation. Legislation is necessary to allow local telephone cooperatives to use any and all available capital to build, maintain and improve existing technological services to our rural area.

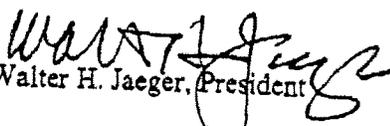
Prior to Cheqtel providing services in the city of Hayward and surrounding area, existing telephone service was in a state of decline. Cable television service was of poor quality. The competition created when Cheqtel began offering services forced other providers to significantly improve the quality of their services.

Rural businesses in particular sorely need the benefit of all new telecom technologies that are developed, since they are geographically inaccessible. When small rural businesses can grow and expand, that helps the local, rural economy by creating more jobs.

Changing the PSC ruling is not only very important to Chequamegon Communications Cooperative, but it is a dire necessity to the future of businesses in northern Wisconsin that get their services from the cooperative.

I urge you to support legislation allowing telephone cooperatives to use all capital, including patronage capital, to provide broadband and other communication services.

Sincerely,


Walter H. Jaeger, President

JOHNSON BANK

cc: Chequamegon Communications Cooperative

HAYWARD
1064 US HWY 63 PO BOX 916
HAYWARD WI 54843-0916
(715) 634-2611 (877) 644-BANK
FAX: (715) 634-4868

SPOONER
526 N RIVER STREET, BOX 129
SPOONER WI 54801-0129
(715) 635-6537
FAX: (715) 635-4930

MENOMONIE
207 FINE AVE SUITE 200
MENOMONIE WI 54751
(715) 233-2340
FAX: (715) 233-2345

MARKETPLACE
10511 MAIN, PO BOX 916
HAYWARD WI 54843-0916
(715) 634-6384
FAX: (715) 634-6154

RICE LAKE
340 S MAIN, PO BOX 88
RICE LAKE WI 54868
(715) 234-3630
FAX: (715) 234-0711

MORTGAGE DEPARTMENT
HAYWARD, (715) 634-7550 (877) 644-BANK
FAX: (715) 634-1302
SPOONER: (715) 635-6530 FAX: (715) 635-4930
RICE LAKE (715) 234-3620 FAX: (715) 234-9711
MENOMONIE (715) 233-2340 FAX: (715) 233-2345



OIL AND PROPANE

"Delivering A Lot More Than Fuel"

Phone: (715) 798-3566
(800) 777-8666
Fax: (715) 798-3582

42835 U.S. Highway 63
P.O. Box 477
Cable, WI 54821

January 29, 2004

Dear Representative Jensen:

I am writing to request your help concerning a matter that involves the "PAGING SERVICES" that my company presently has with Chequamegon Communications Cooperative, Inc.

It is of the utmost importance that some form of legislation be introduced to allow our telephone cooperative the use of patronage capital to maintain existing technology and to bring new technology to our rural area.

Here in northwest Wisconsin, Como Oil and Propane relies heavily on the paging system that Chequamegon Communications presently offers us. They are the only ones in this rural area to offer this service and should their ability to provide it cease, we would be at a tremendous loss. Despite all the promises made by the cell phone people to improve coverage in this area, it has NOT happened. On numerous occasions my service techs have been forced to leave a job and drive just to improve the cell signal sufficiently to call me. How did they know I needed to talk with them? Their pagers always work. Our pagers have great range within our service area and without them we would be lost.

I ask you to please take action so Chequamegon Communications can continue providing and improving their great services.

If you have any questions, please do not hesitate to call.

Sincerely

A handwritten signature in black ink, appearing to read "Michael G. Canik".

Michael G. Canik
Divisional Manager

Cc: CCC

HAYWARD LAKES

Woods. Waters. World Class Events.

HAYWARD AREA CHAMBER OF COMMERCE

P.O. Box 726 • Hayward, WI 54843

715-634-8662

January 29, 2004

Honorable Representative Scott Jensen
Wisconsin State Assembly
PO Box 8952
Madison WI 53708

Dear Representative Jensen:

We are writing to request your assistance in a matter involving the communications services we receive from Cheqtel Communications, a competitive local exchange carrier, in northern Wisconsin. Cheqtel Communications is a subsidiary of Chequamegon Communications Cooperative, Inc.

We support legislation that would foster growth and improve technology in our rural areas. When small rural businesses can grow and expand, that helps the local, rural economy by creating more jobs.

It is important to the community that small businesses such as cooperatives, be allowed to compete to provide improved technology to our area. We do believe we are well served by our local companies.

Sincerely,



Kevin Ruetten
Executive Director

Cc: Chequamegon Communications Cooperative



WILDE RIVER REALTY

P.O. Box 231
Cable, WI 54821-0231
Phone 715-798-3035
Fax 715-798-3015
E-mail: info@wilderiverrealty.com
www.wilderiverrealty.com

January 28, 2004

Dear Rep. Jenson

We are writing to request your support in a matter that involves the advanced telecommunications services that we receive from our local company, Chequamegon Communications Cooperative.

Legislation is necessary to allow our local telephone cooperative to use their patronage capitol to bring new technology to our rural area. DSL is one of the services that has enabled my business to grow and be successful in the rural area and to my small community of Cable, WI. My staff has doubled their productivity with the availability of DSL service.

Even though I am a business customer of Chequamegon, I am still a part owner of the co-op, along with all the other businesses and residents that are on CCC's lines. The services now being provided have enabled my business to not only stay viable but to grow up here in northwestern Wisconsin. I am very concerned that if the co-op is no longer able to be responsive to the needs of its customers and provide the newer services we will need, then the co-op and all of us small businesses here will suffer as a result.

If you have any questions, please give me a call.

Sincerely,

David L. Hisdahl
Broker/Owner

CC:CCC



cc: Spruce Knob
AB-515

CABLE FIRE DISTRICT

P.O. BOX 115
CABLE, WISCONSIN 54821

January 28, 2004

Dear Rep. Jenson,

We are writing to request your assistance in a matter that involves the paging services that we have with Chequamegon Communications Cooperative, Inc.

Legislation is necessary to allow our local telephone cooperative to use patronage capital to maintain existing technology and bring in new technology to our rural area.

The Cable Fire District is strictly volunteer and is run on a very limited budget. We rely solely on the paging efforts that we have with Chequamegon Communications. They are the only business in our area that offers us this paging coverage that is still affordable to our fire department. If their services were discontinued, it would be a great detriment to our community and the surrounding area.

If you have any questions, please call my office at 715-798-3355.

Sincerely,



Jeffery L. Rasmussen
Cable Fire Chief

Cc: Dan Anderson
Chequamegon Communications Cooperative

cc: Spkr. Yard
AB-515

Hayward Area Development Corporation

15837 U.S. Hwy 63, Suite 2
Hayward, WI 54843

Phone: 715 634-7226
Fax: 715 934-2340

E-mail: info@hayward-wi.org
Web site: www.hayward-wi.org

January 30, 2004

The Honorable Scott Jensen
Wisconsin State Assembly
P.O. Box 8952
Madison, Wisconsin 53708

Dear Representative Jensen:

We are writing to request your assistance in a matter involving the communications services we receive from Cheqtel Communications, a competitive local exchange carrier, in northern Wisconsin. Cheqtel Communications is a subsidiary of Chequamegon Communications Cooperative, Inc.

Cooperatives like Chequamegon and Jump River Electric have been providing essential services to our area. Legislation is necessary to allow local telephone cooperatives to use any and all available capital to build, maintain, and improve existing technological services to our rural area.

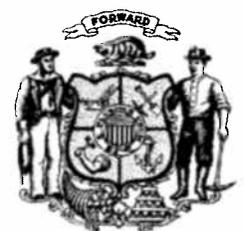
Prior to Cheqtel's providing services in the city of Hayward and surrounding area, existing telephone service was in a state of decline. Cable television service was of poor quality. The competition created when Cheqtel began offering services forced other providers to significantly improve the quality of their services. Without this competition our communications infrastructure would be in sad shape.

Rural businesses need the benefit of all the new telecom technologies that are developed, since they are geographically inaccessible. When small rural businesses can grow and expand, that helps the local, rural economy by creating more jobs.

Changing the PSC ruling is not only very important to Chequamegon Communications Cooperative, but it is very important to the future of businesses in northern Wisconsin that get competitive communications services like the services we now receive from Cheqtel and its parent, Chequamegon Communications Cooperative, Inc.



WISCONSIN STATE LEGISLATURE



*Sen: Brown, Auer, Espenbach, Hirsdorf, Kanavas Enothman,
Jauch, Olson*

SB III ?

DATE: FEBRUARY 18, 2005
TO: ALL LEGISLATORS
**FROM: CENTURYTEL, FRONTIER, NATIONAL FEDERATION OF
INDEPENDENT BUSINESS, TDS, VERIZON, WISCONSIN
GROCERS ASSOCIATION, WISCONSIN CABLE
COMMUNICATIONS ASSOCIATION**
**RE: OPPOSITION TO CO-SPONSORSHIP OF LRB-0206/1,
RELATING TO PATRONAGE CAPITAL/
CROSS-SUBSIDIZATION**

The companies and associations above ask that you **not co-sponsor and oppose LRB-0206/1**, relating to allowing telephone cooperatives to use ratepayer money (patronage capital) to invest in other business ventures.

A cooperative's patronage capital reflects that portion of rates collected from its members that are above the actual cost of service. Current law requires cooperatives to return patronage capital to their members. LRB-0206/1 will make it legal for cooperatives to charge their members excessive rates in order to generate margins that could be used to support risky unregulated business ventures serving non-members (the customers of other telecommunications utilities). This takes cooperatives away from their mission of non-profit service to their members and threatens competition by creating a new class of competitor that can use ratepayer dollars to create and build new businesses.

LRB-0206/1 will put ratepayers at risk by requiring them to pay more for regulated service in order to generate margins to subsidize unregulated businesses serving non-members. Should one of these businesses fail, the entire cooperative could go under.

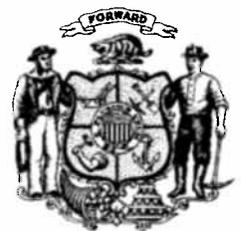
Additionally, LRB-0206/1 will provide a disincentive against further investment in advanced services for rural areas by for-profit utilities that will see no value in attempting to compete against cross-subsidized ventures.

The Public Service Commission has previously turned down the cooperatives' request to utilize patronage capital as envisioned in LRB-0206/1, noting that such an action was a serious threat to the ability of cooperatives to provide economical and reliable service to their members. This proposal was introduced last session as AB 515, which died in committee.

Attached is a document which provides an overview of the issue. Once again, we urge you to oppose LRB-0206/1. If you have any questions, please contact us.



WISCONSIN STATE LEGISLATURE





Wisconsin Federation of Cooperatives

131 West Wilson Street, Suite 400 • Madison, WI 53703-3269
Phone 608.258.4400 • Fax 608.258.4407 • www.wfcmac.coop

SB111?

To: All Legislators
From: Melissa Duffy, Director of Government Affairs *Melissa Duffy*
Re: Support for LRB 0206 by Representative Freese and Senator Brown re: Retained Earnings of Telephone Cooperatives (Deadline March 1, 2005)
Date: February 22, 2005

On behalf of Wisconsin's 2.9 million cooperative owner/members, I urge you to co-sponsor legislation proposed by Representative Freese and Senator Brown (LRB 0206) to correct an interpretation of Wisconsin law that singles out Wisconsin's telephone cooperatives and threatens to impede economic development in rural areas.

The problem addressed by LRB 0206 is an indirect and unintended consequence of the telecom deregulation act approved by the Wisconsin Legislature in 1994. The law says that telecoms can use "retained earnings" to subsidize "non-utility" activities. Non-utility activities include Internet, broadband, digital television and even 9-1-1 service. For nine years after the enactment of this legislation, telephone cooperatives' patronage capital was considered "retained earnings" for the application of this statute. Then, a PSC decision that took effect in 2003 reversed this interpretation and currently prohibits telephone cooperatives from using patronage capital as retained earnings to invest in new technologies for members.

The term "retained earnings" is not defined in the statutes, but generally accepted accounting principles define it as net income that is not immediately distributed to stockholders but retained for other purposes such as leveraging loans or reinvesting in the company. As explained in the analysis of LRB 0206, patronage capital is an accounting term unique to cooperatives but understood as a cooperative's net income. Cooperatives treat patronage capital the same way for-profit businesses treat their net income: It is either immediately distributed to member owners as dividends or retained by the cooperative in order to build owners' equity and increase the profitability of the cooperative. The difference is, patron members (ie. ratepayers) are the owners of the cooperative, each with an equal say in those financial decisions.

The result of the PSC decision is that telephone cooperatives, and only telephone cooperatives, no longer have the ability to use their retained earnings (a.k.a. patronage capital) to invest in advanced telecommunications services for rural residents. All other telephone companies have the ability to use retained earnings for this purpose. However, for-profit companies choose not to invest in new technologies in many rural areas because they are not considered profitable. Had this decision been in effect years ago, more rural residents and businesses would not have access to the Internet, and at least one area of the state would not have 9-1-1 service.

The attached document provides more information about LRB 0206, and addresses misrepresentations made by opponents of the legislation. I appreciate your consideration of this request. If I can provide you with additional information, please do not hesitate to contact me at (608) 258-4402.

Questions and Answers about LRB 0206: Retained Earnings of Telephone Cooperatives

What is the purpose of this legislation?

Very simply, LRB 0206 puts telephone cooperatives on the same playing field as every other telephone company in Wisconsin. It simply recognizes the unique accounting structure of a not-for-profit, member-owned cooperative, and does not grant telephone co-ops any special privileges.

Why is LRB 0206 important to rural areas and economic development?

The provision of advanced telecommunications services by cooperatives serves the quality of life and business needs of rural Wisconsin. In addition to local phone service, telephone cooperatives provide Internet, broadband, digital television and other services that are in demand to homes and businesses in their rural areas. The reason telephone cooperatives exist today is because local residents joined together to form cooperatives and bring local phone service to areas of the state where investor-owned telephone companies refused to provide service. If the cooperatives didn't modernize and provide advanced telecommunications services in these areas, this technology would be unavailable unless an investor-owned company deemed it profitable.

Despite attempts to confuse this issue, LRB 0206 is good for competition and consumers. Discouraging cooperatives and other small telcos from investing in advanced telecommunications services will only pave the way for larger companies to have monopolies over new technologies.

Would LRB 0206 put cooperative ratepayers at risk as the opponents claim?

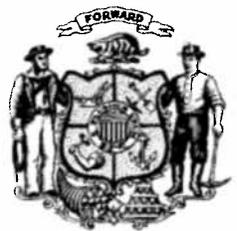
Just the opposite is true. While we appreciate the "concern" exhibited by large, for-profit telcos for our owner/members, it is unwarranted. Unlike investor-owned companies, our ratepayers are also our owners who oversee the financial decisions of their cooperatives. As the PSC interprets current law, our member/owners cannot use their own retained earnings (a.k.a. patronage capital) to invest in new services that area residents want in their homes and businesses, even to leverage loans for investment and modernization. In the ever-changing world of telecommunications, the inability to respond to new technologies will leave our cooperatives and their member-owners behind.

Opponents say LRB 0206 will allow for cross-subsidization which is prohibited by law. Is this true?

The truth is, Wisconsin law does not prohibit cross-subsidization. Rather, cross-subsidies are permitted as long as they are in the form of retained earnings, which opponents to LRB 0206 are currently using to fund their own investments in new technologies. Unfortunately, the PSC decision does not recognize patronage capital as retained earnings, even though the IRS, other federal agencies and other states do.

A lot has been made about telephone cooperatives' tax exempt status. Do telephone cooperatives pay taxes?

Telephone cooperatives pay state income taxes through the "ad valorem" tax which equals the gross receipts tax they would pay if they were a for-profit company. As for federal taxes, cooperatives are subject to an "85-15" rule which exempts them from paying federal income taxes if at least 85 percent of annual revenues come from its core co-op business. Nine of the eleven Wisconsin telephone cooperatives did not qualify for the exemption last year and paid federal income taxes.



SB III

worth a closer look
JUNEAU
county

To: All Legislators
From: Juneau County Economic Development Corporation
Executive Director Terry Whipple
Re: Support for LRB 0206 by Representative Freese and Senator Brown re: Retained earnings of Telephone Cooperatives

March 30th, 2005

On behalf of Juneau County Economic Development Corporation we ask that you support Legislative Reform Bill 0206 regarding retained earnings of telephone cooperatives.

Juneau County is typical of other rural areas in that we face numerous challenges regarding the retention and attraction of businesses. Two years ago we decided upon a creative strategy that would help us grow from within. We began an effort to develop an entrepreneurial culture throughout our region that would be more synonymous to the east or west coast. The vehicle for fostering this new culture is called the Inventors & Entrepreneurs Club. We have over 250 members in the club and monthly attendance is between 50 to 80 people. To this date we have helped start 6 other clubs in the region hoping to plant catalysts for economic growth throughout the state.

The success of this effort could not or would not have happened without a competent telecommunication and broadband infrastructure. With out a modern communication infrastructure our potential Inventors & Entrepreneurs would have struggled in developing new innovations, networking for opportunities or accessing certain educational or technical sources.

Lemonweir Telephone Company has partnered with JCEDC by financially supporting the I&E Club program. They also provide space for their monthly meetings. The important point that I wish to make at this hearing is that only Lemonweir Telephone and its cooperative partners were willing to invest in, and develop, a telecommunications / broadband infrastructure that was adequate to our needs. I believe that the ability to utilize and invest retained earnings played a big part in making this happen. Larger telecommunications companies were not willing, or possibly could not make this commitment until such a time that the development is feasible and profitable to them.

If rural areas had to wait until the development of a modern telecommunications infrastructure was profitable before being constructed, we would, in a modern sense, be back before rural electrification.

Lemonweir Telephone Company and its cooperative partners are providing telecommunication amenities in this region that also improves our quality of life and helps us to compete for talented workers. I truly believe that rural areas can play a significant role in the growing of Wisconsin's economy. In order to do so, they need telecommunication companies that are able to see them for their potential, not today's bottom line.

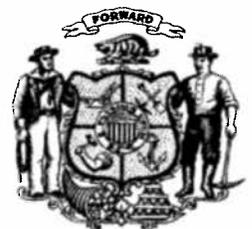
These are just a few reasons why I ask you to support Bill 0206.

Your efforts in making the best possible decision for rural Wisconsin is much appreciated. Thank you.

Sincerely
Terry D. Whipple
Executive Director, JCEDC



WISCONSIN STATE LEGISLATURE



March 31, 2005

Public Hearing for Senate Bill 111
Job Creation, Economic Development and Consumer Affairs

The following is a letter from River Bank in La Crosse that was presented at the public hearing on November 25, 2003 for Assembly Bill 515. This letter was in support of the telephone cooperatives. Senate Bill 111 is identical to the previously submitted Assembly Bill 515 from 2003.



River Bank
LA CROSSE

November 12, 2003

The Honorable Scott Jensen
Chair, Assembly Energy and Utilities Committee
P.O. Box 8952
Madison, WI 53708-8952

Re: Assembly Bill 515

Dear Chair Jensen and Members of the Committee:

River Bank is a locally owned bank and has branches in several rural communities around the La Crosse, Wisconsin area. We are currently experiencing growth and have a need for advanced telecommunications services from our local telephone providers. These providers range in size from the very large, such as Century Telephone to small independents and cooperatives such as Coon Valley Farmers Telephone Company and Vernon Telephone Cooperative.

Recently, we canceled our plans for updating some of our data processing in our branch banks. This service was going to utilize the use of broadband service to tie our branches together. This would have helped us streamline and standardize some of our processes. We ordered our broadband connections and had some of them installed only to find out that Century Telephone could not provide us with the connection we needed in our Ferryville Branch. This notification came after we had incurred the cost of installation and several months' service from the other companies. Because we could not complete the network as planned, we had to abandon this project.

River Bank supports the efforts of the telephone cooperatives in their efforts to get Assembly Bill 515 passed. The service we receive from Vernon Telephone Cooperative meets our needs and they were able to get the service that we needed installed in their serving area where Century Telephone could not in their serving area. We feel that this bill will help the cooperatives keep investing in new services that our area desperately needs. Please support the telephone cooperatives and pass this bill so that they can continue to lead and push technology into our rural areas.

Sincerely,

Gail D. Schams
Asst. Vice President

cc: Rod Olson, Vernon Telephone Cooperative



WISCONSIN STATE LEGISLATURE



March 31, 2005

Public Hearing for Senate Bill 111

The following is a letter from S&S Cycle, Inc. with locations in Viola and La Crosse. It highlights some of the services that Vernon Telephone Cooperative supplies to S&S Cycle. It was presented at the public hearing on November 25, 2003 for Assembly Bill 515. This letter was in support of the telephone cooperatives. Senate Bill 111 is identical to the previously submitted Assembly Bill 515 from 2003.

Testimony at that time was given by Mr. Jake Spry.

Jake Spry
Information Systmes Manager
Phone 608-627-0712
Fax 608-627-0765
jws@sscycle.com



Because every industry has a leader

Tuesday, November 25th, 2003
Public Hearing for Assembly Bill 515

Jake Spry, Information Systems Manager, S&S Cycle, Inc.

S&S Cycle, Inc. is in support of Assembly Bill 515 that would define retained earnings of a telecommunications cooperative to include the patronage capital of the cooperative.

S&S Cycle, Incorporated:

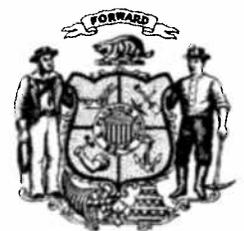
- Over 45 years of business
- Rural Wisconsin since 1969
- The leader in performance parts for V-Twin style motorcycles
- Over 315 total employees

Vernon Telephone Cooperative:

- Phone Services
 - Installation and Support for 6 different phone systems
 - Current System
 - Avaya Definity
 - Over 200 active extensions
 - About 30,000 incoming/outgoing calls per month
 - Over 50 total phone & fax lines installed at S&S
 - Installation of Single Mode Fiber
- Network Infrastructure
 - Installed multimode fiber to 5 buildings
 - Warehouse
 - Manufacturing
 - Testing & Development
 - Dyno Lab
 - 3 Story Office
 - Installation and Termination of over 500 voice & data runs
 - Over 28,000 feet of Cat-5 cable
 - Supplier for networking hardware components such as equipment racks and enclosures.
- Internet Access
 - Dialup service provided in 1995
 - Broadband service provided in 1998
 - Exchange Mail Forwarding
 - Host for www.sscycle.com domain
 - Technical Support for firewall configuration
- Design and Install Voice Paging System and integrate with existing phone system
- Installation of cabling for Fire Alarm System



WISCONSIN STATE LEGISLATURE





Wisconsin Federation of Cooperatives

131 West Wilson Street, Suite 400 • Madison, WI 53703-3269
Phone 608.258.4400 • Fax 608.258.4407 • www.wfcmac.coop

March 31, 2005

To: The Honorable Ted Kanavas, Chair
Members, Senate Committee on Job Creation, Economic Development
and Consumer Affairs
From: Melissa Duffy, Director of Government Relations
Re: Support of Senate Bill 111

Thank you for holding a hearing on Senate Bill 111 and for allowing me to express the support of the Wisconsin Federation of Cooperatives for this legislation.

In an effort to defeat Senate Bill 111, the legislation's opponents have put together an impressive coalition obviously meant to overwhelm us. And, their strategy today is to force us to defend dozens of issues that are not even addressed in the bill.

We may be just 11 tiny telephone cooperatives, but we believe we represent the fair and just public policy argument on this issue. For us, Senate Bill 111 is about providing the communications tools rural businesses need in order to remain in rural areas, and about providing our rural residents with the services that are in demand. In almost every case, the communities the telephone cooperatives would serve as a result of this legislation are communities the opponents of SB 111 have deemed unprofitable and do not want to invest in services there.

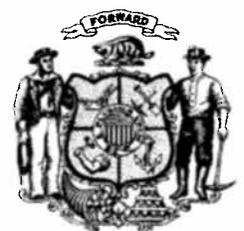
So why are they opposing this legislation? Because the statement I just made was not an absolute, and in a handful of communities in rural Wisconsin, cooperatives do provide services such as broadband and digital television where the companies opposing this legislation provide the same types of services. The residents who live in these areas have something most of don't: a real choice between telecommunications providers. Now we might be talking about a tiny percentage of the state's households and businesses, but apparently it has become the corporate philosophy of these large telecommunications providers to quell all competition to their services wherever and whenever possible.

That is the truth behind all the arguments against this legislation you heard today. As you've heard, our ratepayers are not put at risk as a result of our investing in services like Broadband that communities need – quite the opposite. And the only uneven playing field that exists today is the one created by the PSC decision which SB 111 aims to rectify.

Setting aside their arguments and our counterarguments, what it really boils down to is this: If this committee wants to promote access to broadband, high-speed Internet, digital television or whatever the next technology is down the road, your only choice is to support this legislation. Because in 95 percent of the areas we serve, no other company is going to invest in these services. And the economic ramifications of that will be dire for our rural areas.



WISCONSIN STATE LEGISLATURE





**Wisconsin
Manufacturers
& Commerce**

Wisconsin Manufacturers'
Association • 1911
Wisconsin Council
of Safety • 1923
Wisconsin State Chamber of
Commerce • 1929

James S. Haney
President

James A. Buchen
Vice President
Government Relations

James R. Morgan
Vice President
Education and Programs

Michael R. Shoys
Vice President
WMC Service Corp.

To: Chairperson Ted Kanavas
Members of the Senate Committee on Job Creation, Economic
Development & Consumer Affairs
From: R.J. Pirlot, Director of Legislative Relations
Date: March 31, 2005
Subject: **Opposition to SB 111.**

Wisconsin Manufacturers and Commerce (WMC) is the largest representative of Wisconsin employers. Our membership is a broad cross-section of the state's economic activity and our members employ approximately one-quarter of the state's private-sector workforce. **WMC and its members respectfully requests you oppose Senate Bill (SB) 111.**

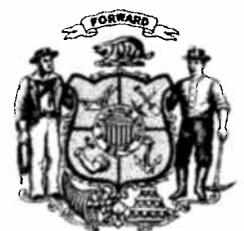
Wisconsin Manufacturers and Commerce is a long-standing supporter of deregulation of the telecommunications industry, and is strongly supportive of attempts to promote and foster competition in the industry. We are heartened that more competitors are gaining access to the local telephone service market, and that more local telephone service providers are gaining entry to the long distance market. The more companies which enter the local service market and the long distance market, the better we believe it is for Wisconsin businesses and other consumers of telecommunications services. Increased competition will lead to lower rates, more choices and increased innovation and investment.

SB 111 would hurt competition. SB 111, in our estimation, however, could lead to unfair or reduced competition. By allowing telephone cooperatives to use ratepayer dollars to invest in other ventures, not only could their customers be charged excessive rates, the cooperative could thereby undercut the ability of other providers to market their services. Even the best provider of a service will find it difficult to compete with subsidized competitors.

As such, WMC respectfully requests you oppose SB 111.



WISCONSIN STATE LEGISLATURE





Testimony Supporting SB 111

By Senator Brown

March 31, 2005

Good morning Chair Kanavas and committee members. Thank you for hearing testimony on SB 111 today. If adopted, this bill will promote growth and economic development in the rural areas of our state. It will allow access to 21st century technologies that will keep all areas of Wisconsin growing, and allow citizens of the rural parts of our state access to the advanced telecommunications services they need and want – and may not otherwise get. This bill is not about local phone service.

Why is this bill before you today? In 1994, Wisconsin adopted legislation deregulating telecommunication services. The new law stipulated that companies could only use “retained earnings” to subsidize services beyond basic phone services. The new law did not include a statutory definition of retained earnings. However, generally accepted accounting principles define retained earnings as net earnings that are reinvested by a company, rather than paid out to stockholders.

There are eleven telephone cooperatives in Wisconsin that provide telecommunications services to rural parts of our state. These cooperatives were formed because for-profit companies were reluctant to provide services in areas where they did not anticipate earning profits. Because of their business structure, cooperative telephone companies do not use the term “retained earnings.” However, cooperatives use the term “patronage capital” in the same way other businesses use retained earnings.

For several years after deregulation, telephone cooperative’s patronage capital was considered retained earnings and was available for use for the same purposes that all other telecommunications use them. However, in 2003 the Public Service Commission (PSC) ruled that “retained earnings” do not include patronage capital. This interpretation meant that cooperatives’ only source of capital – patronage capital – could no longer be used to reinvest in telecommunications services.

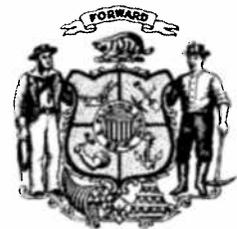
This decision had two major effects: first, it created inequity in the types of services available to people in the rural areas of the state served by telephone cooperatives. It also froze services in the areas served by cooperatives to the level in place in 2003. In fact, had this decision occurred earlier, at least one area of the state would not even have 911 service today.

As we all know, technologies continue to change rapidly. Cooperatives need to use their patronage capital as retained earnings in order to invest in advanced telecommunications services including broadband, cable TV and digital video. These investments are necessary because investor-owned providers still generally do not consider these ventures profitable enough to serve these areas. Wisconsin’s eleven telephone cooperatives are the only utilities in the state that cannot use their patronage capital to reinvest in services their members want and need. Moreover, every other cooperative – electrical, farm, credit union – can use patronage capital for reinvestment. The telephone cooperatives are unable to even modernize, let alone respond to the ever-changing telecommunications market.

SB 111 corrects this inequity by allowing telephone cooperatives to use their patronage capital as retained earnings. This is not an extraordinary change -- it merely lets them do something that every other telecommunications company in Wisconsin can already do. Simply put, SB 111 will allow these companies to compete and provide needed services, as they did prior to 2003. Thank you for your consideration, and I urge you to support this initiative.



WISCONSIN STATE LEGISLATURE



**Testimony on SB 111
Hearing – March 31, 2005**

**Matthew Macdonald, Partner
Kiesling Associates LLP
8517 Excelsior Drive
Madison, WI 53717
(608) 664-9110**

Kiesling Associates LLP is a CPA and Consulting firm that serve over 200 rural telecommunications utilities, both commercial companies and cooperatives, throughout the United States. I have over 20 years accounting and auditing experience with Kiesling's working predominately with rural telephone utilities.

Patronage Capital Represents the Retained Earnings of Cooperatives

Patronage capital represents the accumulated earnings (revenues less expenses) of a cooperative that are available to be paid back to patrons of the cooperative. Cooperatives have reported this accumulated earnings in their financial statements as a component of owners' equity identical to for-profit corporations. Owner equity for a for-profit corporation is called stockholders' equity and for a cooperative is called members' equity.

The Public Service Commission of Wisconsin (PSCW) acknowledged that for 50 years the patronage capital of cooperatives should be report as a component of retained earnings (Uniform System of Accounts (USOA) for Telephone Utilities ordered by the PSCW through December 31, 1987). In 1988 the PSCW in adopting changes to USOA was silent on where patronage capital should be report but cooperatives consistently reported patronage capital as retained earnings even after December 31, 1987. It was only when the classification became a recent issue at the PSCW that anyone consider patronage capital as anything other than retained earnings.

Cooperatives Do Pay Taxes

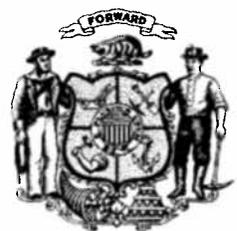
Telephone cooperatives pay taxes through the "ad valorem tax" which is a property tax as do for-profit companies. As for federal taxes, cooperatives are subject to an "85-15" rule which exempts them from paying federal income taxes if at least 85 percent of their revenues come from their member/patron business. Seven of the eleven Wisconsin telephone cooperatives did not qualify for the exemption last year and filed corporate income tax returns.

Regardless of the 85-15 rule, cooperatives pay income taxes on any income that comes from non-member business. The income earned from competitive ventures, that cooperatives' opposition says they should not be able to do, is subject to income taxes when it is provide as a non-member service (which most are).

Cooperative's do not collect and accumulate income taxes as the opposition to this bill represent. That practice is inconsistent with Cooperative principles and is not reflective of industry statistics. A study of 249 rural telephone company's (Telergee Benchmark Study) found that on average, cooperatives equity, which includes retained earnings, is 7% less than the peer taxable telephone companies. If cooperatives are accumulating income tax free why isn't it reflected in their financial statements? Because cooperatives do not accumulate income tax free. Cooperatives only recover costs they actually incur.



WISCONSIN STATE LEGISLATURE



Testimony to the SB111Hearing

Jeff Kostner

3/31/05

Cochrane Cooperative Telephone is one of the smallest of the 11 Telephone Cooperatives in the State of Wisconsin. We have 1400 access lines. Because of us, our member owners have access to the latest in Advanced Telecommunications.

Cochrane Coop has one exchange that only has 198 access lines. This is a rural farming community that is able to have Advanced services like broadband and digital video because Cochrane Coop feels that our customers need these services to keep up with the rest of the world. Here are a few examples of how our customers are able to use these services:

- There is a Foremost Farms Dairy operation in this community that would not be able to do business without the Broadband services we provide. If they did not have this service this plant would not be able to operate as it does now and provide jobs to over 50 people. Without this service that plant would possibly have been closed.**
- A dairy farm operation that milks 500 cows a day, 7 days a week, 24 hours a day and employs 17 people. This farm has broadband and digital video service in their dairy barn.**

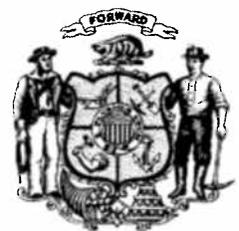
- **There is a large construction company that employs 25 people and has 15 trucks on the road. Because of our investment in advanced services, they are able to have the same advantages that construction companies in the larger cities have, which enables them to remain competitive.**
- **A small local Catholic Church School is able to give its 20 students high-speed broadband technology because we can get it to them. These young students are the future. If we aren't able to provide for them the latest in technology, they will move on to where they can get it.**

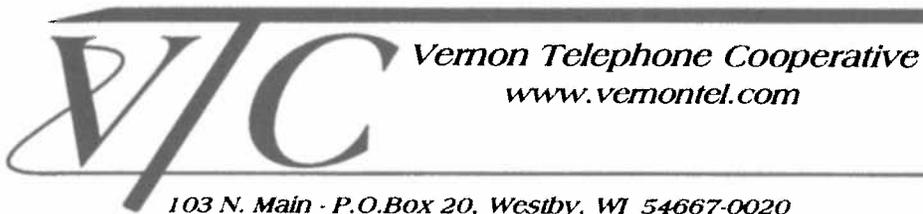
We strongly believe that our competitors would not provide any of these services to this small rural community because the rate of return is low. And because of our terrain, even the Satellite providers are unable to get Broadband services to our rural customers.

These advancements were made possible for our customers because in the 1990's Cochrane Coop was able to use its retained earnings as collateral against loans it needed to reconstruct its outside plant and invest in the wireless industry. I feel very strongly that this bill should be passed for our rural customers. I'm afraid that without the use of retained earnings we will not be able to provide the next generation of advanced telecommunications. This will not only hurt our existing customer but the future generation that will be even more demanding of these services.



WISCONSIN STATE LEGISLATURE





103 N. Main - P.O.Box 20, Westby, WI 54667-0020
PHONE: 608-634-3136 FAX: 608-634-2000

Thursday, March 31, 2005

Rod Olson, General Manager, Vernon Telephone Cooperative, Inc.
Re: Senate Bill 111

To: Chair and Members of the Senate Committee on Job Creation, Economic Development and Consumer Affairs.

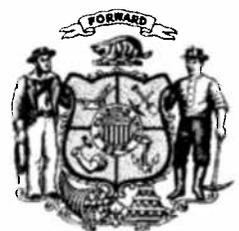
Vernon Telephone is located in the Southwestern portion of the state just south of La Crosse. Our headquarters is located in Westby. We serve just over 7,500 access lines in over 535 square miles with virtually every voice and custom calling service available. Our customer densities are very low at only 14 subscribers per square mile. This includes our communities, yet today we have broadband Internet service available to 99% of our members and digital IP television is available to about 85% of our members. Our telephone rates are among the lowest in the state. We also supply paging and 2-way radio service. We have Med-link telephones that are monitored by the local hospital for seniors and also are the lead company and administrator for Vernon County's Enhanced 911 network. With the exception of the voice telephone line, all are non-regulated services which are affected by the PSC decision addressed in SB 111.

In 2000, Vernon Telephone Cooperative led the effort to bring Enhanced 911 service to Vernon County. This was after the county's consulting firm advised them that 911 service, let alone enhanced service was too expensive and not possible. The companies providing 911 service at that time were SBC and Verizon. Vernon Telephone was approached by the county after Frontier, who serves the county seat in Viroqua and should have been the lead company, declined to take the lead. They asked us to figure out a way to get it installed and to be creative in finding a way to pay for it. We did and we got it installed with the help of the other area telephone companies. Each company was approached for discount contract pricing for their 911 circuits. Five of the six participating telephone companies agreed to discount pricing for the circuits. Century Tel was the only company that did not. Vernon Telephone gave the county pricing that would be assessed on the property tax instead of an assessment on the telephone bill. This was to make the absentee land owners and Amish residences that use the system through cell phones or through neighbor's telephones help pay for the system. This reduced the cost for most people by about 50% over traditional telephone line assessments. Vernon gave the county a price based on fixed costs and estimated costs for subscriber updates with the idea that the county would only be charged for actual expenses. In each of the first 4 years since the service was implemented, we charged the county less than the budgeted and contracted price. The savings for those years combined was \$160,400.87 over what could have been billed.

This is just one of the many ways that Vernon Telephone Cooperative steps up to meet the needs of our communities. We did the 911 project with Vernon Telephone funds. We did it for the good of all Vernon County residences. Those people live in Century Tel, Frontier and other small telephone company's serving areas as well as our own. Our board believed it was for the good of the whole county to move ahead with the project and put them ahead of profits in their decision making process. Vernon is not alone in this type of thinking. It is common among the other telephone cooperatives as well.



WISCONSIN STATE LEGISLATURE





RURAL TELEPHONE FINANCE COOPERATIVE
2201 Cooperative Way · Herndon, Virginia 20171-3025
703-709-6700

May 25, 2005

The Honorable Ted Kanavas
Wisconsin State Senate
P.O. Box 7882
Madison, Wisconsin 53707-7882

Dear Senator Kanavas:

On behalf of our Wisconsin telecommunications cooperative members, the Rural Telephone Finance Cooperative (RTFC) strongly supports passage of SB-111 currently under consideration.

RTFC is a not-for-profit, member-owned financing cooperative that has committed approximately \$34 million to Wisconsin's telecommunications cooperatives and their affiliates. These funds have been and will be used to help build Wisconsin's rural telecommunications infrastructure and provide state-of-the-art telecommunications services to Wisconsin residents that would likely not otherwise receive them.

A national lender, RTFC provides funding for telephone cooperatives in all states that have such entities. Because the regulatory environment in a state materially influences our financing decisions, we make every effort to stay abreast of adverse actions. We are aware of no other state besides Wisconsin in which regulators have issued or proposed rules that treat patronage capital as anything other than retained earnings.

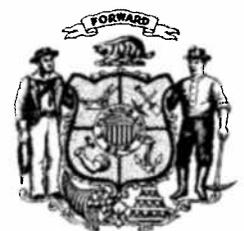
Without the relief provided by SB-111, these cooperatives will have no internally generated funds that they can legally invest in new, competitive ventures to benefit their members. As a result, their ability to secure financing for these ventures will be all but non-existent. Without equity investment by the cooperative, neither RTFC nor any private lender will lend to finance a new venture. Absent financing for these telecommunications cooperatives, residents of rural Wisconsin will be deprived of telecommunications services such as high-speed Internet and video that their urban counterparts enjoy. Incumbent for-profit service providers will be able to reap monopoly profits without fear of competition and the need to invest in modernized facilities.

Sincerely,

Henry I. Buchanan, III
Vice President of Industry Affairs



WISCONSIN STATE LEGISLATURE



DATE: OCTOBER 18, 2005

**TO: SENATE COMMITTEE MEMBERS ON JOB CREATION,
ECONOMIC DEVELOPMENT & CONSUMER AFFAIRS**

**FROM: WISCONSIN CABLE ASSOCIATION, CENTURYTEL, VERIZON,
TDS, NATIONAL FEDERATION INDEPENDENT BUSINESSES,
WISCONSIN GROCERS ASSOCIATION, & WISCONSIN
MANUFACTURERS AND COMMERCE.**

RE: OPPOSITION TO SB 111 AND AB 195

Telecommunications, cable and other small and large business trade associations **oppose SB 111 and AB 195** which would allow telephone cooperatives to use ratepayer money (patronage capital) to invest in other business ventures. Current law requires that a telephone cooperative, in return for its tax exempt status, return any patronage capital to its members that is above the actual cost of service.

SB 111 and AB 195 would put ratepayers at risk.

In November 2001, the Public Service Commission concluded that a telephone Cooperative as a protected monopoly could not use patron's funds to subsidize affiliate companies' transactions. This is known as cross-subsidization and is prohibited by law because it is unfair to competitors and risks members' funds.

SB 111 and AB 195 would overturn a Public Service Commission's and a District Court's decision which found the telephone cooperative guilty of violating state utility laws. On January 15, 2004, the Dane County Circuit Court required the cooperative to pay forfeiture for violating the law. The Department of Justice represented the Commission. The forfeiture represents the largest amount assessed against a utility for violating anti-cross-subsidization statutes.

SB 111 and AB 195 unlevels the playing field.

The cooperative provided its cable affiliate with telecommunications fiber at cost and guaranteed loans to other outside affiliates. Providing assets from a protected monopoly to outside affiliates as the cooperative had done creates an unfair advantage to competing companies. The law was designed to maintain a level playing field and applies to all providers small, medium, and large.

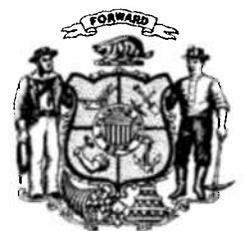
SB 111 and AB 195 would allow for the first time tax free revenue from regulated service to members as an unlimited source of cash to subsidized for-profit ventures.

Tax free patronage capital should not be used to subsidize risky for-profit ventures and service to non-members. Cooperatives already enjoy many tax advantages all based on the premise that they will operate on a not-for-profit basis and provide service to members at cost.

We respectfully ask the committee members to oppose SB 111 and AB 195 because it would hurt consumers, create unfair competition, and deter investments in the state.



WISCONSIN STATE LEGISLATURE





202 N East Street
PO Box 67
Blue River WI 53518
608-537-2461
608-537-2222 (fax)

mwt midwest tel net
www.mwt.net

SB III ?

Date ?

My name is Dave Lull, General Manager of the LaValle and Richland-Grant Telephone Cooperatives.

Richland-Grant Telephone Cooperative is headquartered in Blue River, Wisconsin, and serves 3,000 telephone subscribers in Grant, Richland, Crawford, and Vernon counties. Our service territory covers about 265 square miles. LaValle Telephone Cooperative is headquartered in LaValle, Wisconsin, and serves 2,100 telephone customers in Sauk, Richland, and Juneau counties with territory covering approximately 125 square miles. The customer base for both cooperatives consists of about 10% business and 90% residential.

Together the cooperatives have a total of 30 full-time employees. Ten of these employees have been hired as a result of investments in advanced services accomplished before the restrictions on patronage capital were put in place in January of 2003.

Along with traditional telephone services, we also offer dial-up Internet, high speed Internet, long distance, and the newest service offering is digital television.

Those who have testified before me have done a good job of showing you why you should ignore the misleading information being circulated by the opponents of this legislation. Several of their arguments might apply to a large, profit-driven company, but none apply to member-owned cooperatives. Our number one concern is service to our membership, not profit. We exist to provide affordable, advanced telecommunications services to our member/owners that wouldn't exist if we didn't provide it. If you live in rural Wisconsin, you may or may not be lucky enough to have access to things like broadband and digital television. If you have access to these services, there's not likely to be much competition for the service, and we all know what that means for consumers. An example of this is to compare my local rate at my house located in

the Richland-Grant service area to my rate at my cottage located in Century Telephone's Presque Isle exchange in northern Wisconsin. At the cooperative, my monthly local rate is \$12.50, my Century Telephone charge is \$18.80. Now let's look at a Century Tel rate where there IS competition. In Rice Lake, the telephone rate is \$14.95.

The magic word here is competition. They want to suppress competition as much as possible because a closed market is the best way for them to make money if and when they decide to start offering advanced services in a particular area. Our number one opponent on this legislation, Century Tel, has told us that they would not oppose this bill if the telephone coops agreed to only provide services in our rural service territories. And now the latest suggestion is that if the cooperatives were to move to a different corporate structure, such as an LLC or LLP, they would not oppose it. Of course there would be no investment income to make such a change unless this bill passes. What does that tell you about the true motivation behind their opposition?

I find the suggestion of changing corporate structure totally against something that I and the members of my cooperative believe in—one member, one vote—a true democratic representation by the customer.

It is certainly not about taxation. My cooperative pays the same rate on taxable income as the for-profit telephone phone companies in Wisconsin pay. If our opponents really felt that we had some kind of competitive advantage in the market, they could easily convert to a cooperative structure. Of course, that would mean they would have to give up their profits.

If this legislation fails to pass, it will trigger a chain of events that could be very detrimental for the residents, schools, and businesses served by our cooperatives. First, our telephone cooperatives will eventually fade away because we will be prevented from responding to the needs of the market. If that happens, our members will not only lose equity in their cooperatives, but they will not have access to the latest technologies in their homes and businesses. That will,

in turn, have a profound effect on rural economic development and the creation of jobs in these areas.

As you can see, this legislation is “do or die” for Wisconsin’s telephone cooperatives, their owner-members, their employees, and the areas they serve. But let’s look at the flip side: What will it mean to the opponents of this legislation if it does pass? The honest answer is, not a thing. Maybe they would lose a very small percentage of their income to competition in a handful of areas, but it certainly wouldn’t be as a result of unfair competition. In fact, if you took a look at Century Tel’s balance sheet over the past several years, you would find that their bottom line gets better and better each year, even before the PSC decision took effect. At the end of 2004, they had over \$3 billion in retained earnings – that’s over 1,000 times the amount that either of my cooperatives retain in patronage capital. Unfair competition? Don’t buy it.

I respectfully request that the committee consider SB 111 as a fair way of allowing the eleven Wisconsin telephone cooperatives to be treated just like all other cooperatives in Wisconsin (and all cooperatives throughout the United States) are treated.