TESTIMONY OF
DONALD KLEPPER-SMITH REGARDING HOUSE BILLS 6604 AND 6608

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INTRODUCTION: My name is Don Klepper-Smith, Chief Economist and Director of Research with DataCore Partners, an economic and demographic consulting firm based in New Haven. I have been a professional economist here in Connecticut for thirty years, and currently serve as Chairman of Connecticut Governor M. Jodi Rell's Economic Advisory Council. I have been a long-time observer of the region's economy, and am a part-time Economics Commentator on WTNH Television in New Haven, Connecticut.

REMARKS: I am here today to offer my professional opinions regarding House Bills No. 6604 and 6608.

Regarding House Bill No. 6604 and the regulation of competing video services, I would like to offer my opinions on the Bill as my firm was retained to conduct an economic impact study on the buildout of the AT&T U-Verse video product offering here in Connecticut, looking at direct and indirect economic benefits to the State.

As I understand it, the proposed bill would make changes to the regulation of competing video services in Connecticut, adding regulations to what was passed in 2007. As you may recall, back in 2007, both the State Legislature and Governor Rell sought to bring competition to Connecticut's video services market, seeking to increase consumer alternatives, while reducing consumer costs. The law allowed new providers to enter the video market, and ensured that the incumbent, monopoly cable companies would have a level playing field once a new video provider began providing service in their franchise area.

Today, years later, it is clear that full competition has come to Connecticut's video marketplace. In the process, consumers have clearly benefited from the array of new video services, and the state's economy has benefited from the new jobs that have been created along the way.

From what I see, the proposed bill would prohibit a major player in Connecticut's video marketplace, AT&T, from doing business in the State because they will be unable to comply with the proposed law as it is currently written. If AT&T is therefore unable to comply with this proposed law, and is unable to compete as part of a level playing field, the very nature of competition in the State's video marketplace would be clearly be undermined. It would deny area customers access to product offerings, raise prices in the long run, and essentially prevent additional buildout of the U-Verse network and stop the offering of video services bv AT&T, denying the State and its residents multiple direct and indirect economic benefits.

Back in October 2007, DataCore Partners was asked to assess the economic impacts associated with the planned buildout of the U-Verse infrastructure, assessing impacts to the local employment base and area spending. **Our bottom line conclusion was that AT&T's initial U-Verse infrastructure would have a significant and positive impact on the area's economy by creating a total of 3,700 new direct and indirect jobs, and almost $400 million in aggregate economic activity over a 5-year period.**

The economic multipliers associated with the U-Verse buildout are worth mentioning. According to the U.S. Commerce Department, for every communications job directly created, there are another 2.16 indirect jobs created in the local economy due to multiplier effects. On the spending side, every dollar spent within Connecticut's communications industry on wages creates an additional $1.16 in indirect

economic activity elsewhere. Therefore, the message is clear. U-Verse has a positive and significant impact on Connecticut's economy in the long run, providing real and tangible economic benefits.

Moreover, given the backdrop of a national recession that has already claimed more than 29,000 jobs here in Connecticut since December 2007, it is safe to say that every job counts and every dollar counts. Therefore, AT&T's U-Verse infrastructure plays an important role in providing high-value added jobs at a time when employment matters most because jobs are linked to income growth, personal consumption, and overall consumer confidence.

Lastly, U-verse also plays an important role for Connecticut small businesses by promoting increased productivity, which in turn drives aggregate economic output. If the state's small business sector is to reach its full economic potential, then business productivity will have to be maximized. Today, business productivity is a function of two basic inputs: either people working harder, or technology helping area businesses keep pace.

The bottom line is this: If we want a world-class economy here in Connecticut, we first need world-class infrastructure. It's non-negotiable. That includes highways, human infrastructure in the form of labor, rails, electricity, and state-of-the art Telecom/Cable/Internet infrastructure. Not allowing AT&T to offer U-Verse video service and to build its related infrastructure not only limits consumer alternatives, but has the strong potential to constrain business productivity when it matters most.

Therefore, in the final analysis, House Bill No. 6604 as it now stands has the potential to undermine Connecticut economic growth and increase the long-term price of video services to state residents.

More competition, not less, with a level playing field for all providers, will clearly benefit Connecticut consumers in the long run. That said, the competitive marketplace should not be put at undue risk by adding more and more regulations that would have the strong potential to undo the natural competitive process. Rather, I would recommend that the State Legislature embrace the content and spirit of the original legislation passed back in 2007, and acknowledge that open and fair competition thus far has brought multiple benefits to area residents already. As a professional economist, it is my fervent hope is that we, as a state, see full competition in Connecticut's video services marketplace and that U-Verse is made part of it. We will all benefit.

Regarding House Bill No. 6608, I would also like to offer some comments. After reading this Bill, it is my understanding that it would, among other things, impose a new and more comprehensive set of metrics for telecommunications services being rendered by selected providers here in the state, all under the auspices of the State DPUC. It is my understanding that the DPUC only has jurisdiction over TELECOMMUNICATIONS COMPANIES (AT&T and Verizon) and CERTIFIED TELECOMMUNICATIONS COMPANIES, such as COX Cable. However, other major cable operators who provide competing telephone services through cable networks, I believe, are not subject to DPUC oversight because they deliver such services through VOIP (Voice Over Internet Protocol), which are exempt from State law. This means that one group of providers would be required to adhere to one set of standard metrics, while another competing group (VOIP providers Cablevision, Comcast and Charter) would be exempt from providing such metrics.

This would seem patently unfair as it would burden some firms with having to meet and report on these comprehensive metric and pay penalties for missing them, and others not! Moreover, there are probably considerable labor and capital costs associated with compiling these metrics, and therefore there is the potential for an "unlevel playing field" as some players would be burdened with these costs, and others would not, thereby advantaging providers using the VOIP technology. Since federal law prohibits states from regulating VOIP technologies and those technologies represent major components of the competitive marketplace, I would strongly suggest that rules should not be imposed on only a few providers in the market. Such rules will undermine competition and economic activity.

I spent 17 years in the telecommunications business here in Connecticut, and it is one of the most dynamic and competitive industries we now have in the State. The economic consequences of mandating that some firms meet a comprehensive set of service metrics or face penalties, while others are exempt, represents bad economic policy. It unfairly burdens some with higher labor costs, possibly higher capital costs, and greater scrutiny. In the long run, this would possibly provide important strategic advantages for those who are not obligated to provide such data.

Moreover, this Bill would promote a "selective DPUC monitoring process" where comparable data metrics are not out on the table for all to see.

Thank you.

Biography

Don Klepper-Smith has been a professional economist for thirty years and currently serves as Chairman of Connecticut Governor M. Jodi Rell's Economic Advisory Council. He has been a long-time observer of the region's economy, and is regularly quoted by various media sources for his perspective and insights on the domestic and Connecticut economies, being a frequent Economics Commentator on WTNH Television in New Haven, Connecticut.

Don is also a long-time professional researcher, developing and directing strategic planning initiatives on behalf of clients in order to help them make better business decisions.

Between 1982 and 1996, Don was Corporate Economist with Southern New England Telephone in New Haven, providing economic analysis and forecasts of national and state business trends.

Today, Don specializes in evaluating consumer markets, assessing the generators of consumer wealth, while also providing valuable perspective on business conditions as they relate to credit markets and employment growth. A technician by trade, Don's reliable forecasts of the changing U.S. and New England economic landscapes have kept him in demand.

In addition to now chairing Governor Rell's Economic Advisory Council, he also served as an Economic Advisor to the Governor of Connecticut during the Weicker Administration.

Don has chaired numerous economic outlook conferences over the last three decades, and has served as President of both the Economic Club of Connecticut and the Hartford Area Business Economists, two organizations which explore economic issues of importance to Connecticut with a focus on business, government and education.

Don earned his Masters Degree in Public Administration from Stony Brook University in New York in 1978, focusing on economics, econometric modeling, statistics and forecasting theory. In 1975, he received his B.S. in Applied Mathematics from Stony Brook University, as well.

Don now lives in Durham, with his wife Marcia, and has two grown daughters, Lee and Dana.