



STATEMENT OF AT&T CONNECTICUT

Regarding Raised Senate Bill No. 1024 An Act Concerning Modernizing the State's Telecommunications Laws Before the Committee on Energy and Technology February 24, 2011

Proposal:

Section One of Raised Senate Bill No. 1024 would eliminate the requirement that certified telecommunications companies and telephone companies file tariffs for their services with the DPUC. Section Two would eliminate the need for a paper version of a filing sent electronically to the DPUC. Section Three eliminates the requirement that a telephone company which is otherwise subject to audit have to perform a separate annual Connecticut audit. Section Four eliminates the "imputation standard," which sets a floor at which a telephone company may offer its services. Section Five eliminates the requirement that prohibits a telephone company from withdrawing a competitive service without DPUC permission.

Comments:

AT&T strongly supports Raised Senate Bill No. 1024, thanks the committee for introducing the legislation and urges its adoption.

Nearly 17 years ago, the General Assembly opened up Connecticut's local phone market to competition. That action has been an unmitigated success for the consumers of the state. Today, consumers have more choices, are receiving cutting-edge products and services, and, in fact, are getting better functionality and overall value for their dollar relative to days past. Consider that AT&T's market share of the local wired phone market it serves has declined from 100 percent to 45 percent. The number of access lines AT&T has in service in the state has declined 51 percent since just the year 2000 – from nearly 2.4 million lines to a little more than 1.1 million lines as of December 2010 – while spending by Connecticut consumers on wired voice has declined 49 percent since 2004.

The 1994 law rightly started to reduce the level of regulation of providers as the state moved to a competitive market. Follow-up laws in 1999 and 2006 – again considering the degree to which competition had taken hold – also moved to reduce unnecessary regulation. AT&T strongly believes given the level of competition present in the marketplace that it is time again for the legislature to take the next logical step and to update the state's telecommunications law by eliminating more unnecessary and burdensome regulations. The legislation which is before you does so in a number of important ways.

Section One: Elimination of Tariffs

Section One of the Raised Bill would eliminate the requirement that telephone companies like AT&T and Verizon, as well as those competitors of AT&T that are certified telecommunications providers, file tariffs for their services with the DPUC. Today, a small number of the providers in the marketplace file and maintain tariffs with the DPUC which describe an individual service offering, the prices charged, and the terms and conditions for

such an offering. These tariff requirements are a vestige of the monopoly era of telecommunications when the DPUC was charged with overseeing and regulating monopoly providers. Today the marketplace is fully open to competition and most of the providers in the market, including the largest providers, are not required to file or maintain tariffs. These other providers instead have agreements between themselves and their customers.

Today's existing tariff requirements constitute a real burden on some providers and increase the cost of doing business with no benefit to the customer. AT&T maintains a tariff database containing general terms and conditions, and specific service descriptions and terms and conditions, for all the regulated telecommunications services it provides, including even separate filings for individual case basis services provided to business customers. Anytime it introduces a new service or makes any change to terms and conditions, regulatory specialists review the service or change with product managers, draft appropriate language, create specially formatted tariff pages, file these pages with the DPUC, and distribute them as appropriate. In addition, AT&T must maintain the electronic database housing the tariffs and ensure that it is accessible to the DPUC. This process is parallel to, but must be coordinated with, the separate process undertaken for distinct employees to ensure adequate and timely customer communications.

Today, as a matter of good service, we communicate the parameters of the services our customers choose by means of scripts, welcome packages, bills, and other information. In fact, customers can obtain information about their services at any time at www.att.com. This information is far more accessible to customers than tariffs and more similar to the materials provided by our competitors, thus better facilitating competitive comparison. Drafting, filing, and maintaining tariff databases is an additional layer of communication, not typically relied on by customers. In short, direct communication with customers which providers already undertake today is more relevant to customers than are tariffs. Not only are tariffs an administrative burden for the company, but they also slow us down in a competitive market. AT&T must file tariffs days in advance of making changes to its services, thus giving its competitors advanced notice of our plans.

This proposal does not change the role of the DPUC or change existing consumer protections under Connecticut law and DPUC regulation.

By eliminating tariffs for telephone companies and certified providers, Connecticut would be joining with the federal government and numerous other states which have taken such action. The federal government eliminated tariffs for interstate long distance service over fifteen years ago with no harm to consumers. Six of the twenty-two states where AT&T provides local service have already eliminated tariffs entirely, and another seven have dramatically limited their applicability.

Finally, and perhaps most importantly, most of AT&T's major competitors in the voice market do not file tariffs. This not only serves as an example of an unlevel regulatory playing field but demonstrates how little consumer impact such a change will have. Providers not subject to the tariff filing rules are the very ones who have experienced the greatest gain in market share – this alone illustrates how tariffs are not important to the end user and their experience with their provider.

While we are supportive of the underlying language, we would encourage the committee to redraft the language found in Section One to make the elimination of tariffs at the option of the provider and to make clear that tariffs for wholesale services would still be required.

Section Two: Paperless Filings

Today, by virtue of DPUC regulation, AT&T makes electronic filings for dockets and other matters before the DPUC. However, this same regulation requires that all electronic filings be accompanied by a paper version of the filing within two days. This outdated and unnecessary requirement adds tens of thousands of dollars in additional compliance costs to AT&T alone and undoubtedly adds hundreds of thousands of dollars in total when considering the costs to all parties with business before the DPUC. These costs include both the administrative requirements related to copying and the costs of transporting the filings, which, because of filing times and deadlines for submission, are often transported to the DPUC by paid courier services. In addition, parties are required to provide paper filings for all designated parties to a docket who do not specifically agree to electronic filings, compounding the costs to AT&T and other companies. By way of example, in one recent docket before the DPUC, AT&T had to supply 88 separate filings, consisting of hundreds and hundreds of pieces of paper, to more than 190 parties to the docket.

In these days of electronic commerce and communication where businesses and government are trying to do more, with less, and with more respect for the environment, AT&T believes that Section Two is an environmentally friendly and cost-effective way to save money for businesses and government alike. In addition, our state's courts already not only allow electronic filings but require their submission and the New York State Public Service Commission recently adopted paperless filing requirements similar to the proposal before you.

While we are supportive of the underlying language of the Raised Bill, AT&T previously agreed to supply the DPUC with three copies of all filings upon its request, and we would be supportive of such a change to the language.

Section Three: Elimination of Single State Audit

Section 16-32 of the General Statutes, which was first enacted in 1949, requires public service companies to have an annual audit of their finances. This requirement made sense and still makes sense when a public service company is not otherwise audited. However,

AT&T Connecticut, for example, is part of a much larger corporation which has all of its finances and operations otherwise audited as a requirement under various federal laws and regulations. As a result of this separate audit requirement, AT&T spends nearly \$1 million annually, in addition to the costs of the federal audit, to have a separate Connecticut audit performed. Connecticut is the only state, of the 22 states in which AT&T operates as an incumbent local exchange carrier, which requires such a separate audit.

The legislation before you would eliminate this separate auditing provision for a telephone company which is also a public service company – AT&T Connecticut and Verizon – so long as the company's parent company operations were audited under federal law. The language in the proposal before you mirrors the existing law which exempted from the auditing provision any telegraph or express company subject to the jurisdiction of the Interstate Commerce Commission, since they are likewise subject to audit under those rules. AT&T is supportive of language developed between itself and the DPUC previously which makes clear the DPUC may require additional information regarding AT&T's accounts and operations which are otherwise exempt from the audit and which the DPUC has determined is necessary to carry out its obligations.

Neighboring New York eliminated its separate mandatory audit requirements for telephone companies more than 15 years ago. The proposed language in Section Three of the bill will help to eliminate outdated, unnecessary and expensive requirements found in the law today while ensuring that the oversight envisioned in the law continues.

While we are supportive of the intent of Section Three, we do believe the language as introduced is slightly flawed and urge the committee to instead adopt the language developed by AT&T and the DPUC which makes clear the DPUC may require additional information it deems necessary. We have attached a copy of such language to our testimony.

Section Four: Elimination of the Imputation Standard

When the General Assembly wrote the 1994 law opening the local phone market to competition it believed, as did most parties to those proceedings, that most competitors to local phone companies would purchase, on a wholesale basis, access to the incumbent's network in order to compete. As a result of this reasoning, the General Assembly established a requirement in the law which prohibits AT&T from offering any service at a retail price which is lower than the wholesale price of purchasing the piece parts of AT&T's network. However, the underlying assumption in this law ended up being quite flawed. Nearly all of the competition to AT&T comes not from competitors purchasing wholesale access to its network but instead from competitors utilizing their own networks to compete. As a result of this flawed assumption, AT&T is prevented from openly competing for some business because its competitors can and do under price its offerings. Artificially setting a floor by which some providers may not lower their retail prices hurts not only those providers who

are restricted from actively competing but ultimately consumers of such services whose choices are more limited and who are paying a higher price than they might otherwise pay.

Eliminating the imputation standard will not harm competitors since they will still be able to resell AT&T's services. In addition to purchasing wholesale elements of AT&T's network, competitors under the law may resell AT&T's services by purchasing that service from AT&T's wholesale tariff at a 25.4 percent discount off the retail price of that service. This resale discount is among the highest discounts set by DPUC decision anywhere in the country. This means, for example, if AT&T were permitted to lower its price without respect to any imputation standard as we are requesting, any competitor could still purchase on a resale basis that same service for 25.4 percent off the price we are offering. Few states have this type of imputation standard.

Section Five: Elimination of DPUC Approval to Stop Offering Service

During the 1999 update of the state's telecommunications laws, the legislature enacted a provision of the statutes which prohibits AT&T or Verizon from stopping to offer any competitive service without DPUC approval. This section of the law was enacted because at the time there was a plan whereby a ballot would be sent to all consumers to allow them to choose their telecom provider, and the requirement was included to ensure that companies would not stop offering services before that balloting took place. That plan eventually didn't move forward for several reasons. But this unnecessary requirement remains in place for AT&T today, impeding its ability to make changes in response to the rapidly changing telecommunications market.

Over the years, AT&T has introduced thousands of service plans and products for our customers and, as new plans came to market, old offerings were rarely removed. Today, for example, there are still hundreds of products related to our traditional phone service, (e.g., local, vertical services, LD, etc.), yet we proactively market only a subset of such services.

We want to improve customer service and reduce costs in our business by streamlining and consolidating existing offerings into a more unified and enhanced customer experience. It is critical that companies have the flexibility to remove products and services as consumer demands change instead of as old regulations dictate. While removing products and services is common for many companies in our industry and many other industries, AT&T must seek and obtain regulatory approval even though we are not even the majority provider in the marketplace. This sustains an unlevel playing field given that our competitors are free to discontinue their offerings based solely on business considerations. Imagine a grocer having to seek regulatory approval every time she wanted to remove a food item from her shelves that customers were no longer buying. Or think what would happen to a grocer's cost if a regulatory body made her

keep stocking a food item on her shelves that only a handful of people bought once a year.

While we have not yet developed a list of services we would look to streamline, it is clear that doing so would make our overall product set more reflective of what we are currently offering and what consumers want. As this effort rolls out, our goal will be to ensure that our existing customers are as minimally impacted as possible. These are competitive services offered in a competitive environment so we have a very real incentive to do right by our customers. No doubt we would communicate with customers about our plans to stop offering certain services and offer to them other alternatives which they could avail themselves of or not and of course they could decide to take their business to a competitor. These are the same steps that our competitors are free to take today.

Conclusion:

AT&T thanks the committee for raising Senate Bill No. 1024 and urges its adoption. Connecticut's telecommunications market is robustly competitive and continues to evolve. The legislature should follow past practice and ensure that our laws evolve as well by eliminating unnecessary, costly and burdensome regulations.