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February 6, 2007

The Honorable Jeff Plale
Chairman, Senate Commerce, Utilities & Rail Committee
Room 313 South – State Capitol
Madison, WI 53707

Dear Senator Plale:

On behalf of the Wisconsin State Telecommunications Association (WSTA), thank you for the opportunity to submit written comments on the topic of Video Franchising reform. As you may know, WSTA's membership includes all 83 of Wisconsin's local telephone companies, 30 Internet Service Providers and 10 wireless carriers.

The committee has appropriately identified Video Franchising as an issue of statewide importance, as we continue to see the rapid convergence on the traditional cable and telecommunication industries into a single "communication" or "entertainment" industry. This can be evidenced by the aggressive entry into the voice market by cable companies (i.e. AT&T has lost about 30% of its telephone customers since 2000 – *Milwaukee Journal Sentinel*, January 28, 2007) and by the fact that 15 of Wisconsin's local telephone companies are currently providing digital video services in their local communities using the existing fiber network and copper wires entering the customer premise. This delivery is identical, or substantially similar to, the technology AT&T has announced it is deploying across the country, including Wisconsin.

WSTA is proud of our member companies that have made significant investments in fiber and central office equipment. This substantial investment from WSTA members is helping to keep Wisconsin's schools and businesses globally competitive. As a result, approximately 85% of all Wisconsin citizens can order high-speed Internet services from their local telephone company. When including satellite services, 100% of Wisconsin citizens can order high-speed Internet services.

There is little doubt WSTA member companies are operating in a competitive environment. Federal Communications Commission (FCC) data shows that the number of cellular telephone numbers in the United States is now greater than the number of landline telephone numbers. In addition, the Public Service Commission (PSC) recently identified cable companies, competitive local exchange carriers (CLECs), Voice over Internet Protocol (VoIP) and wireless carriers as "effective competition" for incumbent local exchange carriers (ILECs or local telephone companies). While this decision was limited to 18 mostly urban telephone exchanges, WSTA believes this is representative of what is occurring across the entire State of Wisconsin.

As was previously referenced, most cable companies today are offering the triple play of voice, video and data products. In fact, starting this year, all four of the cable operators involved in a joint venture with wireless carrier Sprint Nextel will launch their integrated mobile phone service. Comcast and Time Warner, which have already announced public pilot programs, are expected to expand their service in 2007. And Cox Communications and Advanced Newhouse are also expected to begin offering the service in 2007. It should come as no surprise that the *Heartland Institute* reports that cable prices drop dramatically when an ILEC enters the marketplace offering the triple play of voice, video and data.

Therefore, WSTA believes that reforming the Video Franchising system will result in cost savings to the consumer due to an efficient statewide process and faster entry into the marketplace, which will satisfy strong consumer demand for video competition.

Though WSTA supports legislative efforts to reform the Video Franchising process, we also believe additional statutory changes are needed to more accurately reflect today's competitive environment. At a recent meeting of the National Association of Regulatory Utility Commissioners (NARUC), investor Warren Buffet told the crowd that he has three boxes on his desk, "in;" "out;" and "too hard." According to Mr. Buffet, telecommunications issues almost always end up in the last box because he cannot fully grasp the marketplace for communication services. Indeed, the increasing level of competition for communication services discourages him from trying to pick a winner among all of the different players.

Mr. Buffet's assessment of the industry is not an anomaly. The Chairman of the FCC, Kevin Martin, has continually noted the tumultuous changes occurring in the telecommunications marketplace. He recently said:

"The communications industry is in a time of unprecedented change. Technological advances, converging business models, and the digitalization of services create unparalleled opportunities and considerable challenges. Perhaps most important, digital convergence is creating real benefits for consumers worldwide by increasing competition among different platform providers."

One necessary reform is to reduce the reporting requirements imposed upon Wisconsin's telecommunications utilities. In a bygone era when the PSC determined rates throughout the state and providers were subject to little or no competition, extensive reporting requirements were more justified. Today, however, this archaic information gathering process has little relevance in a competitive marketplace. Nonetheless, continued reporting requirements have an impact on the marketplace because collecting and reporting data involves real costs. As a result, neighboring states (i.e. Minnesota and Iowa) have already dramatically reduced reporting requirements imposed on ILECs.

Similarly, another key to surviving in the competitive marketplace is having the ability to react quickly to competitive pressures. As more and more competitors enter the marketplace, competition will set the proper price for communications services, not regulators. Unfortunately, currently, there are barriers to price flexibility that slow reactions to market forces. Therefore, additional pricing flexibility, especially as it relates to the bundling of services, will only enhance the competitive marketplace.

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Therefore, WSTA believes that by adding these two (2) additional telecommunications reforms to a Video Franchise bill, thereby creating “regulatory parity” in the retail video and voice markets, the Legislature would be fostering a more business friendly environment, which would result in effective competition and investment in Wisconsin.

Thank you again for the opportunity to address these important issues. WSTA looks forward to working with you and your colleagues as the legislative process moves forward. Please do not hesitate to me directly at (608) 256-8866 ext 20 with further questions.

Sincerely,

Chris LaRowe
Manager of External Affairs

CC: Sen. Breske, Sen. Wirsch, Sen. Hansen, Sen. Cowles, Sen. Harsdorf and Sen. Kedzie