

NEVADA LEGISLATURE
LEGISLATIVE COMMISSION'S SUBCOMMITTEE TO STUDY
TELECOMMUNICATION SERVICES IN NEVADA

(Assembly Concurrent Resolution No. 2

[File No. 10, *Statutes of Nevada 2003, 20th Special Session*])

SUMMARY MINUTES AND ACTION REPORT

The third meeting of the Nevada Legislature Legislative Commission's Subcommittee to Study Telecommunication Services in Nevada was held on Friday, April 2, 2004, at 9:30 a.m., in Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. The meeting was videoconferenced to Room 2135 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. A copy of this set of "Summary Minutes and Action Report," including the "Meeting Notice and Agenda" ([Exhibit A](#)) and other substantive exhibits, is available on the Nevada Legislature's Web site at www.leg.state.nv.us/Session/72nd2003/Interim. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (e-mail: publications@lcb.state.nv.us; telephone: 775/684-6835).

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Assemblyman David R. Parks, Chairman
Senator Maggie Carlton
Senator Warren B. Hardy
Senator Randolph J. Townsend

COMMITTEE MEMBERS ABSENT:

Assemblyman David F. Brown
Assemblyman David E. Goldwater

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Diane C. Thornton, Senior Research Analyst, Research Division
William L. Keane, Principal Deputy Legislative Counsel, Legal Division
Ricka Benum, Senior Research Secretary, Research Division

OPENING REMARKS

Chairman Parks explained that due to numerous requests for additional time for the compilation of the telecommunication data, the deadline date has been extended to April 12, 2004. He reminded the members that the Subcommittee had requested information from approximately 360 companies involved in the telecommunication industry in Nevada. In the interest of confidentiality, a Public Service Commission of Nevada (PUCN) docket will be opened for the collection of the requested information.

APPROVAL OF MINUTES OF THE JANUARY 9, 2004, MEETING HELD IN LAS VEGAS, NEVADA

The Committee **APPROVED THE FOLLOWING ACTION:**

SENATOR TOWNSEND MOVED TO APPROVE THE MINUTES OF THE JANUARY 9, 2004, MEETING HELD IN LAS VEGAS, NEVADA. SENATOR HARDY SECONDED THE MOTION WHICH CARRIED UNANIMOUSLY.

DISCUSSION OF THE CURRENT STATUS OF FEDERAL LEGISLATION ON THE TAXATION OF INTERNET ACCESS

- Michael Hillerby, Chief of Staff, Office of the Governor, outlined the position of the National Governors Association (NGA) and its support for the extension of the Internet Tax Freedom Act. Mr. Hillerby submitted handouts provided by the NGA ([Exhibit B1](#) and [Exhibit B2](#)). His comments addressed Nevada's concerns with the possible fiscal impact on state and local revenues with the emergence of new internet technology, and the pattern of federal legislation establishing a larger role in an area previously under state control. The position of the NGA urges amending the definition of internet access to clarify that the moratorium applies only to access and not to the expansion of other services or products ([Exhibit B3](#)).

DISCUSSION OF THE TELECOMMUNICATION INDUSTRY

A. "BACKGROUND OF THE TELECOMMUNICATION INDUSTRY"

- Dale N. Hatfield, Adjunct Professor, Interdisciplinary Telecommunications Department, University of Colorado at Boulder, gave a Microsoft PowerPoint presentation ([Exhibit C](#)) which outlined the uses of circuit switch networks, local exchange networks, and noted the differences between public switched telephone networks and traditional packet switched networks. Additional topics discussed by Mr. Hatfield included:
 1. The three types of competition associated with local exchange networks: (1) resale-based local exchange; (2) facilities-based local exchange; and (3) unbundled network element-based competition.
 2. The evolution of modern packet switching circuits; providing the ability to handle different types of signals — data, voice, still image, and video on common transmission and switching platforms.
 3. The advantages and disadvantages associated with traditional cable television networks, wireless networks, and the advancement of circuit switching and time division multiplexing to packet switching, since circuit switching does not work well for multimedia functions.

B. "THE PROMISE OF COMPETITION"

Mr. Hatfield continued with the second portion of his presentation and explained that:

1. The industry's three major competitive suppliers (cable companies, cellular suppliers, and telephone companies) are moving from analog to digital networks. There is a convergence on the part of network carriers toward low-latency, high bandwidth to accommodate voice and data imaging. The convergence trend for digital, broadband, packet switching, and low-latency networks decreases the possibility for delay.
2. The industry is evolving from circuit switching and time division multiplexing to packet switching and statistical multiplexing.
3. The evolution of modern packet switching circuits, providing the ability to handle different types of signals — data, voice, still image, and video on common transmission and switching platforms. The trend and ultimate goal of future networks is to use wireless technology to allow users to communicate in any mode or combinations of modes.

EXPLANATION OF NEVADA AND FEDERAL UNIVERSAL SERVICE FUNDS

Yasuji Otsuka, Senior Economist, Resource and Market Analysis Division, PUCN, discussed the value of universal telephone service and the role of federal and state regulators to ensure affordable and available service. Mr. Otsuka offered a Microsoft PowerPoint presentation ([Exhibit D](#)) and outlined various concepts and principals of the Telecommunications Act of 1996 regarding Universal Service Funds (USF) as required by the Federal Communication Commission (FCC).

1. The universal service principals set forth under Section 254 of the federal law include: (1) quality service and affordable and reasonable rates; (2) access to advanced services; (3) access in rural and high cost

areas; (4) equitable and nondiscriminatory contributions; (5) specific and predictable support mechanisms; and (6) access to advanced telecommunications services for schools, health care, and libraries.

2. States may adopt further regulations consistent with the FCC's rules; intrastate telecommunication carriers are required to contribute to the preservation and advancement of universal service within the state.
 3. A state-level commission designates a common carrier as an Eligible Telecommunication Carrier (ETC), which offers services supported by federal universal support mechanisms. Additionally, the commission provides for the levy and collection of assessments from public utilities. Assessments must be collected, maintained, and held by an independent administrator; the administrator to be established by means of an open competitive bidding procedure.
 4. The current independent administrator for Nevada is the National Exchange Carrier Association (NECA). All carriers with intrastate retail revenues including wireless carriers contribute to the fund.
- Jeff Galloway, Financial Analyst, Tariffs and Compliance Division, Regulatory Operations Staff, PUCN, responded to inquiries from the committee clarifying that:
 1. Approximately 1,100 lines (not customers) serve Humboldt County, Nevada. During the prior ten-year period, many Humboldt residents had no telephone service. The County applied for the Nevada Universal Service Funds (NUSF) in addition to federal funds, since the basic rate charged would not cover the cost to serve Humboldt County residents.
 2. Services included under NUSF are defined in Section 54 of FCC codes.
 3. The NUSF amounts used to serve Humboldt County do not include cable or voice-over services.
 - Dr. Robert Loube, Director, Economic Research, Rhoads & Sinon, LLC, listed the services supported under the Federal Code of Regulations, which are determined by FCC order. Clarifying that the Internet Tax Freedom Act does not list the specific services included as USF options, it merely sets out general principals used by the FCC to establish the services, which include:
 1. Voice-grade and single party service;
 2. Touch-tone equivalent access;
 3. Access to directory assistance, long distant carriers, and 911 service; and
 4. Three low-income provisions: Lifeline, Link-up, and Toll Blockage services.

Dr. Loube provided testimony using a Microsoft PowerPoint presentation ([Exhibit E](#)) and discussed the items summarized below:

1. Nevada's non-rural carriers receive approximately \$5 million in interstate access support; the amount for rural carriers is approximately \$30 million from the total federal amount of \$3.6 billion.
2. The various programs that primarily assist small carriers include High Cost Loop Program, Embedded Loop Cost Program for Rural Carriers, Local Switching Support, High-Cost Switching, and Long-Term Support Program. Nevada draws no funds from the Support for Non-Rural Carrier Program. Additional programs discussed were Interstate Access Support 1, Interstate Access Support 2, and Interstate Common Line Support.
3. Lifeline support is available in all states for low-income households and all eligible telecommunication carriers must offer a Lifeline Support Program. The program establishes a four-tier system depending on the rate that is passed on to the primary residential end user. The federal support rate can go as high as \$10 per month with the addition of \$3.50 provided by the state for a total of \$13.50 per month for

low-income persons.

DISCUSSION OF SUBSIDY ISSUES IN THE PRICING OF TELECOMMUNICATION SERVICES

Ann C. Pongracz, General Counsel, Sprint of Nevada, testified that the demand for subsidized services is growing at a rate three times that of the funds used for subsidized service programs. The three major groups which benefit from subsidies are Lifeline, stand-alone residential (R-1), and rural customers. Ms. Pongracz provided a Microsoft PowerPoint presentation ([Exhibit F](#)) and identified the “financial-need customers.” She explained that:

1. A gap has been created by the growth of the subsidized population in contrast to the entire customer base, and that only incumbent local telephone companies (ILECs) are required to offer subsidized pricing; and
2. The ILECs are required to provide subsidies to customers who in actuality, do not have a valid need.

The charts provided by Ms. Pongracz ([Exhibit F](#)) illustrate that a large percentage of customers now receive the majority of their additional features from cellular carriers. The cost of telephone features such as call waiting or voicemail, that the ILECs previously depended on as the subsidy source, are now going to competitors who are not required to offer pricing assistance.

- Dan Jacobsen, Executive Director Regulatory, SBC Nevada, responded to an inquiry by stating that companies serving the northern and rural areas of the state have situations similar to those encountered by Sprint of Nevada. In addition, due to mountainous areas, wireless service is poor in Northern Nevada.

DISCUSSION OF THE RULING OF THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT CONCERNING NETWORK SHARING BY INCUMBENT LOCAL EXCHANGE CARRIERS

- Charles Bolle, Senior Advisor, PUCN, provided a copy of his comments ([Exhibit G](#)) concerning network sharing by ILECs. Mr. Bolle outlined essential portions of the Court’s determination and expressed the PUCN’s displeasure with the ruling. Please see Exhibit G for Mr. Bolle’s complete testimony.

DISCUSSION OF AGENDA ITEMS FOR JUNE 4, 2004, MEETING

- Chairman Parks stated there would be a report on the results of the request for data made by the Subcommittee.

PUBLIC COMMENT

There were no public comments.

ADJOURNMENT

There being no further business to come before the Subcommittee, the meeting was adjourned at 1:27 p.m.

Respectfully submitted,

Ricka Benum
Senior Research Secretary

Diane C. Thornton
Senior Research Analyst

APPROVED BY:

David R. Parks, Chairman

Date: _____

LIST OF EXHIBITS

[Exhibit A](#) is the Meeting Notice and Agenda provided by Diane C. Thornton, Senior Research Analyst, Research Division, Legislative Counsel Bureau.

[Exhibit B1](#) is a letter prepared by Governors Brad Hendry, Chairman, and M. Michael Rounds, Vice Chair, Economic Development and Commerce Committee, the National Governors Association, submitted by Michael Hillerby, Chief of Staff, Office of the Governor, which is addressed to The Honorable Bill Frist and The Honorable Thomas A. Daschle.

[Exhibit B2](#) a document prepared by the National Governors Association, submitted by Michael Hillerby, Chief of Staff, Office of the Governor, titled “NGA Supports Reasonable Extension of the Internet Tax Freedom Act.”

[Exhibit B3](#) is a letter prepared by the National Governors Association submitted by Michael Hillerby, which is addressed to The Honorable John McCain, The Honorable Ernest Fritz Hollings, The Honorable F. James Sensebrenner Jr., and The Honorable John Conyers, Jr.

[Exhibit C](#) is a Microsoft PowerPoint presentation titled “Background on the Telecommunications Industry and the Promise of Competition,” which was submitted by Dale N. Hatfield, Adjunct Professor, University of Colorado at Boulder.

[Exhibit D](#) is a Microsoft PowerPoint presentation titled “An Explanation of Nevada Universal Service Fund” prepared by Yasuji Otsuka, Senior Economist, Resource and Market Analysis Division, Public Service Commission of Nevada.

[Exhibit E](#) is a Microsoft PowerPoint presentation titled “The Federal Universal Service Fund and Nevada,” prepared by Dr. Robert Loube, Director Economic Research, Rhoads & Sinon, LLC.

[Exhibit F](#) is a Microsoft PowerPoint presentation titled “Telecommunications Subsidies in Nevada,” prepared by Ann Pongracz, General Counsel, Sprint of Nevada.

[Exhibit G](#) is a document titled “District Appeals Court TOR Decision Order,” prepared by Charles Bolle, Senior Advisor, Public Utilities Commission of Nevada.

This set of “Summary Minutes and Action Report” is supplied as an informational service. Exhibits in electronic format may not be complete. Copies of the complete exhibits, other materials distributed at the meeting, and the audio record are on file in the Research Library of the Legislative Counsel Bureau, Carson City, Nevada. You may contact the Library online at www.leg.state.nv.us/lcb/research/library/feedbackmail.cfm or telephone: 775/684-6827.