

Honolulu, Hawaii

Apr: 18, 2009

RE: S.B. No. 603
S.D. 1
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which was referred S.B. No. 603, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO PUBLIC UTILITIES,"

begs leave to report as follows:

The purpose of this bill is to promote competition in the telecommunications marketplace by requiring the Public Utilities Commission (PUC) to treat land-line phone services as "fully competitive" with regard to costs, rates, and pricing, in essence deregulating these phone services to bolster competition with other forms of telecommunications.

This measure also:

- (1) Requires telecommunications carriers to file rates, fares, charges, and bundled service offerings with PUC for information purposes only;
- (2) Applies only to retail rates and not wholesale rates;
- (3) Caps retail telecommunications service rates at June 30, 2009, levels; and
- (4) Preserves the responsibility of telecommunications carriers to provide lifeline telephone service and



comply with carrier of last resort obligations and service quality standards.

The Chamber of Commerce of Hawaii and Hawaiian Telcom testified in support of this bill. PUC and TW Telecom opposed this measure. Verizon and AT&T provided comments.

Under subchapter 3 of Chapter 6-80, Hawaii Administrative Rules, telecommunications services are classified as "fully competitive," "partially competitive," or "noncompetitive," with varying degrees of regulation over costs, rates, and pricing. Under these categories, the incumbent local exchange carrier (ILEC), Hawaiian Telcom, is subject to regulations designed to increase market competition. However, today's consumers can obtain phone services from a wide variety of wireless and voice over internet protocol providers that are not subject to the same level of regulation. This bill seeks to update Hawaii's regulatory framework for telecommunications to create market parity among all phone service providers.

Your Committee notes there are concerns that this bill does not provide price floors for retail telecommunications service rates, allowing the ILEC to discourage market competition by pricing its services lower than other carriers who do not have the same ability to lower prices through subsidization from other, non-competitive services offered by the carrier. There is also a concern that if ILEC prices its services too low, it will not have enough funds to properly maintain its service network that its customers rely upon for critical phone services. These issues may warrant further consideration if this bill advances to Conference Committee.

Your Committee has amended this bill by:

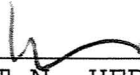
- (1) Eliminating the cap on retail telecommunications service rates. While this provision would protect "captive ratepayers" who do not have other telephone service options, there was a concern that this rate cap would make it difficult for smaller telecommunications carriers who do not serve captive ratepayers, to raise rates in response to cost increases;
- (2) Incorporating the language of H.B. No. 254, H.D. 1, 2009, requiring PUC to treat land-line phone services as "fully competitive" with regard to costs, rates, and pricing, after July 1, 2009; and



- (3) Making technical, nonsubstantive amendments for clarity and style.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 603, S.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 603, S.D. 1, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Consumer
Protection & Commerce,



ROBERT N. HERKES, Chair



