

Mr. LaSchiazza: A wired video product, a real alternative to cable. That is what AT&T would like to bring. That is what our consumers need. And that is what can be a real benefit and economic development tool for the state of Illinois. Thank you very much.

Chairman Brosnahan: Thank you, Mr. LaSchiazza. Will the clerk also please add Representative **Colvin** to the roll, **Savato**, and I failed to mention earlier that on this panel also with us this morning is Todd **Maisch** from Illinois State Chamber of Commerce. Will also be testifying in favor of the legislation. And Mr. **Lenahan**, you can proceed.

Mr. Lenahan: Thank you, Chairman Brosnahan and members of the committee. I would like to follow up on some of the remarks that Paul just made. The first thing I would like to do is give the committee a little context for the legal framework of this bill and how it, I believe, will eliminate a definitional argument that exists in the country today. Because we are operating our telecommunications network and the service we are providing is two way interactive internet protocol based. It is not a cable service.

The technology in our industry is moving so fast that when I was here two years ago testifying before you on different topics, less exciting topic, IPTV didn't even exist. This is next generation cutting edge technology to upgrade telecommunications infrastructure. Because it is ahead of regulation there is a technical argument as to whether or not this particular service is a cable service or not. And that is one of the major reasons the municipal franchising process is bogged down. We go to a city and say, "We are not a cable operator, we are telephone company. We are not providing cable service, we are upgrading our telecommunications network." And there is a big definitional fight as to whether or not we are or not.

That issue has been litigated in only one state, in Connecticut involving AT&T's IPTV service and the Connecticut State Franchising Authority found that because it was two way interactive it was not a cable service and therefore, no cable franchise agreements were required. Now, that is on appeal, but there is legal uncertainty. The benefit, and I think a significant benefit of this bill, is it avoids the definitional fight because it has been drafted to be broad enough to include both video services provided over a telecommunications network and traditional cable service so the debate, if this bill were to be passed, goes away.

And I think that is a significant advantage to the overall purpose of the bill which is to speed entry of all types of providers, cable

providers and telecommunication companies to give consumers another choice. So, that is the first point I would like to make. The second point I would like to make is, as the Chairman indicated, the bill has been drafted to balance the benefits of streamlined statewide entry, okay, on the one hand. And maintaining municipal authority and municipal, and protecting municipal revenue and protecting consumers. So, I would like to just address a couple of those points in a little more detail.

With respect to municipal revenue, the bill requires the new entrant under the state authorization process pay the exact same percentage fee to the municipality and directly to the municipality as the cities are getting today. The cities are concerned, I believe, that they are going to see revenues go down. Their thinking is, as we enter the market prices are going to become more competitive. They may drop or, one thing for sure is, they won't continue to increase as they have in the past, 93% less ten years. As a result, they are concerned their revenues will go down. We believe that that is inconsistent with economic studies that have been done looking at this precise issue.

What happens when a new entrant enters the video market, prices do go down, but the pie expands, basically in three ways. There are a number of customers who have just dropped off and have gone back to broadcast TV because the price for cable has become too high. We believe that that segment of customers will be attracted to our product and we hope to get some of those customers. That will increase municipal revenue.

There is a number of customers who have got fed up with high cable prices and they have gone to satellite TV. We are targeting those customers and we think those customers will be attracted to our product, based on two reasons, because it has more innovation than either cable or satellite have today. And, we believe it will be at a more competitive price. That migration is going to increase municipal revenue. Thirdly, because of the new features that we have, we are going to be providing a better value for the consumer's dollar. And as a result, we are anticipating that people will spend, some people will spend more on this service because they get more than they currently get today.

All three of those things, we believe will grow municipal revenue. They won't shrink it. One thing that is for sure though, if the bill doesn't pass, AT&T and companies like us will have no choice, but to continue to market satellite TV to compete with the wire based cable companies. The more we do that, the one thing is sure,

municipal revenue will go down because cities do not collect any franchise fees on satellite revenue.

The other thing I would like to address is public education and government access programming, people refer to that as PEG. There is a concern in particular by some of the PEG associations that somehow this bill is going to destroy public access programming. I am very confused by that because if you read the bill, the bill very clearly does three things in this regard. Number one, it required the incumbent cable operator to continue to provide whatever in-kind services or equipment or TV studios that it currently provides to cities today. So, that service is locked in under the bill, okay? So that doesn't go away. So whatever they have today, they are protected in the future.

But, the bill goes beyond that. The bill requires that we, the new entrant retransmit whatever PEG programming exists today on its own system, which we will do. Because our system is internet protocol based, that signal will be digitized and the city can put the signal on its web page. So, if the theory of PEG access is that more people should see it rather than fewer, this bill will expand the audience because it is adding another provider and it is making available to anybody who has internet access anywhere in the world.

Thirdly, as the Chairman mentioned, in addition to requiring that the new entrant carry the signal that is protected under the bill from the incumbent provider, the new provider is required to pay, to the city directly to the city, an additional one percent of gross revenue on top of the five percent franchise fee. The intent of that is to continue to promote PEG programming. Realizing that if the incumbent is providing in the studio or some type of service that fairness would dictate that the new guy who, cities don't need two studios so in the absence of providing a second studio, the bill requires the new entrant to provide one percent additional revenue to the city.

The third thing I would like to address is something that has been referred to as "build out." And our opponents refer to this as, well the bill is going to permit cream skimming by the new entrant or redlining or just picking and choosing wherever they want and not serving everybody, okay, universal service. And this usually gets coupled with the argument from the cable company. It is just, "I am all for competition," says the cable company, "I just want it to be fair." And, what is their definition of fair? Well here it is. I think it is an apple to an orange comparison. The cable company

says, "When I received my franchise, 20, 30 years ago, I agreed to provide my video, my basic analog video service to everybody in the community." Fairness would say, the cable argument goes that, "If a new video provider wants to upgrade their network, they should commit to provide that to everybody in the community just like I did 20 years ago, or 30 years ago." The reason that is not a fair comparison is, when the cable company agreed to that 100% universal build out, they had a legal monopoly.

The fair comparison would be when a phone company got its franchise, 125 years ago, it had a legal monopoly also, at the time, neither monopolies exist today, which is what we are all about here, is encouraging competition by all players in all markets. When we got our franchise for telephone, we agreed to provide telephone service to everybody on a universal basis and we still have the obligation to serve anybody in our telephone franchise. We are not trying to get out of that. So, the fair comparison is, we have a franchise, the cable company has a franchise. Now what has happened since then? Since then the cable industry has, in response to market demand and based on their business decision, upgraded their basic analog system to digital video. And they have upgraded their system to include digital voice, that is great. That is wonderful, but no city has dictated to them that they must do either one of those upgrades everywhere or on any given time frame.

That upgrade by the cable industry has been done in response to market demand, based on their business determination of what made sense. All we want to do is the same thing, is to upgrade our network in response to market demand based on our business decisions. Now, just so there is no confusion, as Paul mentioned, we have three video products that we provide, that we would like to provide. We can provide two today. We provide, we are a sales agent, essentially, for Echo Star and we market dish TV, a satellite product. We also have an innovative product we're the only company in the country that has this product. We have married internet access and satellite TV so you can now get Yahoo type information and a TV picture either on your computer screen or your TV screen integrated into one product.

We offer that. We offer those products to anyone who wants them anywhere in our service territory. So, universal coverage is not an issue. The third product, and the product that we are having difficulty getting approval based on the current system is this wired based upgrade of our telephone network. And our plan, the bill does have a build out requirement with respect to that third product. Some people have said that the bill requires 100%

satellite, it doesn't require 100% satellite, it requires an ultimate build out of 40% of the telephone upgrade. And it is structured to be based on market success within the first three years we would have an obligation to build out to 20% of our telephone footprint. Assuming we get 30% market penetration of that billed, we have another two years to bill out an additional 40%.

That is the initial build out commitment. Now, of course, we hope we are successful and we hope we bill out like we have built out our DSL network at virtually every corner of our telephone network, but given the fast pace of technology change, it is imprudent to commit bill out based on this technology to 100%, number one, number two, it is economically irrational. The FCC finally issued their municipal franchising order two days ago. And they found that a, the existing municipal franchising system is broken and has a number of problems with it that were acting as barriers to entry. One of the barriers to entry that they found was a 100% build out requirement.

Imposing a 100% build out requirement on a new entrant who has zero market share and is competing with an incumbent who essentially has 100% of the wired market is irrational and unreasonable. And the FCC said that if a municipality were to require that, that requirement would be preempted as in conflict with federal law. So, to be fed the cable companies are saying fairness requires a 100% build out the FCC has said, "That is not true. In fact, that is illegal."

And the last thing I would like to mention is people have said, this company is going to red line. Redlining is illegal an AT&T complies with the law. The bill prohibits any discrimination based on race or income. In addition the bill creates a presumption that of the bill out that we provide, at the end of the day, 30% of it will be provide to low income households defined as households of \$35,000 on an annual basis or less. So, we have a commitment of the bill, whatever our billed is, in the first part it is 25% and it goes then to 30% at the 40% level. Those are the main points that I would like to highlight.

Chairman Brosnahan: Okay, thank you Mr. Lenahan. I know before we go to the other witnesses, I know some of the other members have to go to different committees and present bills so, Representative McCarthy does have some questions for you before he has to leave us.

Representative McCarthy: Thank you, Chairman. You know, there is a lot of advertising going on saying how wonderful this will be. One group saying not

so wonderful. And as far as the competition for price, you know, we are all very, very interested in that. Both of you spoke about differentiating this product from the other product. And that kind of worries me to say, well, don't have any competition because we are already offering the same thing and it almost seems like you are putting a basis on the table that you can then justify that there are a competition that we all hope for is not as strong. So, do you have some numbers from other places that show us that the competition actually did work as far as lowering the price? And in your comment there was also a quote that was given, I am sure it wasn't given to me from your side, but from a Mr. Whitaker saying that this should not be looked at as something that would increase competition or lower prices and I want to know if that was an accurate quote.

Mr. Lenahan:

I, well, I can start addressing that, Representative McCarthy. There are a few economic studies that have done empirical studies on what happens when a second wire based video provider enters the market. There is Professors Lighten and Crandell have done a study on that last year and they found that on average cable prices went down 13%. Our company the limited experience we have with launching the service in about 11 different markets in Texas, California, Indiana, and a few other states has been that our prices are lower than the exiting prices. I think Mr. Whitaker's statement referred to high valued customers and that has been taken out of context. The high value customers that he was referring too were not rich customers they were customers that spend money on communications and video product and there is really no correlation between income and communications benefit. There is probably an inverse correlation that lower income people tend to spend a grater percentage of their income on communications and video and entertainment related products than higher income people.

Mr. LaSchiazza:

Representative Mc McCarthy, I wanted to site three examples where competitive video providers actually entered the market and demonstrated that pricing did improve. In Florida and this is a quote from the Sarasota Herald Tribune, April 26th, 2006. Verizon's entrance into the Manatee and Sarasota County market place has prevented Comcast from raising for the first time in a decade. In New Jersey, and this is a quote from Asbury Park Press November 25th, 2006. Due to competition from Verizon Cable Visions internet and telephone services prices remain unchanged for the second straight year in a row and the company reduced its annual cable rate increase in hopes to keep old customers and attract new ones. And then in Michigan which recently passed a

similar bill which is being considered here. Competition, this is a Bay City Times quote September 19, 2006, "Competition by AT&T in Michigan drove chartered off or discounted bundled services in hopes of retaking existing customers."

Representative McCarthy: Okay, so, in two out of the three it seemed like it mitigated the raise, or it kept it from being raised at all. And from history, I guess, looking at the free market we could say that is kind of a decrease because it didn't go up as much as it might have gone up. But as far as actually going down in real dollars, we don't have the empirical evidence for that, as of yet or—

Mr. Lenahan: In Keller, Texas, prices went down also, again, where I believe Verizon entered the market. I don't have a quote from Keller Texas.

Representative McCarthy: Okay, and the, we had a hearing in Chicago and there was a map up there and I remember I asked the question that, about my area of the state in the southwest suburbs and they had that, I had ten or more providers of cable and I said, "This is preposterous. I have one." And I guess the right questions as far as, are most people in the state like me, as far as, I should have asked cable wide customers as opposed because it was all satellite companies that I really had never even heard of. So, as far as the rest of the state, I mean is it mostly people just have one, one source today?

Mr. Lenahan: I believe that is correct, Representative.

Representative McCarthy: Okay. So, if I had said cable I would have been correct as far as my original assumption. The, when you were talking about the public information channels and these people are very, very concerned about it, I have been told that there is a requirement in the bill about this eight hours of non-repeat programming and anybody who knows, who watches channel three or channel four in Orland Park, it is always repeat. I mean, we see Dan Kronen more than we see our own parents most of the time on most of these channels. So, I mean is that, and they do that because, you know, some people can watch it at certain times some people watch it another, it is information.

Also, is there an exact requirement that says they have to have new and they can't repeat old programs cause that has been up to me by individuals representing these groups.

Mr. Lenahan: Representative McCarthy, that is a provision that is in most of the bills that have passed. Nine bills have passed. I think the intent is

to insure that the channels are used, but if that is an area of concern of the committee or of your concern, I think the company would be willing to work with the effected parties. As the Chairman indicated, this is a work in progress and that would clearly be something that we could sit down with the PEG people and—

Representative McCarthy: Okay, but was the intent that they don't have eight hours of new programming they can't play anything or?

Mr. Lenahan: No, the intent was if, I guess, yes, you're correct, that was the intent.

Representative McCarthy: Okay. Well, I do think we have to work on that. I mean, I don't like the repeats either, but it does seem like it is open to other people at different times then so repeating it is not as terrible as we might think. The you mention in your comments about the FCC saying about that 100% build up, but we have lots of areas that, one of the other things that we are hoping that this may help is that there are areas that if you cant get your DSL service, would there be any plans company wide to say, "Lets go to them first so then they could have competition." And not only the video market, but the internet market as well?

Mr. Lenahan: Representative, with respect to broadband availability in the state of Illinois I think with our wired DSL product, high speed internet product currently we offer that to, I believe, about 90% of our households that we pass in Illinois. However, I think the good news for the state, urban or rural areas when AT&T merged with Bell South as part of their commitments to the FCC we made a commitment that by the end of 2007 we would provide 100% coverage, we would provide a broadband product to 100% of the households that are in our service territory. Now, 85% of that would be with a wired product and the other 15% would be through a wireless product, either through technologies like satellite or **Wi-max or Wi-Fi**. So that would be an unprecedented commitment no other provider in any other region or company has committed to 100% broadband availability to its customers. And that will be to the benefit of Illinois also.

Representative McCarthy: Okay, and as far as these agreements with municipalities, you say you basically match them, whatever the existing agreement is, that the cable company has, that includes like a percent of payback, but there is also, you hear these stories that there is all these extra things in there too. I mean, are you, at this point saying, we will match them as well, whatever they are? Or—

Mr. Lenahan: No sir. That is really the exact point of the setting up a uniform statewide architecture for competitive entry. This variation from community to community, you know, as John accurately cited from the FCC's perspective, that variation community by community defacto is what has created barriers to entry and that is exactly what we have encountered when we have tried over the last—

Representative McCarthy: So that is why you had such a small —

Mr. Lenahan: So the answer would be no.

Representative McCarthy: Okay, so you will do an extra percent as far as if it is 5% you will pay 6?

Mr. Lenahan: For PEG, that is correct, yes.

Representative McCarthy: Okay, and the thought that when they say you could already do this. You could already come to Orland Park and offer it, it is exactly that point that you are making that you really can't come because of these primitive agreements, is that correct?

Mr. Lenahan: Effectively you are right, we cannot.

Representative McCarthy: Okay, and would they come, like say they come to compete with you on phone service, I mean they don't have to go to the municipality and, like you have agreements across the state, across this valley as far as offering service. There is no, the people for these wonderful phone rates that are advertised, they don't go to the municipality and give any kind of franchise agreements or anything, is that correct?

Mr. Lenahan: That is correct, and they are not regulated on that phone service offering at the ICC either and I think that is the demonstration that John talked about, the apples to apples comparison or the apples to oranges really.

Representative McCarthy: Okay, well, thank you for your answers and I am sure there will be many more questions as we go along. And I want to thank Carl for being here. Those who attended the other things. Qualities of invaluable resource, so if you don't know something just turn around with Carl ____ to answer it. Thank you.

Chairman Brosnahan: Thank you Representative McCarthy, and if the members just bear with us, I know many of them want to be recognized for questions, but if we are going to try to continue with a little bit more

testimony then go back to the members for questions. So, Mr. Kastner, convene your testimony.

Mr. Kastner:

Good morning Chairman Brosnahan and members of the committee. My name is **Ran K. Kastner** and I serve as a president business manager of local 21 of the IBW. Our local is the largest IBW telecommunications union in the country. We represent 1100 workers statewide, mostly in telecommunications. The reason for our support for the legislations primarily because it will create jobs. Not just any job, by the way, it will be good union jobs that support Illinois families.

Now, in 2004 our union had the foresight to negotiate the rights to this video work. We negotiated an evolving technology memorandum in our contract that gave us the right to get this work. And we also had the foresight to realize that with the declining telephony that the crown jewel in this business is video. Since 2001 our local has lost approximately 3,000 members to the competition. Some to wireless, most of them to cable companies. That have decided to compete in telephony. Wire line loss is approaching record numbers in the residential area and now with cable companies beginning to move into small business, the numbers in my situation in our local could only get worse.

As I have lobbied these great halls for the last few years I have been told my many legislatures that the competition is good for everyone, especially consumers. Now is the time for the traditional telephone companies to fight back. It only seems right that they are afforded the opportunity to compete in video through their high speed network and our time, the time for our union to gain back some of these lost jobs is now. When similar legislations has passed in other states, AT&T and other providers have responded by adding new jobs.

Not only to build the infrastructure needed, but also to do all the installation work in the customer homes. That is important because our union people are well-trained people that enter the customer's homes, not contractors. In fact, more than 800 jobs have been added in Indiana since the state passed its video reform bill last year. Along with the support center that would be staffed by more than 400 union members in Indiana. This support work is worked at a previously been preformed off shore. AT&T has made commitments to bring back another 1500 plus jobs from off shore locations. Wouldn't it be nice to see a 400-person center in Illinois? New jobs are also coming to Michigan, California and several other states that have passed similar bills. Now it is time

for working families in Illinois to benefit from these jobs. 1500 gives you the opportunity to create the right environment for job growth in our states telecommunications industry.

At this point I would like to just shift gears a minute and share some eye opening facts with all of you. In terms of the percentage of residents with broadband subscriptions, the United States is 16th in the world. We are behind countries such as Japan, Korea, Sweden, Canada, and Switzerland. With respect to pricing and speed, simply put, the US consumer pays more and receives slower speeds than a lot of these countries that I just mentioned.

I could go on and on shocking you with more statistics, but I won't. I will just leave you with the fact that I am sure will horrify you even more, we, the United States of America are the ones that invented the damn internet. These statistics were made available through a study concluded, conducted I should say by the communication workers of America, who, by the way, also support 1500. All these facts can be verified at a website that is called speedmatter.org. It is a very professional survey done in Washington that I am not going to plagiarize it anymore than I did already because the CWA did a lot of work for this, but I am sure they would be glad to give you more information.

In closing, the passing of this bill is imperative to put Illinois on a leading edge of making change in this country of ours. Growing jobs and sparking competition. I want Illinois to be considered a state ahead of the curve, not a state contributing to the problem. The IBW, the state FLICO and the Chicago Federation of Labor all urge the members of the telecom committee to support this legislation. Thank you.

Chairman Brosnahan: Thank you, Mr. Kastner and we will be hearing next from the minister.

Reverend Johnson: Yes, good morning Mr. Chairman and committee. My name is Reverend Dr. Walter B. Johnson, Jr. And I am co-director and the founder of the Ministerial Alliance against a digital divide. And I wish to again, than the esteemed members of this committee for the opportunity to testify in support of house bill 1500 and why such a law would benefit Illinois consumers. I also plan to describe some of the tactics that the cable industry have been using to thwart video competition in Illinois. May I add that the Ministerial Alliance against a Digital Divide is a 15,000 member plus organization. The next generation civil rights organization

that is focused on bridging the gap between those who have access to the new technologies and those who do not.

More than 95% of our membership is African American. MAD believes that bridging the digital divide is more than just providing people with access to computers. We believe that access to new technology is a key to promoting economic development and social welfare in lower income and minority communities. That is why in states across the country MAD has been involved in promoting legislation that will not only promote the deployment of new broadband based video technologies, but also bring consumers lower prices on their cable TV bills.

The issue of video franchising was originally brought to our attention by the cable industry in December of 2004. At that time, we were told that the telecommunications companies were planning to deploy new high speed video networks to compete with cable providers and that the impact of such activity would mean that minority communities would be redlined, public education and government access channels would be eliminated and municipalities would lose revenue leaving many programs without funding. The misinformation presented by the cable industry was quite compelling and therefore MAD initially spoke out against statewide video franchising. Knowing what we now know today we regret that decision.

We understand other Illinois organizations have been also misled in a similar fashion. Because the issue of redlining is a real and serious problem for MAD, we spent a lot of time researching the issue of video franchise reform. Subsequent to our condemnation of the franchise reform we spent time also learning about this new video technology, how it works, and how consumers stand to benefit from its deployment, especially minority consumers. MAD also reviewed independent data from the few internet and American Life project that concluded that African Americans and Hispanics actually spend more money on technology than whites making them a strong demographic marketing target for new competitors.

MAD even also found evidence where new video providers are serving minority communities and entering those markets prior to providing services in affluent white communities. Based on our research we realized that the facts were very different from the information shared with us in the beginning by the cable industry. As MAD learned more about this issue, we realized that the real consumer outrage in minority communities is the fact that the cable

companies frequently impose massive rate hikes on their customers, rate increases that average roughly about 7.5% each year, equivalent to more than double the annual inflation rate.

Alike claims from the cable industry is already robust under the current rules, many customers or consumers told us that they don't have a real alternative choice for cable TV service since satellite TV is not a viable option for a variety of reasons. High rise buildings, weather conditions, and reliability issues. What MAD also discovered is that the public is just simply fed up with cable rates gone wild. As a result of these findings MAD changed its position on the video franchise issue, we now believe the best method to end the cable industry stringer hold on consumers is for state government to adopt forward looking policies that promote competition and video services. We support Illinois House Bill 1500 and urge the senior members of this committee to do the same.

Recently MAD also learned that other statements that were espoused by the cable industry was less than factual. For example, last year MAD's chapter in Michigan partnered with other Michigan consumer groups advocate for video reform legislation similar to this house bill 1500. Doing this battle, the cable industry used the same tactics that they are using in Illinois, telling paying channel providers that they will no longer exist, providing misinformation to municipalities to persuade them to lobby against the bill and telling government official and consumers that communities will be redlined.

What legislatures in Michigan discovered during this process was that the issues that were raised by the cable industry and their apologist were already cared for in the language of the legislation which prompted the legislature to pass the law. MAD has long advocated in favor of competition in telecommunications. And the results are paying off. Nearly two years ago, MAD fought against SBC, promote more competition in the telecommunications industry. As a result of our efforts, consumers now enjoy full packages for less than \$20 per month and can purchase broadband access for as little as \$12.99 per month making those services more affordable for many low-income families.

We believe consumers will enjoy similar benefits by encouraging competitive alternatives to cable. In fact, legislation like House Bill 1500 has a proven track record of showing immediate results and delivering lower rates to consumers. The evidence shows that the mirror presence of competition in the video market has caused

consumer rates to immediately plummet by 25% in other states. It is also important to note that even the cable companies admit that competition results in lower rates. Charter cable is quoted in a Texas newspaper acknowledging that competition was a catalyst for their rate reductions. Thus, we urge the Illinois General Assembly to promptly pass House Bill 1500 so that the Illinois consumers can protect their wallets and enjoy real savings that they can take to the bank. Thank you very much for your time.

Chairman Brosnahan: Thank you very much. Meanwhile, will the clerk also please add Representative Watson to the role? And Mr. Maisch you can begin.

Mr. Maisch: Sure. Thank you, Mr. Chairman and members of the committee. Todd Maisch with the Illinois Chamber of Commerce. Now, we are strong supporters of House Bill 1500. Let me also say I am very happy to be here with representatives of organized labor. That doesn't happen as often as it should, so we are happy to be here on the same page.

We do believe that this legislation is going to benefit consumers, as we talked about, but from our perspective even more importantly it is going to be a real benefit to the Illinois atmosphere for economic growth. Not only are we going to benefit from the direct investment the hundreds of millions of dollars that will follow this legislation, but also individual businesses who will benefit from a massive upgrade in the capabilities in the telecom system with broadband roll out and even in areas that we think have been typically underserved for broadband, smaller, rural communities that we hear from local chamber of commerce, what can we do to go ahead and get some more broadband. Our businesses are at a competitive disadvantage.

While this legislation doesn't do that directly, but if you are talking about what do we need to do to create an environment where we can start to address that problem. We think this, again, will set that atmosphere and then hasten the day when that makes economic sense to roll that out, so, we are very supportive of the benefits to the individual businesses. We are also struck that really, when you look at the economy and across the nation, nowhere is innovation and efficiency and lower cost more obvious than in technology.

Every Sunday morning you look through the ads that come in the newspaper, there seems to be every week a new program for more minutes, lower costs, even new technologies for consumers to go ahead and benefit. But, you contrast that with the atmosphere

where that happens which is a very low regulation encouraging competition and you compare that with really the anachronistic regulatory scheme we have here for only cable and other telecom services and you see where is the innovation happening. Where are things really improving for consumers and for businesses. And we are struck by that and we think that House Bill 1500 is an important step to go ahead and start to change that. Investment in telecommunications new technology is going to happen and it is going to happen in some substantial amounts.

The question, I think, for you is it going to happen here in Illinois? With any business you talk to that has presence in multiple states, manufacturing and other services, they will tell you their frontline competition isn't another country, China, it is not even another state, or even another business. It is the facilities within that company that are located in other states that are in competition with them. There is a new product to roll out and we want to go ahead and have that new line put in in a facility here in Illinois they have got to compete against that facility in Pennsylvania or in Michigan or in Indiana to go ahead to get that. So, it is an important point when they talk about, whereas the investment going to go.

That is very real, it is an economic reality across industries and those type of decisions happen everyday in the, and will happen here. So, when we look at some of the you know, the arguments that have been talked about and there may very well be legitimate issues and I know the Chairman is going to have a lot of good discussions he talked about, but we would ask you to keep it in mind are these things that really, that can be addressed or are we going to let them items really stand in the way and be a barrier to all the benefit that we see happening in all the other states and in all the other industries as well.

And then I will finally just say, especially in light of what we heard yesterday, it is important that Illinois establish the fact that, hey, we can go ahead and adopt policies that will encourage and send a signal to business that Illinois is a good place to invest. That we can move our economy forward. When you look at job growth compared to the rest of the Midwest, our surrounding states, we are lagging badly. We need to go ahead and adopt bills like House Bill 1500 to start to turn that around, and we encourage you to support the bill, thank you.

Chairman Brosnahan: Thank you very much. We will now to go committee members for questions. It is going to be Representative Bost followed by

Representative Krause, Representative May and then Mendoza. Representative Bost, you can proceed.

Representative Bost: And I don't know who to direct the questions too, so I will just kind of throw it out there. You know, and I think you have answered a lot of the questions from your side on this bill that seems to be, to have a lot of people opposed as well as for.

I come from a different part of the state. You know, and I know that AT&T does not provide service, but Verizon does. What is the advantage for my constituents with this, if, you know, does Verizon offer this same technology. And where do we see that going and for a legislature that does not represent AT&T's territory.

Mr. Kastner: And certainly I am not qualified to be an expert on Verizon's business plans, but I would say from the perspective of setting up a statewide vehicle for competitive entry into the cable market, this applies equally, as well, for Verizon territories as well as for other small telephone companies within the state, so to the extent that Verizon wants to deploy a competitive video product, this will be of equal benefit to your territory, served by Verizon and independent telephone companies as it would be for territories served by AT&T. I think somebody from Verizon—

Matt Johnson: My name is Matt Johnson. I am Director of Government Affairs for Verizon. I appreciate the question, Representative. If the Chairman doesn't mind, I think what 1500, you know, Verizon is here today to support 1500 and I have testimony I would be willing to offer. I think what 1500 does for us in Illinois is create an opportunity for Illinois to compete, to compete for and attract video services, jobs and investment. And whether that comes from Verizon or another company I think that is an important step for us to take.

Representative Bost: Okay, another question I have is, is we are going to hear from, I am sure, many of our communities that all of sudden, if we believe in local control, which for years I have said, "I do." All of a sudden I am taking local control away from my communities. What kind of answer to do I give them?

Mr. Kastner: I will give you more of a policy answer and then I will let John maybe supplement from a legal answer, but from a layman's perspective, I would say, the only form of local control that is being taken away is the authorization process for entry into the market in that local community. As John expertly went through,

he laid out all of the things that are still within the preview of the local municipalities including controls of the right of way, their police powers, etcetera.

There is one thing, and that is the ability to negotiate on a community-by-community basis a franchise agreement, admittedly, that is taken away you know, that itself has been the barrier to competition. Everything else, from my perspective, the municipalities still maintains the control over.

Mr. Lenahan:

Maybe to put this in context, 100 years ago, the telephone company needed to go to each city to get a franchise to provide service to the city and the policy 100 years ago recognized that that was inefficient in delaying the deployment of telephone lines at the time and the FCC was created to have a uniform statewide authorization process. The cities, as Paul indicated, I mean, the cities major concerns are, will the revenue continue to be provided to me, will continue to have the right to audit that revenue, will I continue to have the right to manage and control the use of my right of way, will I have the right to require a permit.

Will I have the right for my traffic engineer to work with the companies construction engineer to make sure that whatever placements take place are safe and esthetic and consistent with the norms in that community. All of that is protected and preserved in HB1500. So to the extent somebody says, "How can you take away all my local control?" The answer is, that is not what the bill is doing. The bill has a very narrow pre-emption of municipal authority, but I believe all of the things that matter on a going forward basis are preserved in the bill and remain with the cities.

Representative Bost: Okay, now more questions for specifically my area. And I always love to come up here and I hear about the arguments that are going on and other than a basic phone line, the majority of my district, that is what they have. I mean, my cities have the basic phone line, but my rural communities, whenever we start talking about build out and everything like that, there is absolutely nothing here that is going to help them with competition. It is just not because many of the services, even the cable companies done provide out to those areas. Do you see anything in the future that —

Mr. Kastner:

I think you raise a fair point and the reality is that a wire based telecommunications network or a wire based cable system requires a certain amount of density to make it economic. Now, there are, and that is just the fact of life.

Representative Bost: I understand that.

Mr. Kastner: This bill, as Matt indicated, if you step back as policy makers and say, what, in this area, in improving infrastructure, what should the guiding light be? The guiding light in my opinion, I would suggest is, will this bill encourage new investment? Or will it discourage new investment? If it discourages new investment it is probably the wrong approach. If it encourages new investment, it is the right approach and this bill, I don't think anyone would disagree, encourages new investment. Does it solve every problem? No, but it goes a long way to solving those problems and improving investment and infrastructure where it makes economic and network sense.

There are other technologies, you know, broadband wireless and other technologies like that, we are focusing on wire today, but AT&T sees not only a wire based competitor for video, we see a wireless competitor for video. It is just a matter of time before video signals, video signals are coming in on three screens today. They are coming in on the TV screen. They are coming in on the computer screen through the web. And they are coming in on your cell phone, right now.

Okay, some people are watching movies on their cell phone. It is just a matter of time between when that signal is strong enough that it pops up on your TV. And so for those remote rural areas where a wire may not be the economic solution, I believe that a wireless broadband product is likely to develop. Now, this bill doesn't really address that one way or the other.

Representative Bost: Right, I understand.

Mr. Kastner: This bill is focused on where it makes sense to —

Representative Bost: And a whole lot of that was just to ask because I had to hear, okay?

Mr. Kastner: Yeah.

Representative Bost: I understand the bill. I am kind of concerned when some of the people that I work with and deal with can move away from carrier pigeons, smoke signals, so you know I am all for it. So, all right, I will continue to listen and thank you very much for answering my question.

Chairman Brosnahan: Representative Krause.

Representative Krause: Thank you Mr. Chairman. What I would like to do with my time, if I may, Mr. Chairman since you are the chief sponsor and the chief negotiator, I have received really just yesterday and last night as this bill came out from a lot of my local communities a lot of their concerns and if I could express them to you since you will be the negotiator. Rather than say to AT&T today all of these issues, I am not going to be the negotiator, he is going to be and others, but I would like to put them in the record and then as you go forward, I would hope that they would be addressed and a number of them, in fact, be put in which the municipalities ask.

After all, this bill preempts home rule. And not only are we preempting all of our local communities we are also, my understanding is this is only going to require sixty votes. As a result of that I think that this municipalities, Mr. Chairman should be made a major part of your negotiations. And we have in the audience today some of our mayors from the northwest municipal conference. And I would just ask, because there is a lot of conferences, if you or your staff would extend to them an invitation as you go forth to talk to them about a lot of the concerns that they have, because they have major concerns.

If I could just go through some of them and I would hope gentlemen as you negotiate that some of these will be addressed. At this point, I think there is problems in the bill. I hope that as you move forward a number of these will be addressed. For example, the village of Shamburg, again brings out the issue about PEG and they also provide that this provides that you must have eight hours per day of non repeat programming for three consecutive months and they cannot meet that standard.

Alco Village last evening told me they can't, no one can. And sincerely that should not be in the bill. They say other states have adopted legislation that does not require non repeat provisions and really that should come out. The definition of gross revenues was pointed out by several municipalities that is used to calculate service providers is much more narrow than what it used to calculate current cable TV franchise fees. It does not include home shopping commissions, advertising commissions, late fees, all of which are included in our existing franchise agreements with Comcast and Wide Open West which is called WOW.

They go on and they do state that the House Bill 1500 gives video providers access to property of all kinds including private property. They make an argument against that provision. They bring out that the bill provides for eminent domain and condemnation powers. I

would expect that that would be removed. Private companies do not have the right to that.

They talk about the low bill out standards and I think that has been brought out and I think will be addressed so that it is laid out very clear as to how that is going to be done. We should put in some consumer protection provisions in this legislation. I will just make a remark about the boxes which I had mentioned to you generally yesterday and I realized they are called refrigerator boxes. They are 63 inches by 40 inches and 24 inches deep. I just want to be sure that local governments have the ultimate decision on the locating because it is a safety issue not just that they give permits, but sincerely, they have to be the ones that place those there, because, I know other communities have attempted a moratorium on that and litigation has involved and that is not good.

Hoffman Estates points out on the PEG issue, but they also state that municipalities under this agreement are forced to purchase without reimbursement equipment in the D1 network capacity from AT&T necessary to deliver PEG channels at a quality than under current cable mechanism or other channels on the proposed AT&T system. They are going to lose about 80,000 in revenue if you leave the gross revenue definition in there and then they are also going to be required for these additional expenses. I think that that should be looked at.

Let me just briefly point out they other objections. This bill provides state authorization is automatically granted to the applicant after 30 days. The applicant is not obligated to serve within a certain area. That, I think they are going to address. It provides that the ICC has no power to conduct proceedings, no power to adopt rules or regulations, no power to regulate or control. Now power to enforce. I would ask that, that be looked into and further, I have talked about the definition of gross receipts the eminent domain, I think, will be removed. And that there is no criteria against which the ICC may review an application and no authority to deny.

I think my bottom line at this point is as you go forth in negotiations and address some of these issues that we are sensitive by preempting again, home rule. That we include our municipalities, they have a lot to offer. They are interested in competition and I look for a number of changes in the bill and ultimately a successful bill that all the parties can agree too, thank you.

Chairman Brosnahan: Thank you, Representative and I can assure you, number one I do appreciate your comments, the concerns brought to us by municipalities and fortunately I have had an open dialogue with Illinois Municipal League. They were in my office yesterday afternoon. I have spoken with Representative Mathias about some of the very same concerns next week and I will continue to meet with the Municipal League and try to craft this bill and, absolutely. Sure. I met with people of the village of Naperville two weeks ago, the mayor and trustees.

So, we have an open door policy and if you want to come to me, that is fine.

Representative Krause: Okay, and maybe we will have them contact you and your staff.

Chairman Brosnahan: Absolutely. Sure.

Representative Krause: We appreciate so much the courtesies.

Chairman Brosnahan: Okay, thank you and Representative May followed by **Mendoza, Mathias, and Myer.**

Representative Mendoza: Thank you, good morning. Thank you for being here. And I appreciate the fact that you stated right up front the fact that you state right up front that your willingness to work on this and to make it better and to address some of the concerns. And, I would really like to focus in on prices and savings for consumers. I am very interested in consumers. We are faced in, with our electricity right now, sort of a revolt going on in this state and consumers are very angry because they felt that they were lied to.

So I would like to pose to you now this morning that it is five years from now it is a beautiful spring morning in Illinois and the birds are chirping and you have achieved a 30% take rate and you are happy, your shareholders are happy, will the prices go down? What will happen for consumers then? Please just state simply, will prices go down.

Mr. Lenahan: I have never been to great at predicting the future, but I think that if you look at what I described before, I think prices have gone down in other states and I don't believe that Illinois is going to be any different or unique. Prices in, I mean, it is economic fact that when competition thrives consumers benefit through lower prices, more innovative services and all boats essentially rise for the benefit of consumers.

Look at, you know, long distance and we fought those long distance wars trying to get into the market and believe that that was not only a great revenue source to the company, but competition would benefit consumers. I don't think anybody anymore with either a cell phone or a wire line phone, for the most part, really pays much attention to how much a long distance call costs because it is either part of a bundle, a package or it is free.

You know, and it is dramatic what has happened with long distance prices from, you know, 25 cents a minute down to pennies or free. So, the same thing has happened with internet service. Since 2000 to 2006 high speed internet service has gone down over 74%. I personally believe the same thing will happen with video.

Representative Krause: Okay, so you are affirming that you believe prices will go down. Okay, thank you for your forthrightness. Then, I don't know if I blinked or something when you were talking about the investment in other states, Michigan \$622 million, California \$1.2 billion, Texas \$800 million, and I was making notes just so that I could remember it. I didn't hear you say what you expected to invest in Illinois and I just wanted to make sure that I knew that.

Mr. Lenahan: I can't give you a definite number because a lot of it, and I am not trying to be cute or coy.

Representative Krause: Can you give a range?

Mr. Lenahan: A lot of it depends, yes, I can. And why I was trying to go with the other states and I apologize because I know the size of our states in relation to each other. I shouldn't expect you or anybody on the committee to do that so I need to do a better job of explaining that. In terms of the pecking order in terms of size of the state with respect of the revenues to the company California is the largest. Texas is second largest. Illinois is third. Now, with Bell South, we might end up being fourth, but let's just say for this discussion it is third. So, I would say in a range of California was \$1.2 billion, Texas was \$800 million, Michigan, which is smaller, Michigan is the second largest Midwest state was \$622 million. So I would say there would be a range between a half a billion dollars and \$700 million.

Somewhere in that range and a lot of this, as state, as the chamber testified and why I am qualifying what I am saying, he was absolutely correct when he said that there is a competition within companies for capital. AT&T has \$4.6 billion to spend. They have told the investment community they are going to spend that

money. We are spending that money in the states where we have the authority and can build, be honest with yah, and I am involved in these discussions every day in Illinois. We have capital that we want to spend in Illinois today and we can't find the communities to spend it quick enough because of this authorization problem.

So, we are constrained in that capital today is flowing out of Illinois so that we can meet our investor commitments in what we have told Wall Street that we are going to build \$4.6 billion. So, I hope I answered your question.

Representative May: Yes, and over what period of time would this \$500-750 million?

Mr. Lenahan: That was a three-year commitment and that started though, however in 2006 through 2009 so you know, what I am saying is every day that we don't have the authorization that potential, the higher end potential I believe starts to erode.

Representative May: Okay, thank you.

Mr. Lenahan: Thank you.

Representative May: Then on the build out which I am concerned about and I have to admit basically I would like to get 100% build out because that is what our consumers are used to and what they have had in this state, so I guess I would suggest that where your bill takes us to about 40% now that in California, one of the most recent states you dealt with we were at 50% so I would like to suggest I don't want the citizens of Illinois to get anything less than California got. That is just my personal opinion that I am passing on to you.

Mr. Lenahan: Thank you.

Representative May: Okay, and then on the commitment to low income communities also, I have concerns there and would you tell me or tell us how that will be enforced, you've got 25% I think is your starting point. So, how will that be enforced, where will it be, do you have any commitment to what parts of the state? You know, south suburbs we hear a lot from our colleagues from the south suburbs, will they get their portion of this. How do we know which low-income communities do you have completely flexibility there and who will enforce it and how.

Mr. Lenahan: I want to make sure that you understand from a corporate perspective the commitment that we have publicly made to low income and then I will answer your question directly. We intend

to build to 50% of our customers from a corporate perspective across the areas that we serve and that prior to the Bell South merger that was 19 million households. Of the 19 million households we have committed to build to a minimum of 5.5 million low-income households meaning households that have an annual income less than \$35,000.

Be honest with you and answer your question directly, I believe it is self enforcement under the current, maybe I am incorrect on that and I will let John say that, but I would also point to the ministers testimony that says from a practical perspective from a minority and a low income build perspective we have every incentive to build heavily to low income an minority customers because they use entertainment services and value those services more than I would say the general non-minority population and that is demonstrated in how they purchase phone service, historically and how they currently purchase entertainment services.

Representative May: Hmm, okay, I guess I am disappointed. I was hoping for something more than self-enforcement. I don't know what we would tell someone if they felt that their community or portions of their community was being bypassed where do they go for relief if they are not happy with your self-enforcement?

Mr. Kastner: Under the bill as drafted right now, Representative May, the build out commitment creates a legal obligation that if we violate is enforceable currently in a court of law. One of the things that has been mentioned today is a look at refining the enforcement process. Some of the bills that have passed have a reporting obligation on the company to file an annual report with the commission to document progress against both the build out and the low-income commitment. I think that would be one of the things that it would be a reasonable thing to consider when the negotiations that the Chairman is going to hold take place.

Representative May: That makes me a little bit happier and I guess I would just say I would encourage you to do that. To put into place to give some certainty that people have that protect it and I am sure the minister would like that, too. Just so that they know what the remedy is in advance and we just don't, I just don't want us to —

Mr. Kastner: I don't fault anybody on the committee for asking for something beyond self-policing.

Representative May: Okay, thank you, thank you. Then Representative Krause so eloquently mentioned many of the concerns of municipalities and

she gave you a very good list and I would just echo most of those. Our mayors and managers are down here and they are not getting a chance to testify just the way it is structured. I mean, we will hear from them eventually too, but I wondered in the educational arena for schools to hold harmless, would you consider putting in some sort of a hold harmless again, guaranteeing some sort of certainty for municipalities?

Mr. Kastner: A hold harmless?

Representative May: A hold harmless that they don't get any money that they, under this arrangement wouldn't get any less money than they do now?

Mr. Kastner: I think that would be one of the recommendations that I have heard this morning, I think that would be the first one I would say would probably not be something that we could in all honesty would say we could work with somebody. There are not guarantees in a competitive market. We have no guarantee. This is a \$4.6 billion dollar bet essentially that AT&T is putting on the table that this technology will be something that the customers want to buy.

We certainly hope customers buy it and based on the economic studies that I have read, municipal revenue will expand, but I don't think we could guarantee or a city that the revenue they have today will be maintained going forward in the future.

Mr. Lenahan: Here is a practical reason why in the market place it is almost irrelevant. I think you heard testimony that video is being provided to consumers through wireless applications, through satellite and also through cell phone technology, as well as, if you read in the paper there is mobile TV, there is Apple i TV all of these alternative technologies are migrating paid TV customers to alternative technologies. There is no way to tell. This is not a closed system in a vacuum where there is only two opportunities for consumers to get video programming and therefore only two potential revenue streams coming in. If it was a closed system you could say well when cable loses a customer and it goes to a wired competitor like AT&T, it is out of one pocket into another.

There is leakage every day and I think if they looked at their, and disclosed their revenues they are going down because of this leakage to alternative technologies, there is no way to even measure it. But then I agree with John's statement from a practical perspective a hold harmless is unrealistic in this environment because, you know, as I have talked to communities about the local franchising arrangement and they raise the issue with me as

president I want you to make 100% commitment to my community I am like, fine, I am very, very willing to make 100% commitment can you guarantee me 100% of the revenues?

That is the same as John talked in his testimony, the same thing that happened either at the beginning of telephone deployment where there was a defacto monopoly in telephone and at the same thing that happened 25 to 30 years ago in the cable business. Essentially each market provider in those different industries and services had almost a guarantee grant of 100%. When there is competition introduced, that whole guarantee ability for revenue to make it an economic investment actually goes away. And the market will drive the deployment. As it has in internet, as it has in phone service, as it has in alternative video services.

Representative May: Thank you. One last question and it is really related to what I hear from my consumers. My consumers are saying that it is great that they can get 999 channels for their price, but they would like some choice as far as smaller groups of channels that they are buying and another thing I hear is that parents don't like paying to block certain channels. And your technology is slightly different than the cable now, how would you be able to better provide, sort of a basic service.

You know, I was involved in telecom rewrite and one of the things for consumers we wanted sort of a basic service. Does your technology allow you to address that? Sort of providing a basic service and not charging parents to block?

Mr. Lenahan: We have and again, I think our role outs are a little different in every state, but we have four or five different flavors of packages from what they call the U100 package 200, 300, 400 then you can layer on additional services like the DVR capability. Different premium channel packages, etcetera. There is a very affordable package that goes up to a very a more robust package depending on consumer needs. And I believe and will have to check this and will have to confirm with you.

We have what we believe is an industry leading security package for parents to help manage the content with their children and I believe that is part of every basic package free.

Representative May: Like in Michigan, do you charge, is this free?

Mr. Lenahan: It is free.

Representative May: Okay.

Mr. Lenahan: Parental control is free.

Representative May: Parental control is free and you expect to continue that in Illinois?

Mr. Lenahan: Yes.

Representative May: Then I would just like, if you don't have it today, I think I would like to see sort of some of your basic packages from Michigan to sort of see to how that compares to what our consumers are paying now.

Mr. Lenahan: Sure. We can do that.

Representative May: Okay, a comparable state. Thank you very much.

Mr. Lenahan: You are welcome.

Chairman Brosnahan: Please add Representative Mitchell to the role and Representative May, to further alleviate some of your concerns about enforcement, I can tell you that the enforcement scheme, enforcement provisions are going to be addressed in the amendment, that is something we have been talking about for the last couple weeks. Representative Mendoza followed by Mathias and Myer.

Representative Mendoza: Thank you, Mr. Chairman. Mr. Lenahan or Mr. LaSchiazza. I was going to ask a few questions regarding the build out, but you seemed to answer some of them, so let me just kind of piggyback on some of the stuff that Representative May said, but more importantly where my perspective is coming from the upgrade.

I would have liked to have heard that the entire footprint was something that you were looking at doing or investing in or upgrading, from what it appears your testimony, Mr. Lenahan in particular the FCC and both of you have said that you agree obviously that it would be irrational and unreasonable to upgrade the entire footprint so to me that stands to reason, those were your words, sir, if I, I believe they were. Correct, that it would be irrational and unreasonable to upgrade the entire footprint.

So to me, that stands to reason that it is rational and reasonable to cherry pick who you want to serve and I have issues with that. And if you will just let me finish my line of reasoning on this. And that is because I think that your testimony also mentioned that 25

to 30% of low income communities would be serviced with the passage of House Bill 1500 and my question, how is that not discriminatory at the end of the day to only provide this high quality service, which sounds pretty exciting to me, to only 30% of a community area? And wouldn't that to some degree be asking those same people either in low-income communities or rural areas or seniors to go ahead and finance the build out that you seem to offer to primarily high income customers?

Mr. Lenahan: Can I just clarify?

Representative Mendoza: Of course.

Mr. Lenahan: I meant to say earlier that it would be irrational to require a 100% build out of a new entrant like us. Obviously our business interest is to serve as many people as we can serve economically so, there is a difference between regulatory requirement which the FCC has found would be unreasonable and preemptive and business objective to serve as many customers as you possibly can. Our business objective is to serve as many customers as we possibly can, regardless of race or income. I mean, that is irrelevant to us. What is relative to us is whether or not they are going to pay and purchase the service. That is what drives any rational business. So the difference is between a regulatory requirement and a business objective.

Our regulatory requirement should not be 100% a business objective obviously should be and is. In terms of the specific numbers, those numbers are consistent with the bills that have passed in Michigan and California. I believe they are very fair. We can support them. They are not intended to discriminate or redline. There is nothing based on the research that I am familiar with that would even make it rational to redline because as the minister has said, low income and minority customers are very, very good customers, especially in this product.

Representative Mendoza: I would tend to agree with that and if that is the case then why not build it into your plan on the front end rather than just say that low income and minority customers are good customers.

Mr. Lenahan: The numbers in the bill are minimus. They are not maximums. It is a floor. I mean, the company will deploy the technology where it thinks it has the biggest opportunity to sell the service.

Representative Mendoza: So at a 30% which is higher I think, than your starting point which is 25% to low income and minority communities, if it is true

that minorities are actually better customers than your wealthy areas, then why start at 25 or 30%, why not make that the bulk of the build out to begin with? I am just curious on that rationale.

Mr. LaSchiazza: As John indicated, and I appreciate your points and your concern in this area. You know, we bill the minimum into the legislation to specifically address allegations and concerns and I believe unfounded points that have been brought up to establish a minimum, but as John said, you know, we realistically believe that our best customers are going to be to your point, the low income, minorities.

Maybe another way to look at this is the only people getting a guarantee even of a minimum are the low-income right, think of it that way.

Representative Mendoza: Well, technically, but you and I think both know —.

Mr. LaSchiazza: The high income and the wealthy don't have a guarantee to a bill to any specific number of neighborhoods.

Representative Mendoza: So, would you be saying right now that the guarantee at 30% lets say for minorities, is going to be, are you implying that those who are not in the group are going to be receiving less than that guarantee? Why not guarantee it for them as well? I mean, my point is, I think that realistically speaking we both know that there will be more people served with your new service, which is a premium service than those who fall into the low income and senior or rural areas. I think we would be misinterpreting anything other than that. Am I wrong?

Mr. LaSchiazza: I don't really accept, I am not trying to be argumentative. I don't really accept that premise. I believe that the market will drive this and that at the end of the day, as John said. Let's step back and look at the market place and I think it bears explaining a little bit about what Mr. Kastner talked about in terms of the access line loss that the company has. You know, today when people purchase service from any provider for telephone, what is happening when people move from house to house is that because most people have a wireless phone now, the first place that they call is the cable company to get hooked up for video. While they are on the phone then they are sold and upgraded to a package that includes phone and internet service.

So from a competitive perspective, we have acritical and urgent need to provide the video product. That competitive force, the

marketplace itself, the competitive force the ever increasing cable rates is going to drive penetration of this product to all neighborhoods all income levels. What John was saying and I agree to this from a business economics perspective is if you impose artificial build out requirements at a very high level that becomes an extreme barrier to entry especially when, and I would ask you to consider this, consider your own home. Start with zero percent of the market. I have to walk up to your front door. I have to say, "Representative, I am here with a great new product."

Now, let's assume you have phone, video, internet from a cable company. You are busy, you are in Springfield all the time. Your family has everything that they need. Maybe they are not all that happy with their price, I knock on the door, I got to have a pretty compelling product to even get my foot in the door. Now, I am going to have the best trained workforce in the world union work force, but even though they are great, they are going to be in, this I not a trivial installation. This isn't flipping a switch and you get it.

This is a four to five hour event in your home with very well trained technicians. I have got to educate you. I have got to make you feel really good about this. My product has to be better. My point is, we have got to do a great job with every single customer. Now, do I know that sitting here today and we are just rolling this product out new across the country. I don't, I love my product because if I don't, nobody else will. But I don't know if it will sell like hotcake. I sure as heck hope so, and Wall Street does too, they are betting on it. But I don't know. So to say I am going to agree to a commitment when I really don't have any market based experience is, from my perspective as a businessperson, really an unrealistic expectation.

Having said that though, I think it is realistic to put some baseline commitment in this to address some concerns that people might have. At the end of the day, down the road, I hope that that proves to be a commitment that was essentially a sleeves out of the vest. Do I know that today? I do not know that. But I can guarantee you whatever commitments we put in the bill will be met. Thank you.

Representative Mendoza: Thank you, Mr. LaSchiazza. Yeah, I guess my concern is though, that when we talk about providing this great service too, which I would anticipate is a great service because other wise you wouldn't be here this year, right? And I love the competition just as much as the next person. As a matter of fact, we recently switched from cable to Direct TV and I know the cable folks in here are going to freak out on that, but we had a choice on that and

I think that whether I live in Chicago or in rural Illinois, that I should have that choice and you know, that you should be willing to offer me that choice by building out into my community so that is my concern and you know, thank you for your time.

Mr. LaSchiazza: Thank you.

Chairman Brosnahan: Thank you Representative Mendoza and if I can just add one more thing before you leave and as you are leaving the committee, everyone wants 100% build out. I also really don't think that is realistic. But when we looked at other states as has been mentioned a couple times now, nine states has passed video franchising legislation, some of those states, Indiana, Texas, they have absolutely zero build out requirements, so at least we are in good faith showing that at least we have a baseline commitment and hopefully that will continue to improve and hopefully the market will dictate 100% build out. Thank you, Representative Mathias.

Representative Mathias: Thank you, Mr. Chairman and I would also like to thank you for reaching out to all of the parties and having them, giving them the opportunity to either testify today or work out some of the differences and obviously from the questions you hear today and the ones that you are going to be hearing next week there are obviously differences that need to be resolved and I think in good faith if all the parties sit down together in good faith we are going to be able to resolve these differences. Hopefully, so I do thank you for giving us that opportunity.

To many times we see here bills rolled out and you know, the sponsor of the bill does not want to listen to anybody or get other input and tries to force it through. This is a bill of major importance and will really make a difference throughout the years if it is passed for how we bundle phones and internet and cable in Illinois.

One of the things though, and Representative Krause and Representative May asked a lot of the questions I have. And I am not looking for answers today, but since Representative Krause started a list of throwing issues you know, for future discussion I also want to throw in the issue of customer service because that always seems to be a good issue and there is always phone calls that we receive, I know I did when I was mayor and now as a representative with issues with all these type of services. And so I want to make sure that we do have some specific hard and fast

compliance standards and that we understand exactly what is going on in the area of customer service and what your intent is.

And I am not, like I say, looking for that right now, but I do want to put that in the mix. I think that is very important that we know where our customers go to and what they are going to be listening too and hearing and where they are going to be talking to people when it comes to the issue of customer service and what kind of teeth we have in the law to protect them if there are issues.

I know Representative Mendoza talked about issues of redlining and issues like that and if there are complaints, where do they go to? Who is going to, I mean it sounds like right now, as the law is written it doesn't give, for example, the ICC too much power, if any power, so we want to make sure that someone is going to have that power to oversee issues such as customer service, issues such as any potential in redlining and so a lot of my other issues that I wanted to ask have been asked such as issues dealing with the size of the box and the issue of who really does have the right, if you go to a community and say, you know I need a box right there in front of this persons house and they say, well, I think you should put it over there where nobody can see it. And on top of that I want to make sure you put shrubbery around it so nobody can see it. Who has the finally word? Can you then say, well, I am sorry, we need it there, to bad, we are going to go to the FCC and we are going to do it without your input.

Or approval, obviously just to go and get a permit from a village sounds like that means something, but it doesn't mean anything if they don't have a right to challenge you on where this equipment is going and I should have prefaced all this saying that I also do think competition is good and I would like to see competition because I think cable bills are certainly too high and I can see right now just what is happening with telephone because I keep getting more and more advertising everyday until you probably want to call them and say, "Okay, put it in all ready if you will stop sending me any more literature." So that to me is an issue and again, I know we are going to address those things, but I just want to make sure we add it to the list.

Mr. Lenahan:

And if I could just respond briefly, Representative. The bill does have customer service quality standards in it and it is a fair point that maybe the enforcement mechanism, at least the governmental enforcement mechanism could be worked on. I would point out that that the bill, if passed and if this works will result in the best customer service mechanism that there is. And that is the ability

for a customer to say, “I am walking. I am going to another provider.” And giving the customer to the option to do that.

Representative Mathias: Sometimes that is an expensive option because there are —

Mr. Lenahan: Fair enough.

Representative Mathias: When you go into a new company there is an expense right there and I am sure there will be at the beginning there will be some incentives, I am sure, to switch just like any other company would do, but you know, switching back and forth can be expensive, sometimes even with your own cell phones. But, certainly in this area I can see it is not just saying, “Well, tomorrow I am going to switch because I don’t like —

Mr. Lenahan: Because the signal isn’t good today.

Representative Mathias: Right, and so, anyway, I am sorry, I have to go to another committee also, but so long as these issues were addressed and again, these right of way issues are important to me. This box issue is important to me and the eminent domain issues, I agree with Representative Krause that I don’t think we give any other non-governmental agency the right to eminent domain in our state and I think it would be a bad precedent.

But one finally thing I would like to ask of our staffs, since there are already I believe it is eleven states that —

Mr. Lenahan: Nine states.

Representative Mathias: Nine states that have passed this, I mean, I would like to have some analysis from our staffs on both sides of the aisle, and I don’t know if it has been done already as to what issues or what actually is contained in those bills because I certainly would like to see our great state of Illinois have some sort of favored nation status so that we get the best of all of these franchise agreements and also, if possible even negotiate something in there that if tomorrow you want to give away to store it to another state that we have still the right to amend our agreement to include any provisions that may come up after we enter into our agreement, because obviously if it is good enough for some other state, it certainly should be good enough for the state of Illinois. Thank you, Mr. Chairman.

Chairman Brosnahan: Thank you, Representative. We are slowly losing all our members, but there are still two other members that have question. Representative Myer followed by Representative **Boland**.

Representative Myer: Who is after me?

Chairman Brosnahan: Representative Boland and then Representative Ramey also indicated he has questions.

Representative Myer: Then we will all have to leave before they question. Representative Mathias, we have already started to put together some of the information, at least from our side of the aisle so you all have that. So there is no problem. If I could go back and talk about internal competition for capital.

We haven't passed a law here that allows you to go on with what you want to do at this point. If that law were to pass, do you have a commitment from your corporate that the money would be there to enter into your build out the way you are projecting here today?

Mr. Lenahan: Can I restate your question so I make sure I got it correctly?

Representative Myer: Certainly.

Mr. Lenahan: Are you asking if the law passes, is there a commitment today for the capital as I described?

Representative Myer: That is correct.

Mr. Lenahan: I would say we will make a commitment to Illinois when the bill passes or is fairly reasonable to assume that it would. The money more direct answer is and Mr. Kastner talked about this. I mean, we are losing thousands of access lines to competitors, specifically cable competition, every month in Illinois.

We have every incentive and need to deploy capital quickly in Illinois. And I believe there will be a substantial commitment made by this company to Illinois communications infrastructure when the bill passes. So the answer is, do I have a figure for you today? No. Will there be one? Yes.

Representative Myer: Okay, that is the most important part that I was after. The IBEW testified what their projections were for job creation, do you agree with those job projections?

Mr. Lenahan: I absolutely agree with the facts as they were presented. I would also offer up that in Michigan there was a commitment to 2,000 jobs and again, in the context Michigan is smaller than Illinois. Illinois infrastructure build requirements are much greater than

Michigan, so, I would expect that at a minimum there would be at the 2.000 plus job growth here. And again, as Mr. Kastner pointed out, these are good union family supporting jobs in Illinois. And keep in mind, as these jobs migrate to competitors, especially cable competitors as Mr. Kastner aptly pointed out, these are union family supporting jobs going to non-union competitors. So, yes, I agree with what Mr. Kastner said. I mean, we will stand by that.

Representative Myer: Okay, I want to revisit the boxes. I have seen some literature distributed to us. I assume that all the members received it, which illustrated houses with pink boxes in front of them, six feet tall or whatever that height and width was. And I guess from a public relations stand point it would appear that they're demonstrating that there is a box in front of every house or something like that. I am not certain what we are supposed to draw from the illustration they sent out, but can you remark on what you have done in other states in order to, I assume that people in other states don't want boxes in front of their houses either. Can you remark as to what remediation type programs you have implemented in other states to prevent the public outcry on placement of these boxes and the curb appeal of houses in those neighborhoods where the boxes are placed?

Mr. Lenahan: Thank you for your question and I applaud the sensationalism of the pink boxes, yellow boxes, and eye catching advertizing campaign, but the facts are and I can point to Illinois in particular what we are doing. I believe that there is 35 to 40 communities that are allowing this equipment that is an upgrade to our existing network to be placed in their communities. We are working with each of those municipalities collaboratively and cooperatively to cite those boxes, to do appropriate landscaping and/or beautification treatment where necessary and where the community deems that it is necessary.

We are also working with them collaboratively to ensure that these boxes are placed in areas that are safe and non-obtrusive and non-obstructive. Have there been an occasion where the municipality and the company thought the box would be a good place to put and it turned out to not be so good? Yes, and actually, we have moved boxes because of that, working with the municipalities. So, what I would say it, and as John pointed out, there is a permitting process we can't put a box in without a permit. The only way that we get a permit is to work collaboratively with communities. So, that is real in Illinois working today. And again, I would say we are putting this infrastructure in some communities without knowing

whether or not we are ultimately have the ability to provide the service.

And the reason communities are allowing these to be put in, again, don't lose sight of the benefit beyond video. These cabinets also enhance our broadband capabilities, improve the voice quality of service, improve the internet speeds going to peoples homes. So, not withstanding even video, communities are benefiting today by these upgrades.

I also would point out to you that we have thousands of "big boxes" in places today throughout Illinois communities. These boxes generally have to be placed near where those existing boxes are because of the technology and the way that we are using the existing copper pairs. I would submit to you that you know, although there is a focus on the size and the placement and where and all the things that I said to beautify them. I would bet that most of you in your day-to-day lives, when you go to work, after a period of time when utility does an upgrade and puts a box in, the majority of the time that becomes just a blur and I bet you can't even remember where most of these things are.

You know, electric companies have big boxes. There is pumping boxes, you know for sewers and for water in the rights away. I mean, if we want to upgrade the capabilities of a community, unfortunately there has to be technology in boxes and that we want to work collaboratively with municipalities to make that as painless as possible, but at the same time bringing the best available state of the art network to these communities. Because, you know, a lot more and more people are working at home. They want these speeds. They want the content to their home. The only way that they are going to get it is through these technological upgrades. I hope that answered your question.

Representative Myer: It does. Certainly, I would agree with you on the placement of boxes already in place that most people do drive by them without really noticing them. At least the large electric boxes that I have seen in the neighborhoods where I have lived and would you be willing to furnish some of the communities where you're installing currently so we could have staff communicate with them to see what types of problems they are having with any types of —

Mr. Lenahan: Yes sir. Would be glad to do that.

Representative Myer: I would assume since there is not a great deal of outcry from people in those communities already to their legislatures that

perhaps it is going smoothly. One last thing, if I could, I understand that the FCC recently announced some problems that they felt were with franchising agreements. I haven't seen that documentation, but are familiar with it and could you comment on it at this point?

Mr. Lenahan:

I am familiar with it. It's, they issued their order, I believe on Monday. I have read it through fairly quickly. The topic of the docket was an inquire into the status of the municipal, the existing municipal franchising process for cable service. The claim that was brought to the FCC was that that municipal system was not working well for new entrants and had the effect of impeding competitive entry and broadband deployment, which is a high goal of the FCC. They issued their order and they concluded that there were significant problems with the franchising process and addressed the key areas of concern based on the record they created.

One of the areas was build out. There is a number of areas. In terms of its applications to us and whether or not it moots or makes this process or this legislation unnecessary, I would say it does not apply, the order did not apply to anything other than cable service and as I mentioned earlier there is this great definitional debate as to whether or not we are a cable provider or a telecommunications provider. It doesn't address that issue.

It still assumes a city-by-city approach. It does not assume a statewide approach. And I think I makes a very interesting observation. If you do look at it, take a look at footnote number two. The FCC went out of its way to say that to the extent a city requires something that they find in this order to be unreasonable that municipal requirement is preemptive as in conflict with federal law. However, I believe the FCC was encouraging statewide, they made a reference to the number of statewide franchising bills that had passed recently and that are pending and they specifically said that none of the provisions of their order are intended to preempt or interfere with this statewide franchising process.

So, I would say that that is another reason that this committee should be encouraged and proceed with a statewide approach.

Representative Meyer: Well, certainly if you have the opportunity to prepare come comments on that as a part of your feelings on how it relates to this bill we would be interested in hearing that. And last, just I just want to go on the record that I am going to stay here and listen to

Representative Ramey and Boland's questions. I am intent on hearing what they want to ask.

Chairman Brosnahan: All right, thank you. Representative Boland.

Representative Boland: Thank you, Mr. Chairman. First of all let me say that I am really glad to hear about the prospect of a large number of union, middle-income livable wage jobs, you know, resulting from this, if we go this route. And especially it is good to hear that a union company can compete with non-union entities in both prices to consumers and product quality so that is an excellent point.

A couple questions, there is nine states that already have this, right? And what state has had this the longest?

Mr. Lenahan: I believe Texas was the first.

Representative Boland: And how many years has that been?

Mr. Lenahan: Year and a half.

Mr. LaSchiazza: June of 2005.

Representative Boland: Of 2000, did you say?

Mr. LaSchiazza: 2005.

Representative Boland: Oh, 2005, okay, thank you. So really there isn't a whole lot of record as far as how these other states have done in build out, particularly I am concerned about more rural and lower income folks. Do you have any kind of record at all in those states as to what percentage the build out is?

Mr. LaSchiazza: I don't. And as I said, even our corporate plan was a three-year plan so we haven't really executed the totality of our plan in any state yet. So unfortunately, I don't have company experience to talk to you about.

Representative Boland: Umhm, and then lastly, and maybe this has been asked while I was gone in and out, but as far as service complaints, having been one of the founders, CUB, very important to me. Would you have centers available in different communities would you have just one central place in the state, or would they be at current AT&T offices. Say like we have a large building in Rock Island, would that be where people could go? Because, not everybody is going to you know, want to just yank out and go to the competitor once

they have locked in. You may say, well this is a relatively minor thing, but I would like to get it taken care of. You know, where would they go? Would there be local or regional or some kind of centers, service centers that they could call?

Mr. Lenahan: You know, from AT&T's perspective, obviously we have an enormous customer service infrastructure in place in Illinois already. We will from a jobs perspective supplement those locations already and I believe also add certain infrastructure that needs to be added to accommodate video type customers, like you know, you have got the issue of the box. The box has to be either picked up or repaired or exchanged. You know, we will put in place the mechanism to be very convenient for consumers to do that. So, I guess in summary it is a combination of our existing infrastructure beefed up to accommodate video.

And that is where this job growth is going to come from. The technicians that install and deliver the equipment. The customer service representatives that answer the call. The repair people that come out and work with customers and then the whole issue of bill payment complaints, etcetera, etcetera.

Representative Boland: And this has been the policy or the record in these other states, nine states, you have already kind of done that pattern?

Mr. Lenahan: That is correct. And you know, we are at the beginning of rolling out this service in the states that have passed these bills so we are gradually as the market is driving continuing to beef up this infrastructure as the customer acceptance and recognition ramps up. So, yes.

Mr. LaSchiazza: We would be happy to show you that product in any state that you might want to go view it in. I mean, it has just recently been turned on in Indiana so that is not that far to go to actually look at that infrastructure, see the product actually working and look at the channel line ups and the customer service infrastructure which would be, you know, I would say reasonably the same in Illinois, but just a lot bigger and a lot more of it.

Representative Boland: You are already in Indianapolis?

Mr. LaSchiazza: Yes.

Representative Boland: I have relatives there. We will contact them. Okay, thank you.

Mr. LaSchiazza: Okay, thank you.

Chairman Brosnahan: And finally Representative Ramey.

Representative Ramey: Thank you, Mr. Chairman. I appreciate you breaking this up so we are not here for 13 hours as we were with the electrical rates. And one other quick quip here, you're not, with all these boxes going up, you are not going to sell advertising on the boxes, are you? Or just big AT&T signs, right?

Okay, in regards to the competition issue, how many wire line video companies are in hard wire line video companies in Illinois? Or do most consumers have?

Mr. Lenahan: John might have an accurate —

Mr. LaSchiazza: There is about eight cable providers in the state of Illinois. Comcast is the major provider. They have consolidated all of their property in the Chicago metropolitan area. Then the other seven have various parts of the state. The distinguishing fact, I think relevant to the committee and this legislation is that with some very few exceptions there is only one wire line cable operator in any given city.

Representative Ramey: That is what my experience is up in the Chicago area, it is Comcast so in the other states, the other nine states where you have gone in to be the competition, is that basically the same?

Mr. LaSchiazza: It is very similar depending on the state Time Warner is the dominate provider or Comcast and then there is a handful of smaller cable operators, but I think the almost universal fact is there are exceptions, but for the most part, there is only one cable operator in any given city.

Representative Ramey: So it becomes now the one cable operator versus AT&T.

Mr. LaSchiazza: Versus AT&T, so there are two choices.

Representative Ramey: So in those nine states then, has anything else come about to add more competition or has it just been the one cable operator and AT&T?

Mr. LaSchiazza: I believe in some states smaller cable operators have arisen. You know, and said, "Hey, now that it is easy enough to enter I am going to take a shot at this."

Representative Ramey: But why I ask that is in your build out plan you allow 30% for the minority and low income areas and so forth, does it seem thought that these other companies might say, “Okay, they are not going there. Maybe I should build into there.” And then that would add competition.

Mr. LaSchiazza: I think that is a very distinct possibility.

Representative Ramey: Okay, and does your service offer other companies to piggy back on?

Mr. LaSchiazza: No.

Representative Ramey: No, okay. Then going into the cost issue. You said initially that when you become competition the cost go down 13% was that the general —

Mr. LaSchiazza: That is the **Crandall** study.

Representative Ramey: Okay. And you are coming in with this new technology wasn't that a high R&D issue for you to invest into this new technology and how do you come in underneath if you can just briefly.

Mr. Lenahan: It is a huge investment to do this and there is companies like **Alcatel** that have bet their success on this technology being readily adopted across the country, so you know, as you can imagine, we cant come in being the premium price because obviously we wouldn't be competitive nor be able to attract customers, so obviously we have done business cases to look out, what is the net prices and value of each customer. Where does that price point have to be. How long is the pay back and that has driven, you know, taken into consideration all of the R&D cost, all of the testing, all of the, we have to condition and upgrade the plant just to carry this signal, but we believe even with all of those costs that it can be a profitable service when you consider what happens without the service.

All right, you have the status quo would be we continue to lose the consumer marketplace. We continue to strand investment in the ground, which is already paid for and being depreciated so when you put all of that together along winded way of saying, we believe that we can have an attractive price point. We can capture market share and be profitable. And that is what we have told, that is what we have told Wall Street and we believe that that is going to prove true.

Representative Ramey: If so, will we have a problem with that since you will be lower? Hopefully and we drive costs down, does AT&T ultimately drive out Comcast and then there is no more competition?

Mr. Lenahan: No.

Representative Ramey: Well that is a great business plan, isn't it?

Mr. Lenahan: Again, I think all boats are going to rise here. It is going to stimulate innovation there is going to be more of the satellite providers, customers that are going to migrate to wired because not only are we going to get better, I believe the incumbent cable provider is going to get better and people that have chosen to not buy anything and just watch over the air are going to migrate to these better wired services, so.

Representative Ramey: And then lastly, and it was touched upon earlier, the choices. And I always had, when I used to have cable the problem was I would get 999 channels, but I only watched 30. Okay, but I have to buy a package that says I get 150 lets say since that is the smallest package. Isn't there, with your technology, you mentioned, I can watch the ball game, which I am going to do and I get nine different camera views. And I can pick the camera view, but I can't pick the 30 channels I want to watch consistently?

And we also have kind of a tag on that, and I am sorry you can answer here in a second. We have video on demand so I can just say, "Okay, I want this movie now." Click, here it is. I mean, so doesn't that technology get us to the point where we can say, "I want to have all the ESPN's and all the cartoon channels for my kids and I am set."

Mr. Lenahan: You know the, you want to answer that? What I was going to say, I believe regardless of the system, whether it is the incumbent, let me retract that. The technical capabilities of our system allows the delivery of a channel at a time. However, and again, now you are getting me a little bit out of my expertise and comfort zone. But, I believe part of the limitation whether it is our service or the incumbent cable providers is how programmers sell their channels too.

I don't believe that even the provider can buy ala cart channels. You have to buy the channels from certain networks and certain content providers in packages and that drives and limits the way that can be sold too end user customers. I believe that the programmers restrict your ability in many cases to provide ala cart

services. Now I have gone way far past my expertise and I don't want to do that anymore.

Mr. LaSchiazza: It is not a technology issue, it is an economic issue and a programming negotiation issue.

Representative Ramey: Okay, well I would hope that someday we could do that. I encourage you to get on that. And thank you for your time. Thank you, Mr. Chairman.

Chairman Brosnahan: Thank you very much, Representative. And that concludes the hearing for this week. I do want to thank all the witnesses on this panel today for your patience, your time, your willingness to answer all the questions. We will continue with this subject matter here on House Bill 1500 next week. I know we still have some proponents to hear from, but our plan is to hopefully hear from some of the opposition as well next week. Those people wanting to testify please contact our staff, **Shaw DeCramer** works for on the Speaker's staff. He is here, over here by the door. His phone number for those of you if you have a pen ready it is 217-782-4040 and it is Shaw DeCramer. Please contact him. We will try to schedule everyone's testimony. Again, thank you for your cooperation. And see no further business to come before this committee. The House Telecom Committee will be adjourned. Thank you.

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