
Committee Meeting

of

SENATE SPECIAL STUDY COMMITTEE ON THE FEDERAL TELECOMMUNICATIONS ACT OF 1996

“Organizational meeting to hear from the Board of Public Utilities,
and invited representatives of local and long distance telephone
companies, and of cable television companies”

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: May 23, 1996
10:30 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Andrew R. Ciesla, Chairman
Senator Joseph L. Bubba
Senator William L. Gormley
Senator Byron M. Baer

ALSO PRESENT:

Peter R. Manoogian
Office of Legislative Services
Secretary, Senate Special Study Committee on
the Federal Telecommunications Act of 1996



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SENATOR ANDREW R. CIESLA (Chairman): If we all can get seated, we will get the meeting underway, please. I will ask for a roll call before we start, please.

MR. MANOOGIAN (Committee Secretary): Senator Ciesla?

SENATOR CIESLA: Here.

MR. MANOOGIAN: Senator Bubba?

SENATOR BUBBA: Here.

MR. MANOOGIAN: Senator Gormley?

SENATOR GORMLEY: Here.

MR. MANOOGIAN: Senator Baer? (no response)

Senator McGreevey? (no response)

SENATOR CIESLA: Good morning, ladies and gentlemen. My name is Senator Andy Ciesla. I would like to make a few opening remarks prior to actually starting our first meeting on telecommunications.

This Senate Special Study Committee on the Federal Telecommunications Act of 1996 was established by Senate Resolution No. 5 of 1996. The Federal Telecommunications Act of 1996, which was signed into law on February 8, 1996, was enacted with the goal of promoting competition and reducing regulation in order to secure lower prices and higher quality services for American telecommunications consumers, and also in order to aid in the deployment of new telecommunications technologies.

It is the duty of the Special Committee to study the telecommunications issues raised by the Act of 1996, to consider the implications of that Act for the State of New Jersey, and to study possible areas in which State action or regulation will or could be called for. The primary

function of the Committee will be to serve as a resource for information or educating the Legislature on telecommunications issues. The resolution does not provide for the Committee to make any recommendations concerning possible legislation, but it does require the Committee to report its findings in a report to the President of the Senate upon completion of its work.

Pursuant to the mandate of the resolution, I hereby call this first organizational meeting of the Special Committee to order. Also pursuant to the resolution establishing this Committee, the Chair and members of this Committee have been appointed by Senate President DiFrancesco. Also pursuant to the resolution, we need to appoint a Secretary to the Committee, and at this time I would suggest Peter Manoogian of the Office of Legislative Services, and look for a motion to that effect.

SENATOR BUBBA: I'll move it.

SENATOR GORMLEY: Second.

SENATOR CIESLA: Moved by Senator Bubba, and seconded by Senator Gormley. Roll call, please.

MR. MANOOGIAN: Senator Ciesla?

SENATOR CIESLA: Yes.

MR. MANOOGIAN: Senator Bubba?

SENATOR BUBBA: Yes.

MR. MANOOGIAN: Senator Gormley?

SENATOR GORMLEY: Yes.

MR. MANOOGIAN: Senator Baer?

SENATOR BAER: Yes.

SENATOR CIESLA: Thank you very much.

Congratulations, Peter. You are now responsible for the work of the Committee, so if anything goes wrong we know who to go to.

I envision that our method of proceeding would be to hold a series of public hearings on various topics of importance relevant to the Federal Telecommunications Act, in order to hear the views of the executive branch, which is with us today, in particular the Board of Public Utilities, as well as the views of various interested parties, and the opinion of the general public concerning these matters.

As one can tell by reading the newspapers and listening to the various forms of media, the implementation of the Telecommunications Act has become a very controversial subject, not only here in the State of New Jersey, but nationwide. Before discussing the topics which we might consider, I would ask, at this time, if the members of the Committee have any opening remarks they would like to share with us, starting with Senator Bubba.

SENATOR BUBBA: Not at the present time.

SENATOR CIESLA: Senator Gormley?

SENATOR GORMLEY: No. I can't wait to hear the testimony.

SENATOR CIESLA: Senator Baer?

SENATOR BAER: Likewise.

SENATOR CIESLA: Thank you very much.

Therefore, I suspect we will get down to business. The first individual I would like to call is the President of the Board of Public Utilities, Herb Tate. Welcome.

HERBERT H. TATE JR., ESQ.: Thank you very much.

Chairman Ciesla, Senator Bubba, Senator Gormley, Senator Baer:
Thank you very much for the invitation to come before you today to talk to you about the Telecommunications Act of 1996, which was passed by the Federal government earlier this year.

As you all know, the Federal law will change the way employers, workers, teachers, students, doctors, parents, and children use their telephones and televisions to conduct business. Essentially, the Act promises us a much wider array of choices for getting the best quality, prices, and services on our televisions, telephones, and computers. To promote these changes, the Act has directed the states to set rules requiring the telecommunications and cable industries to compete with each other no later than mid-1997.

It is the Board of Public Utilities, this legislative Committee, and the Legislature that must evaluate the benefits, as well as the liabilities of competition as it unfolds in New Jersey. Eventually, as a result of this Act, local telephone companies will also offer long distance and cable service, long distance carriers will offer local toll and cable service, and cable companies will offer local and long distance telephone services. As it oversees these changes, the Board must act carefully so as not to jeopardize the affordability of current telephone services in New Jersey, which has one of the country's lowest rates for basic telephone service of any Bell operating company. The Board's first and foremost priority is to protect affordable basic local telephone service for all of our residents.

The Board had committed to promoting competition long before the Telecommunications Act of 1996 became the law of the land in February. In 1994, the Board negotiated a settlement between the phone companies that

provide local service and the long distance carriers to promote limited competition in the local toll markets. Since then, seven new companies have begun to offer phone services to business customers. The arrival of improved and more cost-efficient services, in turn, have helped to attract businesses to locate in New Jersey, including Dean Witter, Solomon Brothers, IBM, and Bear Stearns.

Last December, the Board ordered the local service providers to offer customers the convenience of presubscribing to a local toll call carrier. Right now, customers must use a five-digit access code to make a local toll call if they want to use a carrier other than their local phone company. This order will require local phone companies to allow customers to sign up, or presubscribe, with a competitor. In June, the Board will make a decision on when this new service will begin.

The Board also issued a notice of investigation to determine when and under what circumstances local telephone companies, long distance carriers, and cable companies can enter each other's markets. The Board will shortly lay out a schedule for this transition to competition.

In the near future, the Board will have a formal proceeding to determine how universal service will be administered in New Jersey. Required by the Federal Act, universal service guarantees basic telephone service for all customers, regardless of their ability to pay or their geographic location. Until now, this service typically included a single party line with access to an operator, 411 directory assistance service, 911 emergency service, service for the hearing impaired, a white pages listing, and an annual directory. This definition is likely to expand as the law is put into place. The Act, for example,

requires states to enable schools, hospitals, and libraries to be linked to communications networks. The Board must analyze the costs associated with this service and develop an equitable way to fund it.

Lastly, next week the Board will release a report that examines the emerging competitive landscape and recommends policies to foster free and open competition in the telecommunications field. The report states that building upon our already advanced telecommunications infrastructure will promote New Jersey's leadership in national and global markets, foster economic growth, provide the opportunity for overall social benefits such as improved health care and education, and serve the needs of New Jersey's consumers, businesses, and government. It also identifies the competitive issues between telecommunications companies and cable providers that can be resolved by the Board through either consensus or litigation. The report was completed by the Telecommunications/Cable Task Force, comprised of Board staff, representatives from the State's major cable and telecommunications companies, the ratepayer advocate, the New Jersey Departments of Education and Health, and New Jersey Network.

As you can see, the expectations of what the Act will do are very high. Opening up markets to competition will create more jobs and strengthen the economy, giving consumers more choices that will better meet their telecommunications needs and let them get the best prices for those services. Introducing competition will lead to advanced technological development that will offer better and better quality services to residents and businesses, and letting the market reign will bring down the cost of using these services. But

the Act also raises some concerns that we have heard in our public comments during the course of our proceedings:

First, the Federal Act can be interpreted to mean that the opening up of the three telephone markets -- basic local service, local toll service, and long distance service -- should occur at the same time so as not to give any one company a competitive edge. The Act also, however, provides for exceptions to the timing. The Board believes that the actions we took before the Federal Act came into being grandfathered us and allows New Jersey to be in a position to determine its own pace of competition in the local toll market. This is a matter for serious consideration by the Board because of its potential impact on basic service rates.

As I mentioned earlier, New Jersey has one of the lowest basic service rates in the country. In fact, we have had the lowest rates since 1985. Under the existing Alternative Plan of Regulations for Bell Atlantic - New Jersey, Bell promised New Jersey customers to hold basic telephone service rates at those 1985 levels until 1999. In light of the Act's suggestion that all markets open at the same time, the Board must thoroughly analyze this commitment. Despite the intervening Federal legislation, the Board would like to anticipate that Bell Atlantic would be able to keep that commitment.

Promoting competition is fine as long as consumers benefit from it. The Board is committed to providing affordable basic telephone service to everyone and offering customer choice in all three phone markets. With competition comes consumer uncertainty regarding what the best buy is for their individual needs. The more choices the customer has, however, the more research the customer must do. There has been a proliferation of an array of

services to capture high quality telephone data, broadband video, and data interactive services available to homes, businesses, and education and health care services. The idea is to deploy these services to all New Jersey communities -- urban, suburban, or rural -- at relatively the same time, regardless of geographic location, population demographics, or ethnic or racial makeup. The Board needs to be careful in determining how best to go about doing this.

In monopoly markets, the universal equitable deployment and delivery of services is not as big a concern as it is in competitive markets. Utility companies and telephone companies with monopoly franchises have historically had an obligation to serve all ratepayers who reside in those franchise markets. With competitive markets, however, the question of whether that obligation to serve all equably at the same level does come into question.

In addition, the Board must ensure that the public is well informed of the coming changes in the telecommunications marketplace so that they can make educated decisions when selecting services. The Board would like to see companies be an integral part of this educational process by providing customers with clearly written and informative advertising materials designed to help dispel the inevitable confusion that people will face once companies begin their solicitations.

As members of this Committee, you should ask yourselves some questions:

* What about the voters in my district? Will they see the benefits of competition?

* Will these long distance, cable, and local phone companies provide these new services at competitive rates to my residential constituents and my business constituents on a comparable basis?

To determine the answers to these questions, the Board will be conducting public hearings to discuss Bell Atlantic's commitment to Opportunity New Jersey to make New Jersey the first state in the country to have advanced, broadband, statewide services to all residences and businesses. The capital expenditures to keep New Jersey competitively ahead of other states to become the telecommunications center of the United States are extensive commitments. Given the advent of competition and the merger between Bell Atlantic and NYNEX, the Board would like to be assured that this commitment will be honored. The New Jersey Legislature expected this advanced technology when it passed the Telecommunications Act of 1992 and allowed the partial deregulation of Bell Atlantic's service offerings.

A second major concern is competition's effect on utility employees in the short run. We must all realize that the benefits of competition may take awhile to materialize. There may be some pain and liabilities that we may have to work through first, as seen in recent events.

After the Board passed its presubscription rule allowing long distance companies to compete in the local toll market, and just before the passage of the Federal Telecommunications Act in February, AT&T announced the layoff of 7000 employees in the State of New Jersey alone, and 40,000 nationwide.

Recently, when Bell Atlantic announced its merger with NYNEX, it also announced that 3000 layoffs would result between the two companies,

although they expect only a small number of job losses in New Jersey. We would like to explore the opportunity to attract more jobs and facilities as a result of this merger. The Board is reviewing the proposed merger now. We will look closely at its impact on Bell Atlantic's employees in New Jersey, as well as Bell's commitment to Opportunity New Jersey.

There is one other significant issue that I would like to raise with you before I conclude. People will expect their phone bills to go down once the competition gets underway. But that may take some time. Competition in the long distance market in New Jersey has existed since the divestiture of AT&T in 1984. Since 1992, despite this competition in the long distance market among AT&T, MCI, Sprint, and other long distance companies, the price of a direct dialed, five-minute local toll call that originates and ends within New Jersey has increased by approximately 45 percent.

The Board of Public Utilities points out these facts not to argue against competition, but to caution that a thorough investigation must occur before establishing the "new rules" for competition. Those rules must be in the best interest of the State, its residential customers, and its business customers, and not simply in the best interests of the telecommunications companies.

Governor Whitman, in 1994, appointed an Economic Master Plan Commission to determine how to promote economic development and job creation, and improve the delivery of educational, health care, and government services to its citizens. One of the report's recommendations was to promote competition in the telecommunications and cable industries to make New Jersey the mecca for telecommunications in the country. We are moving toward that goal.

Finally, I would like to point out why telecommunications companies and cable companies wish to compete in the New Jersey market. New Jersey has approximately \$5.2 billion of total value to be tapped in the three markets. Our basic market is worth between \$1.2 billion and \$1.5 billion. Our local toll market is worth \$700 million, and is the second most lucrative in the country. And our long distance market is valued at \$3 billion. We also house the corporate headquarters of the largest telecommunications company in the nation and the world -- AT&T. And if the Bell Atlantic-NYNEX merger is approved, the company will become the second largest telecommunications company in this country. Currently, New Jersey is the largest revenue generator for the entire Bell Atlantic region. There is a lot of money to be made in New Jersey by companies seeking to sell services in these fields. We must make sure that the State, its residents, and its businesses also share the benefits of this very rich future.

Thank you, again, Mr. Chairman and members of the Committee. I look forward to working with you, and I will now take any questions you may have.

SENATOR CIESLA: Thank you very much, Mr. President. I appreciate your remarks.

There is one thing that I want to be certain of. I know you mentioned in your testimony that we have to be careful about how we deregulate and encourage competition, but the fact of the matter is, we don't have any choice, or the Board doesn't have any choice but to allow for competition and deregulation.

MR. TATE: Yes. The Federal Telecommunications Act, once it was passed, dictated that the time frame for bringing about competition was to be accelerated nationwide. This Board, in the last two years, as I mentioned, Mr. Chairman, has not been against competition. In fact, we have been proactively trying to promote it in this State.

Trying to determine our own time frame was one of our top goals because of the unique commitments that have existed here and the unique circumstances on the affordability of our basic phone rates, the need for us to have advance technological deployment of an infrastructure statewide, and the fact that we have one of the most lucrative markets in the nation. But the Telecommunications Act of 1996 stated that all states must begin processes with which they would come to conclusions to open up, or set the rules of the game for basic local market competition by the end of 1996, and that the local toll markets in most states would be linked to the checklist and entry into the long distance market.

Now, we were excepted from that because the Board of Public Utilities, back in December of 1995, actually passed a presubscription rule; that is, we voted for publication of our presubscription rule before the deadline in the Federal Telecommunications Act. So we still had some leeway, some flexibility to determine when the entry into the local toll market, which is the middle of the three markets, should still occur.

SENATOR CIESLA: In terms of an economic advantage in New Jersey -- which is what you had mentioned before -- were you uniquely positioned -- for the various reasons you have given -- to take advantage of the Federal Telcom Act? Was there anything legislatively that we should be

looking to do to enhance our ability to meet those objectives that you said of ensuring the lowest possible rate for our constituents, but the best economic growth for the State?

MR. TATE: Well, on the local market, states have not been preempted -- let me say this -- in terms of regulation of their tariffs. What we have had to do, though, was establish time frames for competition. We already have, from the Telecommunications Act of 1992 and the agreement with the Bell Atlantic Company, the alternative plan of regulation about a commitment for keeping that local exchange service at the earlier levels of 1985 until 1999.

The question becomes: When we open up for competition, do we provide any legal means by which the company can relieve itself of that obligation and promise and, if so, then what would be the appropriate levels to be set for local exchange service? I don't want to go so far at this point, Mr. Chairman, to recommend that legislative action from the State Legislature needs to occur to deal with that issue. I think we should go through this process initially between the negotiations that have been mandated by the Federal Telecommunications Act to try to determine the appropriate timing of the marketplace, but I think that after we have gotten to a certain point where we can see what, in fact, is going to occur on a competitive level at the timing, that we may have to come back to the Committee with other updated recommendations.

SENATOR CIESLA: Thank you very much, Mr. President.

Senator Bubba, do you have a question?

SENATOR BUBBA: Yes. A follow-up on that, Commissioner. With respect to the rates for -- you know, maintaining that rate until, I think,

the year 1999 that you referred to, wasn't that related to the Legislature funding fiber optics throughout the State?

MR. TATE: I have Michael Gallagher here, our Director of Telecommunications, who will fill in the blanks if I leave something out here. Essentially, under the Telecommunications Act, there were certain expectations that were derived from that Act that the State Legislature believed would be committed to by Bell Atlantic. Part of the commitments were in the Alternative Plan of Regulation that they would freeze certain telephone services. A number of those services were frozen until January 1, 1996, but the one that still remains frozen was the basic telephone service.

Currently, our telephone service is about \$9.18 when you include Touch-Tone charges into that. The nearest states are about \$10.50, and they go as high as \$22.00, \$23.00 in New York. So there, we are really at the lowest end of the spectrum. That was important to the Legislature back when they passed the Telecommunications Act of 1992.

The question that the Board and, I think, this legislative Committee are going to have to determine is whether or not competition opening up in all of these areas, will it bring, in fact, the benefits of lower prices, or do we need to maintain a commitment to what is already the lowest established price for basic telephone service?

The telephone companies -- the local exchange carriers -- will tell you that that is below cost, those prices, and that, in fact, there are subsidies built into other services that are supporting that low charge, and that competition, when it comes in on those other services that are supporting that lowest charge, may, in fact, go away, therefore making it impossible for them

to commit to or remain with keeping that basic telephone service as low as it is.

One of the things that the Board has to do -- and the Federal Telecommunications Act mandates this -- is determine whether or not there is a need for a universal service fund, that is, a fund contributed by suppliers and providers into this marketplace, where we need to keep certain of our telephone services affordable for all of our residents and constituents. That may include a service fund -- a universal service fund for basic telephone service, but this has not been finally decided.

But the expectations of the Legislature, I think you were correct, Senator, revolved around that rate and also revolved around the commitments to Opportunity New Jersey, that is, capital investment to provide a state-of-the-art telephone infrastructure.

SENATOR BUBBA: Thank you.

SENATOR CIESLA: Senator Gormley?

SENATOR GORMLEY: Have you had occasion -- this might cross-reference the boom we are looking at right now-- Did the Department of Transportation look at the value of State rights-of-way as they are tied into certain telecommunications issues?

MR. TATE: I am not aware of that.

This is Mike Gallagher, Director of Telecommunications.

MICHAEL P. GALLAGHER: At the time the Federal Act was being negotiated, there was an indication in there that the rights-of-way had value, and the Department of Transportation and the Board of Public Utilities

filed with the Senate Committee to look into that. That is incorporated, and those rights-of-way are reserved to the states.

SENATOR GORMLEY: Do we have any idea of the value of those rights-of-way?

MR. GALLAGHER: The Department of Transportation is looking into that. We don't have that number in front of us, no.

SENATOR GORMLEY: I think we would like to look at that, okay?

Do you have guesstimates of what it might have said?

MR. GALLAGHER: On what?

SENATOR GORMLEY: Do you have any ideas, broad-range numbers of the value of those rights-of-way?

MR. GALLAGHER: No, not off the top of my head.

SENATOR GORMLEY: Do we know if there is any interest from any competitors in the telecommunications field? Did they require regarding those rights-of-way?

MR. GALLAGHER: Yes, there is much interest.

SENATOR GORMLEY: Okay, fine. Well, that can either pay for the Trust Fund for transportation or education. If we give those rights-of-way, we will move right along. We got that cleared up.

You mentioned the word "broadband." Excuse me, I am not familiar with all the technology.

MR. TATE: Sure.

SENATOR GORMLEY: Is that similar to digital, because there are digital auctions going on right now, aren't there?

MR. TATE: Yes. Broadband services means, basically, high-speed delivery, video interactive services; that is, you can have video interaction in terms of communications over telephone wires. That requires technology which involves digital fiber optics, digital compression, in order to condense information -- tremendous amounts of information -- in order to recreate the video over those circuits.

SENATOR GORMLEY: My understanding is that digital would mean cheaper cellular telephone communication. That is allegedly what will occur.

MR. GALLAGHER: The broadband services that we are mentioning deal with things like VCR quality, picture, for interactive (indiscernible), for instance. The cellular that you are referring to-- There are three different technologies on cellular, one of which is a digital. Then there are different ways of handling a digital.

So, yes, it will eventually get into what are called personal communications networks -- PCNs or PCSs. That should drive the cost down for those, because--

SENATOR GORMLEY: Are we monitoring the auctions that are taking place in Washington on this?

MR. GALLAGHER: We are aware of the auctions. We know what is going on. We know who are buying them in the State and what is going on there, yes. So monitoring would be the correct word.

SENATOR GORMLEY: I believe there was an auction for minority participation. Is that correct?

MR. GALLAGHER: Yes.

SENATOR GORMLEY: They were encouraging minority participation.

MR. GALLAGHER: Yes.

SENATOR GORMLEY: Let me go into something else. It sounds like the preamble of the bill. You mentioned schools and hospitals in terms of making sure they were networked.

MR. TATE: That's right.

SENATOR GORMLEY: Is there teeth in that, or is that just preamble language?

MR. TATE: No, there are teeth.

SENATOR GORMLEY: Can there be a savings to hospitals and schools in terms of the process that we are going through right now? Are they included as partners so there is a focus of delivery? When I say "hospitals," you know, we look at the two-- Let's call that health care. We are looking at schools and health care. Heaven knows, every week we deal with both sets of those issues.

I would assume the intent was that this boom translates into cost savings in terms of education and health care. Was that the intent of that language?

MR. TATE: Yes. The bill -- and, Mike, you can fill in on this-- In prescribing a new definition for universal service, they are leaving it up to the states to determine how they think there should be contributions made to keep the affordability of this connection of schools, libraries, and hospitals into the network without having to pay market prices. That is, how can they get these services in the most cost-effective and efficient manner?

The Universal Service Fund is an issue that we and the State are going to have to look at. We have already taken up, through the Telco/Cable Task Force, that the health care area and the education area are areas that are right for providing cost efficiencies through telephony, through interactive video services, and high data transmission, and how to work on administrative efficiencies with hospitals, and how to lower operating costs for schools.

Going along with that is the idea that we are not trying to have those institutions have to pay regular market prices. In fact, in New Jersey, we have been promoting and there have been off-tariff rates proposed -- discount tariff rates proposed already for interconnection of (indiscernible) for certain schools here in the State with companies.

SENATOR GORMLEY: Well, we could accelerate those discounts tied to stock options and executive salaries, couldn't we?

MR. TATE: I think that might be a more appropriate question, Senator, for some of the other persons coming up to testify.

SENATOR GORMLEY: I just offer it as a suggestion so we could all share simultaneously.

Thank you.

SENATOR CIESLA: Thank you very much, Senator Gormley.
Senator Baer?

SENATOR BAER: Thank you.

In your statement, you referred to quite a number of determinations that the Board is going to have to make, when and under what conditions companies can enter each other's markets -- a whole long list of different determinations to be made.

It would be very valuable, I think, to the Committee if you could provide the Committee, in the very near future, with a detailed listing of all these different determinations, not only the major categories, but subcategories, where there are subcategories and determinations are of a more complex nature. I think it is very important for us to understand, as clearly as possible, the things that you are going to be looking at, as well as also it would be valuable for us to have information on your schedule, timetable, time range, whatever, so we know which things -- not only the sequence in which things are likely to occur, but the time frame. You made reference to time frame in some other regards. I think it is going to be very important for us to have that so we can consider whether or not that affects the sequencing or time frame in which we, the Committee, are going to be looking at these things.

It would also be valuable if you could provide, along with this information on determinations -- that sounds a little cyclical -- but on those things that you need to determine in terms of future determinations you are going to target, because I assume there are some issues where you may not have decided whether or not you are going to reach determinations.

Likewise relative to this, I think it is going to be valuable for us to have a breakdown not only on those things which are initial determinations, or judgments, or decisions, or actions which need to be taken in one form or another, but also those which would be required subsequently to be taken periodically.

MR. TATE: Senator, may I just address that for a second?

SENATOR BAER: Certainly.

MR. TATE: We will be able to provide you and the Committee with a critical path list of all the functions that we have to perform over the next nine months for making determinations on local competition. We will, as I indicated in my opening remarks, also be making some announcements in June about the local toll market and the time frame in which that would open up. We will overlay, so that you can see when the relative markets can become open.

The third point would be the long distance market. That comes into what you just asked for: What are the determinations that have to be made in order to allow for competition in that marketplace? There is a 14-point checklist which is mandated by the Federal Telecommunications Act which guides the states through those determinations on which issues have to be checked off before the FCC can determine that there should be competition in the long distance market.

We will be able to provide you with that pretty quickly, because we prepared those materials. We just didn't bring them today.

SENATOR BAER: Thank you. The critical path is always a very valuable tool to see it all charted out--

MR. TATE: Right.

SENATOR BAER: --with the interrelationship of the different steps and the time frame for everything, or if it slips out, each thing will affect the other.

Your mentioning the 14 steps is also valuable. That type of information we would like to have, as well as even where there is not a statutory requirement, like those 14 steps, if you know the method or

procedure that you are going to follow and there is some sort of logical or analytical procedure in making some of these determinations, it would be valuable for us to know what that is. Maybe, to some degree, that would be shown in the charts, maybe to some degree not.

MR. TATE: Well, Senator, I will be the first to admit that this entire process, even though it may have a road map to it, is a very difficult one to read and predict. My suggestion would be that this Committee has certain legislative support help, and I think members of the Board should take these materials and sit down with the members to explain to them exactly how these things will happen and trigger one after the other, because there are a lot of variations.

Just to give you one very short example, the Federal Telecommunications Act has mandated that from the day that a competitor or a provider wishes to come in and compete on the local market, that provider would file a petition with the company whose market they want to compete in. There are roughly 270 days which are laid out for a final determination to reach an agreement on competition. But in between all of that, there are a number of milestones which have varying dates as to whether or not the two parties are successful in negotiation, or whether or not they have to come to the Board for arbitration, and whether or not the FCC, when it makes its ruling this August about the very standards that it wants to impose on competition -- whether there are any things that they will do then which will make the process any different.

We will give you the best road map we can, but I think it is more than just giving you documents. We would really have to sit down with some

people to explain to them what the variations would be, but we would be very glad to do that.

SENATOR CIESLA: That is a good suggestion. We will have Peter contact your office, Mr. President, in order to accomplish that, so that perhaps Peter can provide a summarized view on a closer basis to the individual members of the Committee.

SENATOR BAER: That's good.

A couple of other things I wanted to ask about: You make reference on page -- I think it is on page 3, yes -- to "deploying services to all New Jersey communities -- urban, suburban, or rural -- at relatively the same time, regardless of geographic location, population demographics, or ethnic or racial makeup. The Board needs to carefully determine how best to go about doing this."

I want to ask a number of questions related to this. Obviously, my questions certainly do not go to the references of ethnic or racial makeup, which certainly shouldn't be a factor in a determination so far as one thing ahead of another. But I am concerned as to what is included in the reference to population demographics. It would seem to me that the strong position New Jersey has in this whole field is partly related to our population demographics, to the fact that we are an unusually densely populated State. Perhaps another thing that has a bearing is that we are a rather unusual market. We pay a price for being a densely populated State which we experience when we go to work each day, and in some other ways with property taxes, etc.

But I wanted to know whether this, in any way, would mean that the more densely populated areas might enjoy some competitive advantage because of the market factors associated with that, and the accessibility, or because of the lower costs in providing infrastructure; whether this means that operations in more densely populated areas would be held back until service could be provided everywhere at the same time.

I realize this could be interpreted many ways, and that is not necessarily what is intended, but I would like to hear your understanding of that, as well as to what degree this is spelled out by the Federal law and what degree of latitude do we have.

MR. TATE: Well, what I was referring to here, Senator, was essentially that -- and it goes back to my comment before about when you had a monopoly marketplace -- the provider of that monopoly marketplace had an obligation to service all of the ratepayers, and I have to use that term, as opposed to customers. Customers, to me, are people who have a choice. Ratepayers are consumers who do not have a choice.

When a monopoly operates, the Board of Public Utilities has the statutory responsibility of making sure that in their obligation to serve, they provide the same level of service, or that an equitable service is deployed throughout, universally, for all of its people.

In competitive markets, there are no such requirements. The idea of competition is that the companies want to maximize their profits. The idea of a social obligation is somewhat less than market forces. Therefore, companies determine, based upon their profit margin and their costs, where

they want to sell services, where they can maximize those profits, theoretically. That is an economist's point of view about a marketplace.

I think we in this State have the continuing responsibility -- the Board of Public Utilities has a continuing responsibility to provide these new services, these new benefits of competition on as universal a basis as possible, because you are absolutely right, Senator, servicing a community that is densely populated, as opposed to servicing a community which is sparsely populated, is a lot more cost effective. It is cheaper. It is cheaper. If we had to go through and define costs, and then put a price based upon costs, people in the rural part of South Jersey might have to pay a lot more than the people in North Jersey, if it was based purely on costs.

So there is a major concern that we have when these markets change that there isn't a tremendous upswing in pricing in areas where they have to deal with a profit margin based upon cost. So we wanted to indicate here that during the course of our proceedings, and also in looking at universal service funds, how do we maximize the deployment of these new services and infrastructure to all citizens and to all communities, so that they will get the benefits of interactive video services, high data transmission, high quality telephone services, where they can have their hospitals receive these kinds of advanced technology, where they can certainly have their educational systems in schools receive these kinds of advanced deployed technologies as well.

If there is a cost factor involved based upon demographics, you know, we want to try to neutralize that so that all citizens can have and share in these benefits. So this is something that the Board has to be very cognizant of when it shifts from a monopoly marketplace, where there is the statutorily

imposed obligation to serve, to an open market, where competitors and providers can come in and say, "I will provide to those who can buy my services, who can afford my services. I may tier the quality of my services based upon the pocketbook."

SENATOR BAER: I understand, I think. In other words, what this means then is that that type of universality would be something that would be more likely to apply to things that are considered basic services which are important to virtually any family or user. But if we are talking about something that is of -- that is not related to basic quality of life, that might be regarded as either a frill or might be regarded as something that would enable a business to function more competitively than another business, we are not going to be requiring the urban areas to be subsidizing the rural areas, so that the advantages that would come from greater density, in normal competition, would be eliminated from the urban areas, are we?

SENATOR CIESLA: Mr. President, if I may and, Senator, if maybe we could maybe wrap up on this one question and area, this is the last call for answers.

MR. TATE: Okay. Senator, certainly in the current system of a monopoly franchise, the telephone companies would claim that there are areas that subsidize each other based upon varying costs to deploy services, but keeping that level or the tariff rate level for everybody.

In a competitive marketplace, the idea that those subsidies would have to go away are market driven forces on pricing. What comes on our doorstep, as a Board of Public Utilities and as a State government, is, if those

subsidies have to go away in a competitive marketplace, does that then bring an adverse impact, a rate shock to a certain segment of the population?

And, if so, does it threaten what we would consider to be what you then describe as basic telephone, or basic communication services? That is what we have to define:

What are the basic communication services that we think every New Jersey resident should have here as a minimum?

Does it include a certain access for their educational system?

Does it include a certain access for their health care system?

Doesn't it go to a certain basic service into the home?

So those are questions that I felt needed to be raised. I don't have the answers for you here, but I wanted to raise these issues with this body, because I think it is something that you should be thinking about. We should all take a very hard look at going forward.

SENATOR CIESLA: Thank you, Mr. President. Thank you, Senator.

Before you go, Senator Gormley promised me two yes/no questions. So we are going to limit you.

SENATOR GORMLEY: Two yes/no questions. Okay.

Have you had meetings with the Department of Education to set the priorities that they feel are essential in order to negotiate the educational goal under the Telecommunications bill?

MR. TATE: The State Department of Education was part of our Telco/Cable Task Force in the Education Subcommittee. They have provided

us with input, but we were awaiting a report from the Department of Education on technology.

SENATOR GORMLEY: Okay.

MR. TATE: That report has not been issued or delivered as of yet that I know of.

SENATOR GORMLEY: Okay.

MR. TATE: That was the report that was going to give us the priorities.

SENATOR GORMLEY: Okay. So we still have to get those priorities.

MR. TATE: That's right.

SENATOR GORMLEY: Second question: Have you had similar meetings with the Department of Health and Human Services so that we could set our goals in terms of delivery of medical services?

MR. TATE: We have gone and had meetings with them. They have also been an invited participant in the Telco/Cable Task Force Subcommittee on Health Care Services. But, again, that Department, you know, has not come out with any definitive priorities. We believe we can develop them over this year before we get to the Universal Service Fund proceedings.

SENATOR GORMLEY: Thank you for the answers.

One comment: It would appear that I would want to have those priorities now before I do anything. I would not want to wait a year, because a lot is going to happen in the interim.

Thank you.

MR. TATE: Thank you, Senator.

SENATOR CIESLA: Thank you, Senator.

Mr. President, Senator Baer has asked that if there is a literature list of items that you put out that might help to explain any of these matters, could he, and the Committee-- Perhaps we could transmit them to Peter, so that we could distribute them to the Committee.

MR. TATE: That would be fine.

SENATOR BAER: Just one additional word: What I am interested in is whatever comprehensive literature list you have and are putting out periodically, so that we can look over it and determine, you know, what might be of interest.

SENATOR CIESLA: Thank you very much, Mr. President. We appreciate your taking the time to come before the Committee.

The next individual who will testify is Mr. Jack McMaster, President, Atlantic States AT&T Corporation, who is here to answer, I think, the question that Senator Gormley raised before.

R U S S E L L M A Y E R: Chairman Ciesla, I am Russ Mayer, AT&T. AT&T thanks you and Senator members of the Special Committee for granting AT&T the opportunity to speak to you this morning.

I have with me, as you just noted, Jack McMaster, who is the President of the Atlantic States Region for AT&T. Just to give you a frame of reference, our Atlantic States Region corresponds with the Bell Atlantic states. Also with us is John Langhauser, who is the General Counsel for the Atlantic States Region. John is here because of his eminent knowledge of the Telecommunications Act, inasmuch as he worked for AT&T on the

development of the Act down in Washington, D.C. We expect to leave some questions, and John will be our expert on that.

Without further ado-- Jack?

JACK McMASTER: Thank you, Russ.

SENATOR CIESLA: Jack, welcome.

MR. McMASTER: Good morning, Mr. Chairman and Senators. Thank you very much for this opportunity to speak to you. I hope to be able to deliver some remarks about what we think is happening with regard to the Telecommunications Act here in the State. I would be delighted to take any questions following those remarks.

But before I begin my remarks, let me just address some of the aspects of the AT&T restructuring here in New Jersey. Briefly, I think everyone is familiar with the January 2 announcement that said that 40,000 jobs nationwide and 6000 to 7000 jobs here in New Jersey would be reduced. It is important to understand that reducing jobs does not mean reducing employees. In point of fact, we are doing everything that we possibly can to begin to take positions that are being eliminated as a result of the restructuring of the corporation and making the new positions that come available from all the growth that is happening inside this industry -- whether it be wireless growth, growth of Internet services, or growth in expanding into local services -- available to our employees.

SENATOR CIESLA: Excuse me, Jack, for one second. I am having a difficult time hearing.

If there are people in the room who are having a conversation, would you please take it outside?

Sorry to have to interrupt, Jack, but we couldn't hear.

MR. McMASTER: That's all right.

While we and the press focused on the 6000-7000 number, we clearly did not clarify an important fact. The 6000-7000 number represented the number of jobs to be phased out, not the number of employees who would be laid off. In fact, the number of laid off employees will be far smaller.

Of the 6000-7000 number, that was in New Jersey, which is now believed by us to be 6000, 2500 folks accepted voluntary packages to go to other businesses or to retirement. We are confident that over the remaining course of the year, a number of the other 3500 remaining employees will be reassigned to new jobs in our emerging businesses.

Now, these are still unfortunate layoffs. Any layoffs, in our opinion, are unfortunate, but in every business environment, a company of our size has the opportunity to both create jobs and restructure jobs. We hope we will be able to find opportunities for those employees inside our own businesses.

Moreover, we believe that the restructuring of our corporation is absolutely critical to our success in the telecommunications industry as it changes as a result of this historic legislation.

Let me be clear: We want to take advantage of all the opportunities that the Telecommunications Act offers. We intend to grow. That means, because of all the companies that President Tate referred to, AT&T is the only company that is headquartered in the State of New Jersey. If we grow, we grow in the State of New Jersey. Since the Telecommunications

Act is the focal point of our discussions today, let me turn now to some of the key provisions of the Act itself.

The Act was signed into law in late February, and it will revolutionize the industry. It is not just about creating competition in the familiar markets among familiar companies. It is a green light to launch fundamental change in the players and in the market itself. Thanks to the Act, consumers are going to be able to choose more than just their long distance company. They are going to be able to choose their local service company and will have choices for long distance, cable, Internet access, and services that none of us have even thought about yet.

To just turn my attention to the notion as to which is more efficient in serving customer markets, a monopoly model that is required to serve, or a competitive model that is competing for customers, let me just offer that AT&T offered its WorldNet service in February of this year to all consumers in New Jersey, in all parts of the State, in all parts of the region, and we are about to announce, in July -- we have announced, and will be offering in July, our direct TV/direct broadcast satellite television service, with digital quality television signals available to everyone across the State.

At the same time, more than 50 million consumers, average households, will change long distance carriers in 1996. In the State of New Jersey that means that when the sun sets today, 4000 New Jersey consumers will have changed long distance companies. They don't need any help in deciding for themselves what long distance carrier is best for them, and pricing in this industry has dropped by more than 60 percent since 1984.

I am familiar with what President Tate describes as a 45 percent rate increase since 1992 in the State of New Jersey. What I would offer simply is that he is looking at the list rate in the industry, and not the rate that customers are paying. More than 75 percent of the consumers in the State of New Jersey are on some kind of a rate plan offered by MCI, Sprint, AT&T, or the 497 other communications companies that are offering long distance services in this State. All of them are paying much less today than they were paying since 1984 and any other calendar year that you care to benchmark off.

The years of debate that went into this Act are not about what I just described. They are also about the principle of choice. The benefits of competition -- lower prices, better quality, and innovation -- come when companies are forced to compete for customers. The monopoly model says that they get to choose customers, how to serve them, when to serve them. We think the competition is better for consumers, good for businesses, good for the company, and good for New Jersey.

Let's talk about the specifics of how the law would change the industry. The Act comprehensively establishes the conditions that are needed to foster local service competition, and requires that the development of competition is a precondition to the provision of in-regional long distance services by the operating Bell companies. I think it is a very important fact to understand that Bell Atlantic is now permitted to offer long distance in any territory where it does not have a monopoly, and has, indeed, filed in states like South Carolina and North Carolina. So they are into the long distance industry prior to AT&T or any other company being allowed into the local industry in their territory.

In particular, the law requires the removal of any barrier to entry into the industry by prohibiting State rules that would distort competition. I say today that 4000 New Jerseyans would change long distance carriers before the sun sets. There won't be 4000 people in this country change their local carrier all year long.

In passing the Telecommunications Act, Congress recognized that if competition for local service is to become a reality for consumers in all areas of the country, we must have resale of the local service. Accordingly, the Act requires that the Bell companies and all the inherent local companies resell their services to offer residents and business customers the ability to have new competitors at wholesale rates.

The Act requires independent Telco companies to offer wholesale prices to emerging competitors on the basis of what their retail rates are, less costs they don't incur, such as billing and marketing costs, operator services costs, and other things the carriers will do themselves. These costs will be picked up by those carriers.

Mr. Chairman, let's put the issue of resale into perspective. Resale is not unique in this industry. Bell Atlantic is entering the long distance industry in the States of North Carolina, South Carolina, Illinois, and Texas, by reselling the networks of Worldcom and Sprint. The vast majority of the long distance companies in the industry today, where 500 companies operate, including MCI and Sprint, resell the services of each other where it is more economically efficient to use each other's networks. The Bell companies have already announced contracts with companies, as I have described.

The Telecommunications Act also takes the incumbent local telephone companies and requires them to make available to potential competitors separate elements of their networks at cost base rates, and to allow these competitors to interconnect with those networks on fair, reasonable, and nondiscriminatory terms, so that they can begin to build their own networks and facilities. It is much the same as the way competition got started in the long distance industry.

In addition to these duties, the local telcos are required to negotiate interconnection agreements in good faith with any carrier that requires interconnection. Any party to such negotiations can request the Board of Public Utilities to intervene by ordering arbitration after the parties have been negotiating for 135 days. The Board must approve all agreements reached either through voluntary negotiation or the arbitration process.

Only after the Board has approved at least one such interconnection agreement with a carrier that has its own network serving both residential and business customers, and a Bell company such as Bell Atlantic meets its competitive checklist -- which President Tate referred to -- and the FCC finds that Bell Atlantic's entry into the long distance market is in the public interest, can the FCC authorize that Bell's entry into the long distance market in its own territory.

In addition to the interconnection and access agreements, the competitive checklist includes a number of key elements such as requirements assuring that customers won't have to change their phone numbers to switch carriers, and that customers who choose a competitor can presubscribe to that

carrier so they don't have to dial extra digits to get to that carrier, much the same as it happens in long distance today.

These are the real elements, the key elements of the Act. If they are effectively implemented, the Act opens a \$90 billion local service market to competition for the first time. Once it becomes clear that local service competition is welcome in the State, there will be significant new capital investment by the new entrants, including AT&T. As entrants construct the needed facilities, offer local service, and conduct the necessary research and development to support the new technologies that will be put into place to keep them competitive, there will be a positive impact on employment levels, especially in New Jersey, where nearly all of AT&T's corporate headquarters are located.

And, Mr. Chairman, new investment is already beginning. AT&T is finalizing plans which could result in additional investment of up to \$100 million over the next 12 to 18 months in New Jersey alone by building new facilities to prepare for our entry into this market. In addition, AT&T has recently announced agreements with a number of competitive access providers with a number of different businesses to enable us to use their network to connect to local New Jersey businesses and consumers. At least one of these providers is planning to serve businesses already in Central New Jersey.

We have seen the development of new jobs. As I mentioned earlier, many of the employees we have who are in jobs that will be reassigned will even find new jobs in part of these new businesses that did not exist in AT&T even a year ago. New opportunities are being found in our wireless services organization, our Solutions business, our Internet services, and in my

own organization, the Regional Services Organization, which is launching AT&T's entry into the local market here in New Jersey.

A competitive leading edge telecommunications market will help New Jersey to retain existing businesses and launch new ones. New investments in wired and wireless networks will afford the citizens of New Jersey greater choice in their home communication, information, and entertainment services. Improved uses of technology in our schools and in our homes will benefit children, increase our workforce's competitiveness, and generally improve the quality of work life in New Jersey.

No state is better qualified or more favorably positioned than New Jersey. Our State's R&D strength -- as exemplified by Bell Labs, the new AT&T Labs headquartered here, the David Sarnoff Research Center, and Bellcore, the central research lab for the Bell companies -- is world renowned. With the presence of AT&T's headquarters, Lucent Technologies headquarters, and the presence of other operators in the State, such as the cable and telephone companies, the industry players are well represented, and small and advanced technology companies are coming along all the time.

Moreover, New Jersey has an articulated State policy to become a leader in telecommunications. Governor Whitman made clear, soon after her inauguration, that one of the goals of her administration was to make New Jersey the telecommunications mecca of the nation. We have been serving, with the Governor, on Prosperity New Jersey with President Tate, because it is our view that New Jersey is already the Silicon Valley of the telecommunications industry in the nation, and needs to be accelerated as we move forward.

Central to positioning New Jersey as a leading communications mecca for businesses and citizens is the creation of an environment where competition and not monopolies flourish. In the last several years, the State has taken several important steps to establish itself as a leader in telecommunications initiatives. The Governor's Economic Plan Commission recommended in 1995 that the State pursue policies that will encourage competition.

Following up on the Commission's recommendations, which included the creation of Prosperity New Jersey, President Tate established the Cable/Telco Task Force, which he referred to earlier, to assist the Board in developing stronger telecommunications public policy strategy that fosters competition. That Task Force has been aggressive in bringing together industry participants. In 1994, the Board issued an order permitting access code competition for local toll calls. That essentially says you have to dial extra digits, but you can actually dial around Bell Atlantic's monopoly rates.

The Board also initiated a Notice of Investigation to solicit comments on local service competition. And, last December, the Board ordered and now has pending a proposed rule to permit customers to preselect their own local toll carrier so they don't have to dial those extra digits. Unfortunately, the approval date of the rule has been delayed. We are anxiously awaiting the opportunity to offer customers choice to use AT&T and other companies as their local toll service provider.

These efforts have clearly identified the pertinent issues that must be resolved to bring competition to New Jersey's telecommunication markets. Nothing is more important to New Jersey's future than open and meaningful

competition. Indeed, because New Jersey is AT&T's home State, New Jersey citizens stand to realize a disproportionate benefit from the establishment of competition that fosters growth in AT&T.

With the work done by President Tate and the Board of Public Utilities, New Jersey is poised to move into a leadership position in the industry. It is prepared to ensure that the promises of the Telecommunications Act become an early reality for New Jersey consumers and businesses -- and for the State. But, to reap the promises of the information age, we need to act now and we need to act fast.

Other states are moving quickly. For example, AT&T and others are now authorized to provide local service in 19 states, and we have interim wholesale rates for the resale of local services by Bell companies in eight states. It is a curiosity that we have none of that authority in any state where Bell Atlantic currently operates. And eight other states are far enough along in their implementation of one-plus free subscription for us to take orders from those states. Again, that is not happening in any state where Bell Atlantic operates.

AT&T, along with its coalition partners in Advantage New Jersey -- including MFS, MCI, TCG, and the New Jersey Cable Telecommunications Association -- has pressed for progress in moving New Jersey toward the leadership role it deserves. As might be expected, Bell Atlantic, seeking to preserve its monopoly status for as long as it can, has tried to slow the result of change. If the matters pending before the Board are resolved quickly -- which we believe they will be -- and in a manner consistent with the competitive principles embodied in the Act, New Jersey can be among the first

tier of states to realize the consumer, capital spending, and employment benefits of a competitive telecommunications market.

As the largest private employer in New Jersey, AT&T, after restructuring -- the new AT&T -- will still have 136 employee locations, with 31,000 employees and a payroll that exceeds \$1.8 billion. The total contribution of the new AT&T to the State economy tops \$3 billion. Over 189,000 shareholders and 18,000 retirees reside in this State, and our total pension payments amount to over \$262 million. AT&T has contributed to 1000 separate and distinct New Jersey charities and nonprofit organizations over the last 10 years, and our 1995 charitable contributions exceeded \$4 million. AT&T's purchases within the State exceeded \$1.8 billion last year, with a significant percentage -- well over 25 percent -- going to minority- and women-owned businesses.

The recent restructuring of AT&T into three stand-alone, sharply focused businesses should enable the new AT&T to swiftly respond and effectively exploit the opportunities created by a competitive marketplace, with the resulting infusion of new capital, new jobs, and new competition in the State. Mr. Chairman, I have already mentioned the contemplated multimillion dollar investment in New Jersey. There will be more.

Recent initiatives within AT&T show that there is much more opportunity for growth. We recently dedicated an entire New Jersey facility to our AT&T solutions business, a business primarily focused on meeting the increased demand for services that enable the business customer to outsource to AT&T all or a portion of the operation and maintenance of its data operations.

AT&T's wireless services business obtained a number of PCS licenses which will enable us to expand the footprint of our existing wireless network beyond its current state. In conjunction with that initiative, AT&T has established a facility in Mount Olive which, over time, will bring over 700 manufacturing jobs to this State. There has been an unprecedented response to AT&T's WorldNet Internet access offer, with 150,000 customers registered in the first nine weeks of the service, and over a half a million customers asking for that service to date. Our local services organization is also certain to grow if local competition is permitted.

In truth, and in conclusion, no one knows what shape the future of the telecommunications industry will take, or just how businesses and markets will align. But I think it is clear that competition is good for AT&T, it is good for the State of New Jersey, and it brings many benefits closer to the people of this State.

Thank you for your time.

SENATOR CIESLA: Thank you for your comments, Mr. McMaster.

In the interest of time, I am going to ask if the Senators have any questions. If so, perhaps we can keep them to a minimum so that the rest of the witnesses will have time to testify.

Senator Bubba?

SENATOR BUBBA: Not at the present time.

SENATOR CIESLA: Senator Gormley?

SENATOR GORMLEY: What is your gross in New Jersey?

MR. McMASTER: Our gross revenue?

SENATOR GORMLEY: Yes.

MR. McMASTER: I would have to get back to you with the exact figure, but I would put the number somewhere in the \$3 billion to \$4 billion range.

SENATOR GORMLEY: So \$4 million in contributions for \$3 billion or \$4 billion is not exactly spectacular. Okay.

The \$100 million in investment, how would that be done? Would that be done on a cash flow, or would there be a dead offering to do that, or that is normal improvements, a lot of which would take place -- the \$100 million in improvements?

MR. McMASTER: The \$100 million of new capital spending is to enter the local business.

SENATOR GORMLEY: How would you handle that? Could you do that on a cash flow, or do you finance to do that?

MR. McMASTER: I'm sorry. We would do that out of the normal operations of the business.

SENATOR GORMLEY: So you could do that with a regular cash flow?

MR. McMASTER: Yes.

SENATOR GORMLEY: Okay. Then the topic, citizens have asked-- You know, it has come up before, and I don't want to belabor it. You brought up those people who will be laid off. I accept your answer and the strategy you are undertaking. But the question that does come up is the bonuses at the upper level. How do you answer that?

MR. McMASTER: I don't think there is any relationship between the compensation our Chairman is paid and what has happened with the restructuring of the company as a result of the Telecommunications Act being passed. The compensation of our Chairman is guided by the Board of Directors, which is charged with the responsibility of ensuring that AT&T has the proper level of compensation to attract the right employees.

I believe that issue is in the hands of the Board. I think if you look at the compensation of executives in the telecommunications sector, as most recently published in "Fortune" magazine, you will find that our Chairman does not crop up in the top 25.

SENATOR GORMLEY: Are any of those others in the top 25-- There is still a degree of monopoly, given the fact that Bell couldn't compete in the area. I think the question comes up when you have an industry, or a business such as yours, that has the appearance of some level of monopoly. Would you say that that is a distinguishing characteristic from some of the other businesses?

MR. McMASTER: No, sir, I would not. I do not believe there is an element of monopoly anywhere in the businesses in which AT&T competes. As I mentioned earlier, 50 million customers in this country changed their long distance carrier this year. That has no characteristic of monopoly from what I consider.

Since divestiture, AT&T's prices and the prices of all the long distance companies have dropped 60 percent. If we are a monopoly, sir, we are a very poor one.

SENATOR GORMLEY: Well, I just think if you look at the situation in this region, you look at the fact that Bell, in terms of being able to compete, can't compete. There are others in long distance service, but would it be fair to say that you had a larger head start than the others?

MR. McMASTER: Well, yes. We invented the industry, so I presume that gives us a head start, although, as I have said today, the 4000 New Jersey customers who are going to choose their new long distance carrier today -- none of them care very much whether or not we go first, or MCI, or Sprint goes first.

SENATOR GORMLEY: I would like to get from Mr. Tate his version of the increase and your version of the decrease, so that I can compare the two. I think both of you are dealing in good faith.

MR. McMASTER: Yes.

SENATOR GORMLEY: I do not mean to infer that. It is just that when you hear striking differences like that, you do like to compare the rationales.

Thank you.

SENATOR CIESLA: Thank you, Senator Gormley.

Senator Baer?

SENATOR BAER: No, thank you.

SENATOR CIESLA: Thank you very much for your testimony, Mr. President.

MR. McMASTER: Thank you, gentlemen.

SENATOR CIESLA: The next individuals to testify will be from Bell Atlantic-New Jersey, Andy McDevitt and Jon Spinnanger.

A N D R E W R. M c D E V I T T: Good morning, Mr. Chairman and members of the Committee. Thank you for inviting us to address this Committee concerning the Federal Telecommunications Act of 1996. The formation of this Committee is both timely and an ideal way for the Legislature to focus on what needs to occur to assure that New Jersey realizes the promise of communications industry reform. The Federal legislation has ushered in a new era in the communications industry that brings with it tremendous opportunities and significant challenges to the industry and its customers, and to New Jersey.

The law represents a reworking of the 61-year-old National Communications Act. Following four years of debate, the legal rules governing telephones, radio, broadcast television, cable television, and other communications businesses have been entirely rewritten to allow market forces to “regulate” a competitive communications industry.

For Bell Atlantic, the Federal Act has created new opportunities. Immediately, the company can enter long distance markets outside its region. I would like to make a comment in that connection. Bell Atlantic doesn't have much of a presence in places like Texas, where Southwest Bell has been operating for years, nor is it a very common name in places like South Carolina. On the other hand, I think it is fair to state that AT&T has immediate nationwide recognition wherever it may exist.

Once certain requirements are met to assure that the local telephone service market is open, Bell Atlantic is free to enter into the State's long distance market. To this end, Bell Atlantic has begun negotiations with

competitive local telephone service providers to foster competition in the local telephone service market.

In our wireless business, the Federal legislation frees us from restrictions on providing long distance service and gives us the same freedom of operation as our competitors. For our video business, the bill preserves the right we won in the courts to provide video programming in our own territory.

Bell Atlantic's competitors won the ability to enter the local telephone service market in advance of Bell Atlantic being able to apply to enter the long distance market. They also won expanded competition in the short distance toll market.

Predictably, the Act contains benefits and drawbacks for each industry segment. The single overriding point of the Federal law is to open markets and to create a level playing field that allows competition for local service, long distance, cable, wireless, and video. The old monopoly system is officially ended.

This is an extraordinary step forward and will give customers what they have wanted -- a choice among a variety of full-service communications providers offering services at affordable prices. The Federal law gives all providers the flexibility to offer their products and services in new ways. By removing artificial barriers to competition, the Act will further benefit consumers by accelerating the delivery of new communications technology to the public.

For consumers to enjoy the benefits of competition in all communications markets, the key is to open all markets to competition as quickly as possible and in a manner that is equitable to all competitors. New

Jersey's local telephone and long distance companies, cable companies, and government agencies need to work aggressively to achieve this goal and bring life to the Federal Act.

Although the Act establishes a new regulatory framework for the communications industry, it looks to the states to implement competition. New Jersey's regulators will play a pivotal role because how they implement competition and carry out the intent of the Act in New Jersey will determine how New Jersey's economy, citizens, and communications employees are affected.

As required by the Federal Act, the New Jersey Board of Public Utilities -- the BPU -- will approve interconnection agreements and can be asked to mediate or arbitrate negotiations between local telephone companies and competitors. In approving these agreements, the BPU will also set wholesale rates for the resale of local telephone companies' services by competitors as well as rates for providers to interconnect with each other's networks.

These are difficult and sometimes contentious issues for the BPU. The resolution of these matters will impact major competitors and the health of New Jersey's lucrative communications industry. Accordingly, the final outcome must be balanced carefully to avoid financial harm to the State's economy.

We are confident that the BPU will make prudent decisions. It has been progressive in its regulation and, in advance of passage of the Act, has taken bold steps to facilitate competition in New Jersey. For example, the BPU approved Bell Atlantic-New Jersey's plan for alternative regulation to allow the

company to compete more effectively and accelerate its investment in sophisticated technology for its public network.

Today, a number of facilities-based long distance companies and over 100 resellers compete with Bell Atlantic and offer customers alternatives for tG49
their short distance toll service.

While implementation details are left to State regulators, the timing for the onset of local telephone service competition is not. In passing the Federal Telecommunications Act of 1996, Congress set the timing for the advent of competition.

Under the Act, agreements between Bell Atlantic and competing local telephone service providers must be concluded no later than nine months after the date on which Bell Atlantic received the request from a competing provider to enter negotiations for an agreement to provide local service. Several providers filed requests on March 1, 1996 and will be free to enter the local market by year's end. If agreements between the parties are successfully negotiated and do not require arbitration by the BPU, local telephone service competition could begin even sooner.

I would like to turn it over, at this point, to my partner, Jon.

J O N P. S P I N N A N G E R: Prior to passage of the Federal Telecommunications Act of 1996, the BPU had already begun the process of deciding local telephone service competition issues by forming a Cable/Telco Task Force to examine the emerging competition in the communications industry, and by undertaking a proceeding to determine how to introduce local telephone service competition in New Jersey. With the Act in place, the BPU

can now assure competition and its benefits to New Jersey's consumers by unleashing full competition in all markets in an equitable manner that takes into consideration the fact that Congress set the timing for introducing local telephone service competition.

To guide State regulators in their implementation of the Act, the Federal Communications Commission will conduct numerous rule makings on a plethora of issues ranging from interconnection to national universal service policy to cable television reform.

Thus, the Act will be implemented by New Jersey's Board of Public Utilities guided by rules established by the Federal Communications Commission. The Legislature's role to assure -- as the Federal Act envisions -- that State policy is grounded on the principles of the competitive marketplace, is threefold:

First, to support equitable competition.

Second, to let regulators manage the myriad of technical issues associated with emerging competition.

Third, to assure fair competition in New Jersey by enacting legislation to advance tax parity among competitors. Tax policy is appropriately a legislative matter and not within the purview of the Board of Public Utilities.

The competition in all communications markets unleashed by the Federal Act requires a uniform tax structure for all competitors. This is not the case under New Jersey's current tax system where only local telephone companies pay the State's franchise/excise, or "gross receipts," and local tangible personal property taxes. Other providers of communications services

pay the corporate business tax. Although Bell Atlantic's tax burden under the gross receipts tax would, in effect, be equivalent if this tax were replaced by the corporate business tax imposed on other companies, Bell Atlantic also pays approximately \$101 million in business personal property tax directly to the municipalities -- a tax not paid by other providers of communications services.

Bell Atlantic is pleased that the State, through the work of its Task Force on Energy and Communications Tax Policy, has recognized this disparity. We fully support the proposal announced by Treasurer Clymer and Board of Public Utilities President Tate to replace the gross receipts tax paid by local telephone companies with the corporate business tax. Bell Atlantic looks to the State to address the remaining disparity -- the local personal property tax -- in the near future.

New Jersey's 6 percent sales and use tax should also be reassessed as it applies to customers of communications services, because customers of these services are not taxed equally.

In addition to the very critical part State and Federal government agencies will play in moving forward to carry out the intent of the Federal Telecommunications Act of 1996, Bell Atlantic is aggressively working to meet the requirements for bringing full and fair local telephone service competition to New Jersey's consumers. We look to our industry partners to do the same.

We would be very, very happy to answer any questions you may have.

Thank you very much.

SENATOR CIESLA: Jon, thank you very much for those comments.

Be assured that the tax issue is one that we are aware of and certainly will be discussing, not at this particular venue, but at a different time and place. We hear you loud and clear. Obviously, that is an essential part of competition.

Are there any questions from the members? Senator Gormley?

SENATOR GORMLEY: The fiber-optics bill that we passed-- I am just curious. What was the value of Bell Atlantic stock on or about the time we passed the fiber-optics bill, and what is the value now -- the gross value of the company? How much has it gone up?

MR. McDEVITT: Senator, I don't know offhand. It has gone up and dipped and gone back up a few times. I don't know--

SENATOR GORMLEY: I would just be curious. If we could--

MR. McDEVITT: I will try to get you those two points.

SENATOR GORMLEY: If you could provide that, I would be curious. I think the fiber-optics bill we did at the end of 1991, the beginning of 1992.

MR. McDEVITT: That is correct.

SENATOR GORMLEY: I would just be curious about its overall impact, not just in terms of the valuation we talked about, but whatever other information you could provide on it sometime. Okay?

MR. McDEVITT: Sure.

MR. SPINNANGER: Certainly.

SENATOR GORMLEY: Thank you.

SENATOR CIESLA: Thank you, Senator.

Any other questions? (no response)

Thank you very much, Andy. Thank you, Jon. We appreciate the time and the information.

The next group of individuals will be Charles Bartolotta, New Jersey Cable Telecommunications Association, along with Nancy Becker, to be followed by Paul Kouroupas, Teleport, to be followed by Allen Freifeld, MCI.

Good morning.

CHARLES BARTOLOTTA: Good morning, Mr. Chairman and members of the Committee. My name is Charlie Bartolotta. I am the President of the New Jersey Cable Telecommunications Association, the NJCTA. I thank you very much for giving us the opportunity to speak with you this morning.

We represent 41 cable systems throughout the State. This morning I will be speaking in that capacity, as well as on behalf of Advantage New Jersey-The Telecommunications Coalition for Choice.

A few weeks ago, the NJCTA, AT&T, MCI, and two alternative access providers, or competitive telephone providers, those being Teleport Communications Group, TCG, and MFS, announced the creation of Advantage New Jersey. We created this unprecedented alliance to advocate for effective local telephone competition in New Jersey.

As the Committee is aware, the passage of the Telecommunications Act of 1996 ushered in a new era of competition on the national level. If New Jersey is going to take advantage of this opportunity, our State must act now to realize the promise competition holds for individual consumers, businesses, and the State's economy.

While the Telecommunications Act removes the legal barriers which prevented the cable industry and other Advantage New Jersey colleagues from providing local telephone service, certain steps must be taken by the FCC and our State's Board of Public Utilities in order for competition to become a reality. The FCC recently issued proposed rules which outline the issues to be addressed in the order to implement the Act's "competitive checklist," the actions which must be undertaken by incumbent local exchange carriers such as Bell Atlantic in order for competitors to provide economically viable telephone service.

While the FCC action is important, Advantage New Jersey stresses that nothing precludes the BPU from establishing rules which will allow local competition to take place in our State. In fact, we believe it is critical for New Jersey to move ahead as quickly as possible if we are going to gain a competitive edge in the area of telecommunications.

At this point, 28 states have already taken direct action to establish local telephone competition within their borders. Twenty-two states have authorized a specific competitor to provide local exchange service. Five of New Jersey's closest neighbors -- New York, Pennsylvania, Connecticut, Massachusetts, and Maryland -- have authorized local exchange competition. Given that these states have taken the necessary regulatory steps to establish local competition, they have the advantage of attracting and retaining telecommunications investments. We want that advantage to come to New Jersey.

Consumers in these states will experience the benefits of competition sooner than in states that delay action. In the competitive

environment, telecommunications providers will have to earn customers by providing them with the best prices, product, and services. As some of the other members of Advantage New Jersey can discuss in detail, the price of long distance calling has decreased by more than 60 percent since deregulation brought about competition in that sector.

To briefly discuss the cable industry's role in future telecommunications, I want to state that cable is a ready, willing, and very able provider of advanced services. Over the next five years, the cable industry expects to spend \$14 billion in new technology investments nationally. This will enable cable systems to deliver telephone and other services in competition with existing providers. Throughout the country and here in New Jersey, cable companies are upgrading their networks with a mix of fiber-optic and coaxial cable. This hybrid fiber/coax design improves signal quality and increases reliability, and also the system capacity for multimedia services.

At the system I manage in Central New Jersey, TKR Tri System, headquartered in Piscataway, the 160,000 customers we serve are benefiting from the \$110 million network rebuild which is introducing 700 miles of fiber-optic cable. The industry's broadband platform makes cable the optimal medium for transmitting vast amounts of information, including data, graphics, and video, at high speeds. Moreover, the evolution of the two-way transmission capability of high speed data access facilitates the introduction of telephone service over this hybrid fiber/coax infrastructure.

Just a week ago, one of our members, Adelphia Cable, in Toms River, demonstrated their technical ability to provide local telephone service over its cable plan. Around the country, cable companies have been certified

as local exchange providers in 40 markets, including, notably: Rochester, New York, Baltimore, Maryland, Boston, Massachusetts, Cincinnati, Ohio, Dallas, Texas, Chicago, Illinois, and San Francisco, California.

On behalf of the NJCTA and Advantage New Jersey, I would like to close by thanking Board of Public Utilities President Herb Tate for convening the Cable/Telco Task Force he just discussed earlier today. As you review the Task Force report, you will see that most of the parties involved agree on the major issues, which must be resolved to move ahead with local competition. Unfortunately, one of the key players, that being Bell Atlantic, has a different point of view. Members of Advantage New Jersey are concerned that their dissenting position on these issues could slow down the process, which must move forward as rapidly as possible.

We ask you to support the expeditious establishment of local telephone competition in New Jersey.

Thank you very much.

SENATOR CIESLA: Thank you very much, Charlie, for your comments. We appreciate the information.

Any questions from the members? Senator Gormley?

SENATOR GORMLEY: To condense what I think is the supposition you have, if the competition were open on local service, it is your prediction that the rates would drop?

MR. BARTOLOTTA: I suppose that competition, in many cases, allows rates to drop, yes.

SENATOR GORMLEY: So your thinking is that there is a greater likelihood of a drop in rates with the competition than without it?

MR. BARTOLOTTA: I believe that to be true, sir, yes, I do. I also think that the choice that can be provided to consumers is also an inherent benefit, that is, depending on what direction the company wants to take. They may not want to be the low cost provider. They may want to provide a service that has increased value to the consumer. They may want to be state of the art, in which case people would be willing to pay more for it.

SENATOR GORMLEY: The other states that allow the local service-- Mr. Chairman, I don't know who was used to compile this. Maybe Mr. Tate could-- If we could just have the information, once it has been opened, what rate impact there has been, to see what has happened on an individual state basis, to see if we can have a comparison -- to see those things that have opened up. I would like to see what has happened to the rates.

Thank you.

SENATOR CIESLA: Thank you very much, Senator Gormley.

Nancy?

NANCY BECKER: Mr. Chairman, if I may add something, we distributed to you and your members a booklet that has come out of our national association that talks about future developments in the cable industry. It is hot off the presses. I would hope that when you have a chance, you would take a look at it. It really talks about the future of the industry.

Thank you.

SENATOR CIESLA: Thank you very much, and thank you, Charlie. We appreciate your time.

Our next speaker will be Paul -- I am going to murder your name -- Kouroupas, Vice President of Regulatory and External Affairs, Teleport. If you

have a written statement, Paul, I am going to ask you to please summarize, rather than read it, then submit the actual copy to us for the record.

PAUL KOUROUPAS: That is no problem at all. I will be brief.

My name is Paul Kouroupas. I am with the Teleport Communications Group.

I want to take time at least this morning to convey to the Committee what TCG is doing in the State of New Jersey, because I think it is important that you understand that.

TCG is the nation's first and largest competitive local exchange carrier in the United States. We serve 48 major metropolitan markets across the United States, with all digital fiber-optic networks encompassing more than 5000 route miles of fiber-optic cable. Each TCG network is structured to meet the requirements of the community it services through a unique combination of technology, innovation, and local management.

TCG serves information-intensive businesses that critically rely upon access to local and long distance carriers, facts and data services, and other local telecommunication services. TCG provides security to its customers -- operational security -- through advanced network architecture, diverse routes, and redundant electronics. We also provide strategic security to these customers by not competing with them, as some of the other telephone companies do, or are planning on.

In the process, TCG has enhanced the local telecommunications infrastructures of more than 250 communities nationwide with advanced services for customers which demand technological innovations, superior responsiveness, and competitive pricing.

In New Jersey, TCG has been offering dedicated services to interexchange carriers and large, information-intensive businesses via a SONET-based network architecture comprised of over 240 route miles of fiber optics and sophisticated electronics. The SONET network is a state-of-the-art design which provides for maximum network reliability and security. TCG's network currently serves Bergen, Passaic, Union, Hudson, Somerset, Middlesex, Mercer, Morris, Essex, and Monmouth Counties, and we are constantly evaluating expansion plans in New Jersey. TCG is in the process of installing a state-of-the-art digital switch here in New Jersey, and on May 3, 1996 we filed tariffs with the Board of Public Utilities to attempt to offer competitive local exchange services in the State.

While all of this is good news for TCG and New Jersey, there are a number of critical issues which must be addressed which will impact our continued investment in the State's telecommunications infrastructure.

As I mentioned, our tariffs were filed, but have not yet been approved, and we cannot begin offering services and utilizing our investment to its full extent until these tariffs are approved. Additionally, TCG, as a local phone company, must interconnect with the existing phone companies in the State, predominantly Bell Atlantic, and therefore the Board must also oversee the process of ordering and implementing the interconnection arrangements which must be in place so that our customers can call their customers, and vice versa.

With that brief statement, I will leave it at that in the interest of time, and my comments are in the record.

SENATOR CIESLA: Thank you very much for your comments, Paul, on behalf of your company.

Are there any questions from the members of the panel? (no response)

SENATOR GORMLEY: Thank you for your testimony.

SENATOR CIESLA: Thank you for your testimony.

The next individual to testify will be Allen Freifeld, from MCI. Again, Allen, please summarize your testimony and hand your written testimony in for the record.

Allen will be followed by our final speaker, Gary Ball, from MFS, so if you could be prepared, please.

ALLEN M. FREIFELD, ESQ.: Thank you.

My name is Allen Freifeld, and I am the Regional Counsel for MCI in the Mid-Atlantic Region. I do not have prepared remarks. I was going to speak from notes, so I will be brief, and hopefully clear.

We appreciate the opportunity to speak to you on what is a historic point in the evolution of the local telecommunications industry from a monopoly model to a competitive model. I would just note that this drive is being pushed by Federal and State action. It is not voluntary, obviously, by the incumbent monopolistic (indiscernible), but requires procompetitive and proactive government policies to make it happen, and it has happened in a number of places.

MCI is now providing local service in Baltimore, Philadelphia, Pittsburgh, New York, and about 10 or 11 other cities coast to coast, so it is a reality in some places. MCI would welcome the opportunity to be a local

competitor in New Jersey, and we have urged the BPU to take the necessary actions to make that happen. We will bring the same energy and innovation to the local market that we have to long distance when those decisions are made.

But as you have heard this morning, competition doesn't just happen. The ground rules have to be established, and there are hundreds of difficult detailed decisions that have to be made. I have brought with me a copy of what is, in essence, a blueprint to making those decisions. These are MCI requirements for interconnection agreements with Bell Atlantic and other companies. It is the basis upon which we are negotiating with Bell Atlantic the many detailed terms and conditions which have to be made. MCI has vowed to make this public to anyone who would like to peruse it. I will make a copy available to Mr. Manoogian for your perusal, if you like.

MCI has a track record of making sound public policy recommendations at the Federal and State levels which ultimately become public policy. Indeed, it is MCI's policy recommendations which are the reason why the long distance market is competitive today, and we would like to see the local market follow that lead.

So we have urged the BPU to move ahead with the important decisions, starting with granting MCI's application to provide long distance service. Once this hurdle is cleared, we can proceed with our plans to deploy a telephone switch in northern New Jersey, which will be approximately a \$10 million investment, hopefully in the later half of 1996. This investment will be in addition to our current presence in New Jersey, which includes about

1000 employees and over a \$12 million investment in fiber optic and other facilities.

We have done a lot in New Jersey, and we would like the opportunity to do more, but the necessary decisions have to be made. Once those decisions have been made--

You have heard about the benefits of competition, and I won't belabor the point, but they include lower prices, and direct investment in new hiring by new entrants, because when you are a new entrant into a new market, you have to staff up. You have to hire field engineers, sales representatives, switch technicians, none of which are in place now. So this will happen by all new entrants.

Finally, we would expect the rapid introduction of new and innovative services, the kinds that customers do not have now, but that they will want.

Lastly, I would like to touch very briefly on the process that should be used, by the BPU in particular, in creating this competitive environment. We have proposed everywhere that the process be very open, with information flowing into the public domain for all parties to see. We have suggested that status reports on negotiations should be filed with the BPU so that they know what parties are negotiating and exactly what is going on. Creating this competitive environment is a matter of public policy. It is not a private matter to be negotiated by two or three telephone companies. It is a matter of utmost public interest, and we would like it to be a public open process.

Thank you very much for your time. I would be glad to answer any questions.

SENATOR CIESLA: Thank you very much, Allen.

Are you one of the companies that filed on March 1?

MR. FREIFELD: I'm sorry?

SENATOR CIESLA: Are you one of the companies that filed for competition on March 1?

MR. FREIFELD: I'm not sure of the date. We filed an application in New Jersey in October of 1995.

SENATOR CIESLA: I was just curious, that's all.

Are there any questions? (no response)

Thank you, Allen. We appreciate it.

Our last witness will be Mr. Gary Ball, from MFS.

Again, Gary, please summarize.

GARY J. BALL: Thank you.

My name is Gary Ball. I am Director of Regulatory Affairs for MFS Communications Company.

I appreciate the opportunity to quickly present our views on the Telecommunications Act and local telephone competition in general.

MFS, like TCG, is one of the original competitive access providers. We began providing service in the mid-1980s. We initially began serving the needs of the business community for highly reliable fiber-optic-based communication services. Over the past few years, MFS has aggressively broadened its service offerings and can now provide a complete range of services to its customers, including private lines, long distance, local, and Internet access services. But we can only provide the full range of these

services in those states where regulators have permitted and encouraged competition.

The Advantage New Jersey Coalition was formed on a common ground among a diverse group of carriers, that common ground being that we would all like to begin providing competitive alternatives for local exchange services as quickly as possible.

While the Telecommunications Act has deferred many of the broad issues to the FCC, the State regulatory commissions have been given tremendous responsibilities in terms of implementing the Act. MFS continues to urge the Board to expeditiously begin to implement competition by immediately authorizing those carriers that have already asked to provide service in New Jersey and by mandating interim interconnection arrangements between carriers. This type of aggressive activity would be clearly consistent with the goals and the intent of the Act.

MFS is currently certified to provide service in 16 states, including the neighboring states of New York, Pennsylvania, Connecticut, and Maryland. MFS is actually providing local exchange service today to thousands of customers in New York, and is also providing service to customers in Baltimore, Boston, Chicago, and California. MFS has invested millions of dollars in switching and transmission facilities in New Jersey already. Unfortunately, much of this investment is being used to support services provided to customers in other states, and will remain that way until MFS is legally authorized to provide service and the appropriate cocarrier arrangements are in place to actually allow MFS to provide service.

Thank you.

SENATOR CIESLA: Thank you very much for your testimony.
Thank you for keeping it brief. We appreciate both.

MR. BALL: Sure.

SENATOR CIESLA: That concludes our meeting today. Our next meeting of the Committee will be announced at a future date, when we will examine some of the more substantive issues, the tips of which we were exposed to today.

Thank you very much.

(MEETING CONCLUDED)