



AT&T Kansas
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Room 505
Topeka, KS 66603

**Kansas House Committee on Utilities and Telecommunications
Testimony of Steve Hahn, President - AT&T Kansas
January 16, 2013**

Good morning, Mr. Chairman and members of the Committee. My name is Steve Hahn. I am the President of AT&T Kansas.

Today I'd like to give you a brief summary of AT&T's operations and presence in the state and then, at the Chairman's request, provide an overview of the communications industry and touch on the history that impacted where our company stands today.

AT&T Overview

AT&T is a communications company providing wireless voice and internet services in the U.S. and across the globe, and wired voice, internet and TV services in 22 states in the U.S. We provide all of these services here in Kansas.

Wireless: With the nation's largest 4G network, AT&T is also a leading provider of wireless voice and wireless internet service, with 4G coverage reaching 288 million people in the United States. Internationally, our service is available in hundreds of countries around the globe.

TV, Internet and Voice: We've deployed a fiber-based, IP (Internet Protocol) network called AT&T U-verse. On this network, we offer a suite of services that includes TV, internet and voice. We also offer voice service and wired internet access over our traditional circuit-switched network throughout many parts of Kansas and include advanced TV through a partnership with satellite provider DirecTV.

Business: Our suite of business communications services is one of the most advanced in the world. We provide services to all segments – from home offices to Fortune 500 companies.

Kansas:

- We employ about 1,700 people in Kansas and our payroll in 2011 topped \$130M
- Our operations generated more than \$140 million in taxes in 2010
- We spent more than \$631 million on goods and services purchased from suppliers based in Kansas in 2011

Brief History

AT&T has a long history in Kansas and we trace our roots back to the inventor of the telephone, Alexander Graham Bell. Bell's "talking device" was a curiosity and novelty when he patented his first telephone in 1876.

After 137 years of technology advancements, countless inventions and innovations in communications and connectivity have literally changed the world and improved the human condition. AT&T has been at the forefront of many of these inventions and innovations over this long history. We're proud to have eight Nobel Prizes in our heritage and even today, our scientists and engineers register an average of two patents per day.

We trace our Kansas lineage back to the Missouri and Kansas Telephone Company, which was formed in Kansas City in 1882 - six years after Bell patented his telephone.

In the early days, policymakers deemed it prudent to divide up territory and grant monopolies to companies, so those companies could better recover costs as this new service was built out. In the monopoly era, regulation served as a substitute for competition.

Over time, many began to view the monopolies as a hindrance to innovation as telephone service became more ubiquitous and other companies began developing new technologies that could provide new ways of communicating.

Deregulation - Divestiture

The divestiture of the Bell System in 1984 was a major step toward encouraging competition in the telephone industry.

Divestiture created seven Regional Bell Operating Companies for local telephone service and opened long-distance service to competition. Our own Southwestern Bell, at the time, was one of those regional companies.

The former AT&T parent company pursued the "long-lines" long-distance business. Competition in long-distance soon flourished, while local monopolies remained.

The next frontier for competition was to break up the monopolies in the local marketplace. The passage of the 1996 Federal Telecommunications Act did away with the local monopolies of the regional Bell companies.

Deregulation – 1996 Federal Telecommunications Act

The 1996 Federal Act and the Kansas Telecommunications Act that followed continued the process started by Divestiture - transitioning an industry of regulation and monopolies to one of competition and free markets.

Like divestiture, the '96 law also had special regulations for the local Bell companies designed to allow competitors to enter their markets to offer voice services.

Early competitors included cable television companies, which already had infrastructure in place, and with some investment, learned how to provide a compelling “triple-play” that included phone and internet service along with TV.

Competition may have been slow out of the blocks in the late '90s, but I would submit to you that more innovation has happened in the communications industry in the past decade than happened in the previous century, all of which has benefitted Kansas consumers and businesses. Today, many companies offer communications and connectivity services in Kansas through a multitude of technologies and devices, many with new and innovative business models. A very simple but impactful statistic tells the story: from 2000-2012, AT&T residential landline subscriptions dropped 77%.

In general, three important components contributed to this explosion in innovation. Public Policy Changes, Technological Advancements, Consumer Preference and Demand:

1) Public Policy:

Public policy played a big role in stimulating competition. The '96 Telecom Act was designed “to promote competition and reduce regulation.” Companies like AT&T remained more heavily regulated while new market entrants were lightly regulated.

With monopoly barriers removed and light regulation for new entrants, free market enterprise did what free market enterprise does best.

Operating under light regulation, wired and IP-providers engulfed what had been a monopoly, wired-voice industry for more than 100 years.

2) Technological Advancements:

Network providers (cable and telecom) invested heavily to upgrade their networks with fiber optics to carry vast amounts of data traffic in an IP-format.

In the IP world, voice communications is just one of many applications that can “ride” on the network in addition to data and video. Many cable and telecom companies offer IP-based voice service of their own while still more, like Skype, Vonage or Magic Jack, utilize any existing internet connection to provide voice service.

Similarly, wireless phone usage exploded with stiff competition among nationwide and regional providers, to the point that in late 2011, the total number of wireless service subscriptions exceeded the population of the U.S.

What began as a voice-only service expanded to text messaging with limited data use and now includes full internet access at faster and faster speeds for video, data and voice on feature and application-rich smartphones.

For many consumers and certainly for most business customers, mobile voice and internet has quickly moved from a “nice to have” tool to a must-have necessity.

3) Customer Preference:

The evolution of the internet, the expansion of advanced networks and the proliferation of mobile applications now allow consumers to communicate by a number of means, including video chat, texting, email, social media and good old voice conversation; as a result, the very notion of “local service” or “long distance” is unfamiliar to a large number of consumers. New generations of consumers will never own a landline for voice service, but instead will use wired or wireless IP-based services.

Investing for the Future

Today’s communications industry is driving a new economy – one that is based on IP broadband networks and wireless technology. One in which speed, mobility and instant connectivity are driving virtually all sectors of our economy - agriculture, health care, manufacturing, financial services and many more.

The companies building and investing in these IP broadband and wireless networks, including AT&T, operate on a level-playing field – and are largely free to design and build these networks without unnecessary regulation. And invest we have. During the depths of our recent recession, when many industries were struggling to stay solvent or were sitting on capital dollars hoping economic conditions would improve, the communications industry was pouring money into infrastructure and service at a rate of more than \$60 billion a year.

I’m proud to note that over the past five years, AT&T has invested more in America than any other public company.

AT&T Investment in Kansas

From 2008 to mid-2012, AT&T invested \$850 million in our wireless and wireline infrastructure in Kansas, creating jobs, fueling economic growth and bringing advanced services to our customers. Much of this investment focused on deploying and enhancing the services our customers want most – broadband and mobility.

- Thanks to passage of the Kansas Video Competition Act in 2006, AT&T today offers U-verse services to more than half a million customer locations.
- After the Legislature passed forward-looking policies in 2011, AT&T launched a major initiative to expand mobile internet service across Kansas. In a two-year period, we made a 10-fold increase, now providing mobile internet service across more than 44,000 square miles of Kansas.
- Late last year, we closed a deal to acquire a wholesale wireless provider with significant operations in Kansas. Over the next year, we’ll be integrating and updating that network with the goal of providing a best-in-class wireless experience to even more parts of Kansas.

- Last November we announced Project Velocity IP (VIP) – a three-year \$14B investment plan to significantly expand our wireless and wireline IP broadband networks across the country.

The '96 Telecom Act's goal of reducing regulation on traditional landline service has seen varying degrees of progress around the nation, with many states having already removed the old monopoly rules to create an environment that is conducive to investment by AT&T and a broad array of communications companies.

Since 1996, the Kansas Legislature has made sensible updates to state telecommunications policy to reflect changes in the marketplace, technology, and customer demand. While much progress has been made, monopoly-era regulations still remain that divert AT&T's resources and investment into the legacy network services that Kansas consumers are abandoning in droves, when public policy should be encouraging investment in the new networks and services customers demand.

I look forward to visiting with you more about policy reform in the coming weeks, and I am happy to stand for questions at the appropriate time.