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BILL NO.:	**Senate Bill 813** **Telephone Companies – Exemption from Prior Approval of Public Service Commission – Franchises, Securities and Financing**
COMMITTEE:	**Finance**
HEARING DATE:	**March 20, 2012**
SPONSOR:	**Senators Astle and Pugh**
POSITION:	**Oppose**

Senate Bill 813 proposes a major change to the regulation of local telephone services in this State. The Bill would exempt local telephone companies from obtaining prior approval of the Public Service Commission ("Commission") before taking certain actions affecting a franchise or a right to a franchise held by a regulated telephone company, as well as actions related to securities and financing. Specifically, regulated telephone companies would no longer need Commission approval to:

- Assign, lease or transfer a franchise or a right under a franchise
- Enter into any agreement or contract that materially affects a franchise or a right under a franchise.

- Abandon or discontinue the exercise of a franchise or a right under a franchise.

In effect, in contrast to regulated electric and gas companies, the local telephone companies could sell or transfer their franchise and assets to any other company, or simply abandon current obligations to provide local telephone service, without any oversight or opportunity to ensure the protection of residential and business customers of the local company. The Office of People's Counsel (OPC) opposes this Bill, and urges an UNFAVORABLE report.

Verizon Maryland, Inc.[1] is the historic provider of local telephone service throughout almost all of Maryland. Local telephone service is subject to Commission regulation, while interstate, wireless and Voice over Internet Protocol (VOIP) telephone service are not subject to Commission regulation.[2] The Commission has the authority to regulate a telephone company through "alternative forms of regulation," and in fact has done so since 1996. The approach adopted by the Commission has loosened price regulation significantly, and allowed the designation of "competitive services" that are not price regulated by the Commission. However, even as this alternative regulation authority has allowed the Commission to respond to technological and other changes in the telecommunications arena, the Commission has retained its full authority to ensure that customers of local telephone service are provided safe, reliable and

[1] Formerly Bell Atlantic – Maryland; formerly C&P Telephone.
[2] These services are subject to federal regulation by the Federal Communications Commission (FCC). PUA § 8-601 et seq. expressly exempts VoIP service from Commission regulation. Complaints about these services may be filed with the Consumer Protection Division of the Office of Attorney General or the FCC.

reasonably priced service. Just as important to customers, Maryland law has continued to require oversight over any attempts by the local company to sell, transfer or abandon its franchise and other assets.

This is not a hypothetical concern for customers. Verizon has already sold its local telephone network in 18 states.[3] The sales are frequently accomplished through the use of a "Reverse Morris Trust," a mechanism that provides tax advantages to Verizon, while loading up the new company with significant debt. In states like New Hampshire, Maine and Hawaii, the "new" local telephone company has soon experienced significant financial difficulty or even ended up in bankruptcy proceedings. Not surprisingly, serious declines in service quality have accompanied these financial problems.[4]

This pattern of asset sales makes clear that Verizon Communications, the parent of Verizon Maryland, Inc., has a strong interest in shedding local telephone service and its state regulatory obligations to customers throughout the country. It is only a matter of time before it decides to do the same in Maryland. Given the likelihood of a proposed network assets sale in Maryland in the future, and a pattern of financial difficulties and decreased service quality after asset sales in other states, OPC believes that it is critical to maintain Commission regulatory authority over any such proposed sale, transfer or abandonment of

[3] Verizon first sold its network in Hawaii to the Carlyle Group (2005), followed by sales of its Vermont, New Hampshire and Maine networks to Fairpoint Communications (2008). In 2010 alone, Verizon sold its assets in another 14 states to Frontier Communications.
[4] See "*A New Era in LEC Transfers: Safeguarding Wireline Telecom Service*" (NRRI, Helen Golding, November 2009) at http://www.nrri.org/documents/317330/1d02c14f-a293-4219-881f-e5aef20f38e1.

local telephone service. The Commission could then conduct full evidentiary proceedings to determine whether the proposed new owner would be in a financial position to handle the responsibilities of a local telephone company, and whether the sale, transfer or abandonment would be in the public interest. In such proceedings, the Commission would have an opportunity to consider the financial qualifications, viability and likely performance of the buyer, acquisition and transition costs and the impact of significant debt on future service and investments, as well management, operational and technical qualifications of the buyer. The Commission could then decide whether to authorize the transaction and if so, whether conditions should be imposed to protect the customers relying on local telephone service.

Given the importance of local telephone service to residential and business customers and to the local economy, it is important to maintain regulatory oversight over any actions, including sale, transfer or abandonment of the local telephone network, that affect the exercise of the franchise and the provision of reliable and reasonably priced service to local customers.

For these reasons, OPC urges an UNFAVORABLE report on Senate Bill 813.