

**SENATE COMMITTEE ON BUSINESS AND COMMERCE  
TESTIMONY OF RON McMILLAN  
REGIONAL VICE PRESIDENT, TIME WARNER CABLE - TEXAS  
ON BEHALF OF TIME WARNER CABLE AND THE TEXAS CABLE ASSOCIATION  
INTERIM CHARGE HEARING  
AUGUST 14, 2012**

**State of Telecommunications Market**  
(Impacts of SB 980 and costs/benefits of proposed full deregulation)

Mr. Chairman, Members of the Committee, I am Ron McMillan, Regional Vice President of Time Warner Cable Texas, which serves customers in 365 Texas communities stretching from El Paso to Beaumont and from Wichita Falls to the Rio Grande Valley. I also serve on the Board of the Texas Cable Association, for whom I am testifying today.

The cable industry employs more than 112,400 Texans directly and indirectly and has a \$15.9 Billion economic impact per year. TCA member companies serve 4.2 million customers in more than 1,000 Texas communities and have paid more than \$1.5 Billion in franchise fees to local governments over the past 10 years.

Time Warner Cable and the Texas Cable Association appreciate the opportunity to speak to the Committee today regarding the status of the Texas telecommunications market and how it has changed due to the passage of SB 980 in 2011. As requested, I will also address the relative costs and benefits of fully deregulating the Texas telecommunications market.

The Telecommunications Market in Texas

The Texas telecommunications market today is competitive and diverse. We have many types of service providers who offer a wide variety of services using different types of networks and technologies. Wireline, wireless, VoIP and satellite telecommunications services are available to Texas consumers. Communications companies want to provide their services in Texas because of its size, large populous and welcoming business environment. To their credit, the Texas Legislature and the Public Utility Commission (PUC) have encouraged the development of new services and technologies, promote regulatory parity among providers and protect consumers resulting in a vibrant telecommunications marketplace in Texas.

Of course, public policies and regulations can always be improved and SB 980 went a long way to further this goal. It ensured retail Voice over Internet Protocol services or VOIP, including the local and long distance services provided by cable companies, will be free of unnecessary regulatory constraints. It also recognized the importance of fair competition, by directing the PUC to re-look at the public subsidies that are provided to the incumbent telephone companies who compete with other providers in the marketplace and gave the Commission full authority to make adjustments to such subsidies that it believes are in the public interest. I won't go into the details of the Universal Service changes that could be brought about by SB 980 now – I know this Committee intends to address those in October – but I do want to note how critical the USF subsidies issue is to the cable industry. We believe that government subsidies – and any other regulations that give one provider an advantage or impose a burden on another – have no place in a truly competitive marketplace.

By ensuring that its non-regulatory policies regarding VoIP services did not impact the PUC's authority over wholesale services or its ability to resolve carrier disputes, SB 980 recognized the vital importance of the carrier-to-carrier relationship in a competitive market. The networks of all providers are interconnected with one another and, to varying degrees, they often buy wholesale services from each other. Thus, in order for providers to serve their own customers timely and well, wholesale services, particularly those offered by ILECs, must remain subject to regulatory oversight. And providers must have a fair and impartial forum where disputes between them may be resolved.

SB 980 also lessened unnecessary regulatory burdens on telecommunications providers, especially ILECs that have deregulated some of their exchanges. For example, it eliminated Provider of Last Resort obligations in deregulated areas, gave most providers the ability to post their tariffs on their websites thereby avoiding burdensome tariff filing requirements at the PUC, eliminated ILECs' retail quality of service and reporting requirements in deregulated markets, and made the test for deregulating a market easier for ILECs to achieve.

While SB 980 has been in effect for less than a year, and some of the proceedings implementing it are ongoing, we believe that the bill made many significant improvements to the laws and regulations that will strengthen the operation and competitiveness of the Texas telecommunications marketplace. The PUC has had the difficult task of implementing most aspects of SB 980 and has done a good job under trying conditions and short timeframes. We want to emphasize how important the role of the Commission is to the success of the market and we appreciate the commitment of the commissioners and their staff to working with industry stakeholders on important issues, to adopt regulations that encourage – not hinder – the ability of all providers to bring the benefits of competition to Texas consumers.

#### Consideration of the Costs and Benefits of Market Deregulation

The relative costs and benefits of market deregulation must be evaluated in the context of the entities subject to regulation and the needs being protected by current regulations. In the Texas telecommunications market, deregulation has occurred over a period of 25 years, beginning with certain forms of retail pricing flexibility for certain services and features. Today, most of the large and mid-sized ILECs in Texas enjoy a significant amount of freedom from regulation.

Texas consumers have benefited from the State's pro-competitive policies, which can include different forms of deregulation, through lower prices, new and innovative service offerings and a wider choice of service providers. Even once a provider obtains significant deregulation of its retail services, however, some level of continued regulation is warranted, especially with regard to emergency services. Minimum standards and other regulations are necessary to ensure 24/7 availability of emergency services, e.g. 9-1-1 and similar services.

The deregulation of retail rates and services, however, should not be confused with the critical need for ongoing regulatory oversight of wholesale services and carrier-to-carrier relationships. Competition will falter if service providers are not able to obtain wholesale services at fair and reasonable rates and conditions. And, just as importantly, there must be a forum where providers can timely resolve their disputes with each other, many of which directly impact customers. Most providers are able to resolve their differences without PUC intervention but knowing that they can go to the Commission and receive a fair and impartial decision when business-to-business efforts fail is crucial to the success of the telecommunications market in Texas. Finally, as SB 980 recognized, permanent government subsidies, like the millions of dollars provided through the Universal Service Program and the obligation to be a

Provider of Last Resort have no place in a competitive market. They distort the operation of the market and hurt competition.

Thank you once again for your efforts and ongoing commitment to make Texas a thriving telecommunications marketplace.