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# DOMESTIC SATELLITE RATE INTEGRATION OF ALASKA, HAWAII, AND PUERTO RICO

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## HEARING

BEFORE THE

### SUBCOMMITTEE ON COMMUNICATIONS

OF THE

## COMMITTEE ON COMMERCE

## UNITED STATES SENATE

### NINETY-FOURTH CONGRESS

FIRST SESSION

ON

### S. Res. 318

EXPRESSING THE SENSE OF THE SENATE WITH RESPECT  
TO AUTHORIZING DOMESTIC SATELLITES PURSUANT TO  
THE COMMUNICATIONS ACT OF 1934

DECEMBER 9, 1975

Serial No. 94-52

Printed for the use of the Committee on Commerce



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# DOMESTIC SATELLITE RATE INTEGRATION OF ALASKA, HAWAII, AND PUERTO RICO

TUESDAY, DECEMBER 9, 1975

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON COMMUNICATIONS,  
*Washington, D.C.*

The subcommittee met at 10:45 a.m., in room 5110, Dirksen Senate Office Building, Hon. John O. Pastore (chairman of the subcommittee), presiding.

## OPENING STATEMENT BY SENATOR PASTORE

Senator PASTORE. The hearing will come to order.

Senate Resolution 318 and the committee's hearing today focus on the statement of the FCC, in its June 16, 1972 domestic satellite decision, that it would condition any domestic communications satellite authorization to a carrier serving Alaska, Hawaii, and Puerto Rico upon a requirement that within 6 months from the issuance of an authorization the carrier submit a specific proposal to integrate these three areas into the rate pattern for the contiguous 48 States.

The first general authorizations of domestic satellite systems were issued in September 1973, and the Commission advised authorized carriers to accomplish rate integration by March 12, 1974. That, of course, did not happen, and in fact, has yet to happen.

I wish to emphasize that neither this hearing, nor Senate Resolution 318 is intended to change existing law or announced FCC policy.

Nor, might I add, is the question of whether Alaska, Hawaii, and Puerto Rico should be integrated into the nationwide rate scheme at issue.

That was decided affirmatively by the Commission in its Second Report and Order in Docket No. 16495, in 1972.

The committee's sole purpose is to help clarify whatever ambiguity may have heretofore existed so that all the people of the United States may benefit fully from the advent of domestic satellite communications.

If there is confusion over what the Commission's policy requires, or if the Commission does not effectively implement the policy it has announced, regulatory delay is the result, and the consumer is denied the benefits of modern telecommunications technology.

As I have often said to the FCC, in connection with its regulatory responsibilities, that justice delayed is justice denied.

The Communications Act of 1934 directs the Commission to make available to all the people of the United States a rapid, efficient, nation-

Staff members assigned to this hearing: Joseph Fogarty, James Graf, and Nicholas Miller.

wide communication service with adequate facilities at reasonable charges.

As long as there is discrimination in rates and services for Alaska, Hawaii, and Puerto Rico, when the reasons therefore have disappeared, the requirements of the act are not being fulfilled.

The public, as so often is the case, loses.

The time is fast approaching when domestic satellite systems will become operational.

It is imperative, in my judgment, that the public, the carriers, and everyone concerned know exactly what is expected under the FCC's policy, and that the FCC insure its policy is implemented fully and in timely fashion.

Otherwise, it will perpetuate a situation which is unjust, and which may take years to correct.

The opportunity is here, and this committee wishes to do everything possible to assist the FCC.

Before calling on the witnesses, I shall ask my colleague, Mr. Inouye, if he has a statement to make.

Senator INOUE. Yes.

Senator PASTORE. The gentleman from Hawaii.

#### OPENING STATEMENT BY SENATOR INOUE

Senator INOUE. Mr. Chairman, I wish to thank you and the distinguished chairman of the full Commerce Committee for scheduling this hearing.

I will not take the committee's time discussing Senate Resolution 318, or explaining why I believe this hearing is so necessary.

I discussed both matters at length when I introduced the resolution, Senate Resolution 318 be included in the record. I also request that a chronology of domestic satellite developments, prepared at my request, be placed in the record.

I am mindful that many important issues compete for the FCC's time and attention.

To me, the ability of people in Alaska, Hawaii, and Puerto Rico to have available the same telecommunications services on the same rate basis as citizens in the contiguous 48 States is one of the most important issues.

It is also one whose resolution is not only long overdue, but in view of the FCC's history of regulatory lag, one which could remain unresolved for a long time to come.

As long as the present situation continues, consumers throughout the entire United States are denied the full benefits of modern technology. Those in Alaska, Hawaii, and Puerto Rico, of course, are especially victimized.

The still unsuccessful efforts of Hawaii since 1972 to obtain mailgram service, and the fact that Hawaii-mainland telephone rates can be almost three times the current rates between mainland States over the same distance, are but two examples of the discrimination that has historically existed.

I realize the FCC has of late been diligently trying to resolve the mailgram impasse. Nevertheless, I cannot help but feel the FCC must

share a good deal of the responsibility for the state of regulatory affairs which would permit such an impasse to develop.

When the Commission adopted its policy governing the establishment of domestic satellite systems in 1972, it said it would require that the advent of domestic satellite service be accompanied by the integration of all interstate services between the mainland and Alaska, Hawaii, and Puerto Rico into an enlarged domestic rate pattern.

As the Commission recognized, with the use of satellites distance was eliminated as a cost factor in telecommunications, and whatever justification therefore which historically existed for discriminatory rate treatment should, for the most part, disappear.

On the eve of this hearing the FCC has issued a memorandum opinion and order responding to a petition filed by the State of Hawaii to clarify the procedures to be followed by the domestic satellite common carriers in complying with the requirements of its domestic satellite policy.

If there ever was any doubt about what the Commission's policy specifically required of the common carriers seeking authorizations for domestic satellite systems that is, prior approval of integrated rates before a system can begin commercial operations—that doubt has now been eliminated.

Events since the FCC announced its domestic satellite policy on June 16, 1972, forces me to temper my optimism with restraint, however.

Although the FCC policy is almost 4 years old, none of the carriers proposing a domestic satellite system have filed the plan required by the FCC for integrating Hawaii into the nationwide rate structure.

The FCC has, I believe, been less than diligent in implementing its announced policy. Should further delay result in integrating Hawaii as a consequence, the public will once again be the loser. So, I would urge the Commission to pursue the matter with vigor.

Consistent with timely implementation of its policy requirements, I would hope the FCC will assure a reasonable amount of notice and time for interested parties, such as the State of Hawaii, to evaluate and respond to the rate integration plans which the carrier applicants must file with the Commission.

The FCC must insure that the rights and interests of the public are fully protected.

I wish to thank Chairman Wiley for appearing this morning, and I look forward with great interest to hearing his testimony as well as that of the other witnesses on this very important subject.

[The articles referred to follow:]

94TH CONGRESS  
1ST SESSION

# S. RES. 318

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IN THE SENATE OF THE UNITED STATES

DECEMBER 5 (legislative day, DECEMBER 2), 1975

MR. INOUE (for himself, Mr. FONG, and Mr. PASTORE) submitted the following resolution; which was referred to the Committee on Commerce

---

## RESOLUTION

Expressing the sense of the Senate with respect to authorizing domestic satellites pursuant to the Communications Act of 1934.

Whereas the Communications Act of 1934, as amended, directs the Federal Communications Commission to regulate communications by wire and radio so as "to make available, so far as possible, to all of the people of the United States a rapid, efficient, nationwide, and worldwide wire and radio communication service with adequate facilities at reasonable charges . . . ."; and

Whereas in its Second Report and Order (docket number 16495 (1972)) establishing the Nation's basic domestic communications satellite policy, the Federal Communications Commission stated that "With the availability of domestic satellites for communications between the mainland and Alaska, Hawaii, and Puerto Rico, distance should dramati-

cally diminish as an excuse or justification for the historic high-rate treatment that has been accorded to these services"; and

Whereas in that same report and order the Federal Communications Commission found that, "with the inauguration of satellite systems to serve the domestic communications requirements of all of the United States, there will be justification for integrating Alaska, Hawaii, and Puerto Rico into the established rate scheme for communications service applicable to the mainland"; and

Whereas in that report and order the Federal Communications Commission determined that it would be its policy to condition grant of an application for a domestic communications satellite system which would include service to Alaska, Hawaii, and Puerto Rico upon integration of these three points into the established rate scheme for communications applicable to the contiguous forty-eight States, and that no later than six months from the issuance of the authorization for such service, the authorized carrier must submit a specific proposal for revised rates for review and approval of the Commission prior to authorization for the commencement of service; and

Whereas in its Memorandum Opinion and Order (docket numbered 16495) reaffirming the above enunciated policy determination the Federal Communications Commission again stated that "the advent of domestic satellite service will be accompanied by the integration of all interstate services between the mainland and Alaska, Hawaii, and Puerto Rico into an enlarged domestic rate pattern"; and

Whereas the said applicants have not filed proposed tariffs reflecting the rates and regulations governing service to Hawaii, statements of how those rates and regulations comply with the Commission's policies, and economic data supporting such rates and regulations: Now, therefore, be it

1       *Resolved*, That it is the sense of the Senate that in ac-  
2 cordance with such previously announced policies the Fed-  
3 eral Communications Commission should take such action  
4 pursuant to law as is necessary in order to provide that the  
5 advent of domestic communications satellite service will be  
6 accompanied by the integration of all interstate services  
7 between the mainland and Alaska, Hawaii, and Puerto Rico  
8 into an enlarged domestic rate pattern.

[From the Congressional Record]

Mr. INOUYE. Mr. President, the resolution I am submitting today is cosponsored by Senators Pastore and Fong.

It expresses the sense of the Senate that the Federal Communications Commission take whatever action is necessary to assure compliance with its previously announced policy requirements governing the establishment of domestic satellite systems. In the matter of Establishment of Domestic Communications-Satellite Facilities by Non-governmental Entities, Second Report and Order, 35 FCC 2d 844 (1972), and Memorandum Opinion and Order, 38 FCC 2d 665 (1972).

In other words, Mr. President, this resolution merely expresses the sense of the Senate that the FCC proceed to do whatever it said it was going to do in 1972.

I have requested the distinguished chairmen of the Commerce Committee, and its Subcommittee on Communications, the senior Senators from Washington and Rhode Island respectively—Senator Magnuson and Senator Pastore—to hold a committee hearing on this matter, and I am pleased to say one has been scheduled for December 9.

Mr. President, I believe such a hearing is necessary to eliminate the confusion which appears to surround the implementation of the FCC's second report and order, particularly as it applies to presently authorized and future domestic satellite systems.

According to information supplied to me the presently authorized domestic satellite systems are as follows:

First. American Telephone and Telegraph Co. has authority to construct a system to serve all 50 States using a Comsat General Corp. satellite to offer, initially, message telecommunications service. GTE Satellite Corp. may or may not participate in offering this service, depending on the outcome of a pending proceeding at the FCC.

Second. RCA has authority to construct and operate a system to provide nationwide private line service; it wants to offer message telecommunications

service to Alaska, and private line service to Hawaii, but does not have authority to provide them.

Third. Western Union has a satellite system in operation to offer private line services in the continental United States, and wants to serve Hawaii but thus far has not been authorized.

In its second report and order the FCC said that it would be its policy to condition grants of any application for operation of a domestic communications satellite system which would include service to Alaska, Hawaii, and Puerto Rico upon integration of these three points into the established rate scheme for communications applicable to the contiguous 48 states.

The FCC's report and order went on to say that no later than 6 months from the time it issued an authorization for domestic communications satellite service, and prior to the authorization for the commencement of the service, the authorized carrier must submit a specific proposal for revised rates for review and approval of the Commission.

Mr. President, with regard to the systems described above, in all but one case that 6-month time period has long since expired and not one of the applicants has filed the required plan to integrate Alaska, Hawaii, and Puerto Rico into the nationwide rate scheme, even though each proposes to serve Hawaii.

Quite obviously, Mr. President, it is not clear to these applicants what they are required to do under the terms of the FCC's second report and order, and the Commission has not enlightened them.

Confusion therefore surrounds the Commission's domestic communications satellite policy in this regard, at a time when the major domestic satellite facilities of these applicants will soon be ready to become operational, and one, in fact is operational.

Mr. President, the use of satellites for nationwide domestic communications systems has been technically feasible for over a decade. Regulatory delay, however, has been a major factor in frustrating realization of these systems.

Consumers have, as a consequence been denied the benefits of modern communications technology. And, nowhere has the consumer been more victimized than in Alaska, Hawaii, and Puerto Rico and those calling these points because long distance telephone rates to and from the contiguous 48 States are substantially higher.

When the FCC finally adopted its policy governing the authorization of satellites for domestic communications service in 1972, it expressly recognized that with the use of satellites whatever justification historically existed for this discriminatory treatment would cease.

It is clear from the FCC's announced policy that it viewed the advent of domestic communications satellites as the vehicle to remove existing discrimination in interstate communications with Alaska, Hawaii, and Puerto Rico.

Given the FCC's record of regulatory lag, if the present confusion regarding the requirements of its second report and order is not clarified now, it may take years before rates for Hawaii, Alaska, and Puerto Rico are integrated into the domestic rate structure.

Mr. President, it will, in my opinion, be a manifest injustice if this discriminatorily high rate treatment continues when the reasons therefor have ceased to exist.

Moreover, should it go on, I believe serious questions are raised as to whether the FCC is carrying out its statutory mandates, and whether the carriers providing domestic satellite service are in compliance with the law.

Section 151 of the Communications Act requires the FCC to make available to all the people of the United States a nationwide communications service with adequate facilities at reasonable charges.

Sections 214 and 309 require that the authorization of common carrier and radio facilities be in the public interest, convenience, and necessity. And, the people of Alaska, Hawaii, and Puerto Rico are part of that public.

Section 307(B) requires the FCC to make such distribution of licenses, frequencies, hours of operation, and of power among the several States and communities as to provide a fair, efficient, and equitable distribution of radio service to each of the same.

Finally, section 202 of the Communications Act makes it unlawful for any common carrier to make any unjust or unreasonable discrimination in charges for or in connection with like communications service.

Mr. President, as I understand it, the hearing scheduled on this matter is very narrow in its scope.

It is intended to have the FCC explain unequivocally for the record what it requires applicants to show, and when, and how disputes will be resolved.

If that is accomplished each applicant will know beyond doubt what it must do. The consumer public will know what it may expect. And Congress will be aware of how the FCC is carrying out its statutory mandates in this area.

Mr. President, so that there will be no misconception about the purpose of this resolution I would like to emphasize that it does not change existing law.

Nor does it ask the Senate to decide if Alaska, Hawaii, and Puerto Rico should be treated equally with respect to telephone and telegraph rates vis-a-vis the contiguous 48 states. The FCC decided that question affirmatively in the second report and order in 1972.

Although the question of whether these three points should be integrated into a nationwide rate scheme is not at issue, questions have been raised about the effect of such integration on existing telephone rates in the contiguous 48 States.

Based on the expert opinion I have received from outside counsel I have assured the distinguished Chairman of the Senate Commerce Committee and the Communications Subcommittee, that integration of these three points would have no significant effect on existing intrastate rates, and only minimally, if at all, affect interstate rates in the contiguous 48 States.

At this point, I would like to cite my question on this matter, and the assurance I have received.

Question: If the FCC's policy is implemented as Hawaii urges, what effect will it have on users' telephone services in other States, such as Rhode Island and Washington?

The effect would be minimal. First, we are dealing with interstate services, and initially, mostly Message Telecommunications Service (MTS), the long distance call with which most people are familiar. We are not dealing with local exchange services. Second, the revenues from MTS service to and from Hawaii (and Alaska and even Puerto Rico) are a small portion of total revenues for all interstate MTS. Thus, any shift in costs, cannot have that significant an effect on users in the forty-eight contiguous states. Third, any rate reductions for interstate services to off-shore points immediately and directly benefit users in the other states— on their calls to Hawaii, for example. Fourth, the Commission has found that the advent of domestic satellites will reduce the costs of facilities associated with long distances, i.e., the large number of microwave towers, many miles of cable, submarine or other, etc. Fifth, the off-shore points generally are known to receive a large number of visitors from the other states. These visitors will benefit from reduced rates when calling home. Given the large number of visitors to Hawaii from example, this is a significant benefit to be realized by citizens of all states.

Finally, any discussion of potential cost would not be complete without a discussion of the present discriminatory rate pattern. Today Message Telecommunications Service between the 48 Mainland states is based on the average costs for that service, in the aggregate. In other words, the service costs the same in a densely populated or sparsely populated state; a mountainous or plains state, or one with numerous water barriers; or a state with high or low volume users, or high or low labor costs. Obviously, if costs were to be directly assigned on a state-by-state or local basis, the rates for some areas would go up and for other areas would go down. However, for the 48 states costs are averaged and rates are uniform. But for two states, Alaska and Hawaii, this is not done. Their rates are calculated as if they were foreign locations.

Mr. President, when there is confusion in the regulatory process everyone suffers.

In the dynamic field of telecommunications it is especially difficult for a regulatory policy to keep pace with technological advances.

Nevertheless the effort must be made if the public is to receive the benefits to which it is entitled.

Although the FCC has been delegated the authority to regulate telecommunications, ultimate responsibility for our nationwide communications systems must, of course, rest with the Congress.

When, therefore, uncertainty and confusion exists on such a far-reaching policy matter, I believe it is incumbent on the Congress to take whatever steps it deems necessary to assist the FCC in protecting the public's interest by eliminating that uncertainty and confusion.

It is for this reason I am submitting the Senate resolution which I now send to the desk.

CHRONOLOGY OF DOMESTIC SATELLITE DEVELOPMENTS

On June 16, 1972, the Federal Communications Commission issued its *Second Report and Order* in which it set forth its basic policies governing applications to construct and operate domestic communications satellite systems. See *In the Matter of Establishment of Domestic Communications—Satellite Facilities By Non-Government Entities*, Docket No. 16495, *Second Report and Order*, 35 F.C.C. 2d 844 (1972). In its Report and Order, the Commission concluded that the "advent of service via domestic satellite facilities should be accompanied by an integration of services, and more particularly the charges for such services between Alaska, Hawaii and Puerto Rico and the contiguous 48 states into the domestic rate pattern." Specifically, the Commission stated at p. 857:

[It ] will be our policy to condition any domestic satellite authorization to carriers serving these points upon a requirement that no later than six months from the issuance of the authorization, such carriers shall submit a specific proposal for revised rates for review and approval of the Commission prior to authorization for the commencement of service.

On December 22, 1972, the Commission released a *Memorandum Opinion and Order*, 38 FCC 2d 665 (1972) in which it reaffirmed its policy on rate integration. There the Commission stated at 695-96:

[W]e hereby reaffirm the policy determinations in paragraphs 35-38 and 40-41 of the *Second Report* (35 FCC 2d at 856-859) that rates for interstate services to Alaska, Hawaii and Puerto Rico shall not be higher because one or the other method is authorized, and that the advent of domestic satellite service will be accompanied by the integration of all interstate services between the mainland and Alaska, Hawaii and Puerto Rico into an enlarged domestic rate pattern. As specified in paragraphs 37-38, the timetable for accomplishing this and the questions of whether any deviations should be permitted will be determined after consideration of the specific proposals for revised rates and supporting showings to be submitted by the affected carriers for Commission approval no later than six months after the issuance or authorizations for the system or systems to serve these points.

*A. Applications Granted*

Since the time that this policy was adopted, the following authorizations have been granted by the Commission for domestic satellite service:

1. Western Union Telegraph Company to construct three satellites. See 38 FCC 2d 1197 (1972);
2. Western Union Telegraph Company to construct various earth stations. See 40 FCC 2d 1123 (1973) and 41 FCC 2d 379 (1973).
3. American Telephone and Telegraph Company ("AT&T") to construct and operate various earth stations and to contract for the use of communications satellites. See 42 FCC 2d 654 (1973);
4. RCA Global Communications, Inc. and RCA Alaska Communications Inc. ("RCA") to construct several earth stations and operate an interim system on Telesat Canada satellites. See 42 FCC 2d 774 (1973);
5. GTE Satellite Corporation ("GSAT") and National Satellite Services Inc., ("NSS"), a subsidiary of Hughes Aircraft Co., to construct various earth stations (including a Hawaii earth station) and least satellite transponders (GSAT), and to construct three satellites (NSS). See 43 FCC 2d 1141 (1973);
6. Comsat General Corporation to construct four satellites to be used as part of a domestic communications satellite system of AT&T. See 45 FCC 2d 444 (1973);
7. Western Union Telegraph Company to launch and place in orbit two satellites, Westar I and II. See 46 FCC 2d 162 (1974) and 47 FCC 2d 274 (1974);
8. RCA to construct three satellites and various earth stations. See *In the Matter of RCA Global Communications Inc. et al.*, FCC 75-1246 (Released November 6, 1975)
9. RCA to launch a satellite on December 12, 1975. (File No. 2-DSS-LA-76). This application was granted by the Commission on December 4, 1975. See FCC Report No. 1954 (December 4, 1975);

*B. Applications Pending*

Presently pending before the Commission are the following applications which involve service for Hawaii:

1. Western Union Telegraph Company's applications for authority to construct an earth station in Hawaii (File Nos. 71-DSE-P-71), filed March 15, 1971,

2. RCA's applications for authority to construct an earth station in Hawaii (File No. 60-DSE-P-71); filed March 15, 1971,

3. Domestic Satellite Corporation's application for authority to construct an earth station in Hawaii (File No. 7-DSE-P-75); filed November 17, 1975,

4. GSAT and AT&T applications for authority to modify construction permits for three authorized earth stations, and GSAT to utilize in conjunction with AT&T, satellites provided by Comsat General Corporation. An administrative Law Judge has approved these applications. See *In the Matter of GTE Satellite Corporation, Initial Decision of Administrative Law Judge*, Docket 20201, FCC 75-12 (released April 4, 1976). This decision is presently on review to the Commission,

5. Comsat General's applications for authority to launch a satellite in March of 1976 (File No. 3-DSS-LA-76), and

6. AT&T and GSAT applications of November 14, 1975 to lease, establish and operate domestic channel groups between the Mainland and Hawaii (File No. W-P-C-649).

### C. Rate Integration Events

1. *March 12, 1974.*—carriers submit letters to FCC on present status of rate integration.

a. In its letter AT&T stated that it was not required by the terms of its authorization (as was GSAT and RCA) to submit a "specific proposal within six month from authorization", but as a provider of MTS to Alaska and Hawaii, it should report on the status of its rate integration negotiations.

b. In its letter GSAT stated that it was required by its authorization to submit, in conjunction with AT&T and Hawaiian Telephone, the specific proposal for rate integration within six months. However, GSAT stated that it was presently unable to make meaningful comparisons between future Hawaii rates and those prevailing on the Mainland.

2. *May 9, 1974.*—FCC rejection of the March 12, 1974 submissions of the carriers. See *Letter of Walter Hinchman, Chief, Common Carrier Bureau to various carriers* (Ref. No. 9100). Also attached was a questionnaire for carriers to provide specific responses regarding rate integration.

3. *June, 1974.*—Carriers submit responses to FCC Letter and Questionnaire of May 9, 1974.

4. *May 17, 1975.*—Letter from Governor Ariyoshi to Chairman Wiley of the FCC and carriers urging rate integration for Hawaii.

5. *June 2, 1975.*—Letter from Mr. Richard Hough, President of AT&T Long Lines to Governor Ariyoshi, responding to the Governor's May 17 letter, assuring AT&T's cooperation in working toward rate integration for Hawaii.

6. *August 12, 1975.*—AT&T and Hawaiian Telephone Company initiated preparation for a rate integration proposal for Hawaii.

7. *October 10, 1975.*—AT&T and Hawaiian Telephone Company proposal submitted to FCC.

8. *October 21, 1975.*—After conferences with the Staff, State of Hawaii filed Petition for Declaratory Relief asking the Commission to clarify the procedures to be followed in handling applications for domestic satellites, with respect to making a determination of whether an adequate rate integration proposal is presented.

9. *November 17, 1975.*—State of Hawaii first furnished "AT&T/Hawaiian Telephone Company Proposal for Rate Integration, Hawaii-Mainland Message Telecommunications Service." However, no back-up documents were included.

10. *November 24, 1975.*—State receives AT&T letter responding to State's Request for back-up documents.

11. *November 26, 1975.*—First conference with carriers and F.C.C. Staff on rate integration that the State of Hawaii was asked to attend.

12. *December 5, 1975.*—FCC grants in part the State of Hawaii's Petition for Declaratory Relief (see 8, *supra.*).

### STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

Mr. Chairman, I am grateful for an opportunity to discuss the problem of rate integration for Alaska, Hawaii and Puerto Rico. As the Chairman knows, this is

a matter which I have been concerned about for many years. Therefore, I am pleased to join my esteemed colleague from Hawaii, Senator Inouye in bringing this matter before this subcommittee today.

Alaskans have long been the victims of discrimination with respect to interstate telephone rates simply because of the geographic location of our state. Alaska has been designated as an offshore location by communication carriers and has been accorded "foreign status" with respect to its longlines traffic. We have had to pay a penalty in high rates because Alaska is physically separated from the contiguous 48 states.

The great distances involved in communications have traditionally been used to justify why Alaska has been denied access to the integrated domestic rate structure available to their fellow Americans in the contiguous 48 states. Additionally, our high rates have contributed to the corresponding problem of low traffic volume and have certainly acted to hinder our development.

The statement has been made, and will surely be repeated today, that interstate rates for Alaska are considerably above the level of rates on the mainland 48 states for comparable distances. Yet, I would like to offer an example of just how staggering these differentiations are in dollars and cents figures.

An operator assisted, station to station call between Anchorage and Denver costs, on a day rate, \$4.10 for the first three minutes with a charge of \$1.35 for each additional minute thereafter. A mileage distance (3,000 miles) nearly equivalent to that between Anchorage and Denver is from New York City to Los Angeles. Yet, the charge for an identical call between these two points is around \$1.90 for the first three minutes with a surcharge of approximately 38¢ for each minute thereafter.

For a three minute call between these points of comparable distance, the Alaskan traffic cost is about 115% higher than the call between the two points in the mainland 48 states. As if this figure were not high enough, the disparity increases geometrically as the conversation extends beyond the three minute period. Thus, a 10 minute phone call between Anchorage and Denver is approximately 190% higher than a similar call between New York and Los Angeles.

The Federal Communications Commission properly recognized that since satellite service is insensitive to distance as a cost factor, the advent of the domestic satellite system would remove distance as an excuse for keeping Alaska, Hawaii and Puerto Rico out of the domestic rate base of the rest of the United States.

The Commission's 2nd Report and Order of June 16th, 1972, affirmed their intention of integrating Alaska, Hawaii, and Puerto Rico into the uniform domestic rate pattern of the 48 contiguous states. In that ruling the Commission stated that it would condition its grants of authority for use of a domestic satellite system to provide service to offshore points on the integration of rates to those points with the rates for services with the contiguous 48 states.

In this Subcommittee's Oversight hearings earlier this year, I once again questioned the Commission on progress in achieving rate integration for these points. The Commission replied that "since the rate integration matter is to be resolved before the RCA and AT&T satellites become operational, we anticipate no delay in a resolution of this question."

Mr. Chairman, the time for fulfillment of this pledge is close at hand, and I look upon these hearings as a chance for the Commission to report on the progress they have made in bringing this long overdue service to Alaska, Hawaii and Puerto Rico. I am hopeful that no further roadblocks to the speedy resolution of this matter will appear.

Thank you.

Senator PASTORE. Does the representative of Kansas have anything to say?

Senator PEARSON. No. I don't.

Senator PASTORE. Does the Senator from Hawaii desire that we call the witnesses from Hawaii first?

Senator INOUE. I believe we should hear from Chairman Wiley.

Senator PASTORE. Will Mr. Wiley please come forward and give us the benefit of his testimony?

STATEMENT OF RICHARD E. WILEY, CHAIRMAN, FEDERAL COMMUNICATIONS COMMISSION; ACCOMPANIED BY WALTER HINCHMAN, CHIEF, COMMON CARRIER BUREAU

Mr. WILEY. Mr. Chairman, members of the subcommittee, I welcome this opportunity to discuss with you the steps the Commission is taking to integrate services to the States of Hawaii, Alaska, and the Commonwealth of Puerto Rico into the domestic interstate rate schedules.

I have with me Mr. Walter Hinchman, Chief of the Common Carrier Bureau.

I believe that it would be helpful first to explain the origins of our rate integration efforts; then briefly to mention the significant developments since the Commission's 1972 policy statements in its domestic satellite proceedings; and finally to address the steps we are presently taking to implement this policy.

By way of background, in June 1972, the Commission stated in its domestic satellite decision—docket 16495—that, with the inauguration of domestic satellite services, there will be justification to integrate Hawaii, Alaska, and Puerto Rico into the established domestic rate structure.

To accomplish this objective, the Commission stated that it would condition any domestic satellite authorization to carriers serving these points upon a requirement that within 6 months they submit a specific proposal to integrate these three areas into the rate pattern for the conterminous States.

In the case of message telephone service [MTS], the rate integration proposal was to give maximum effect to the distance-insensitive cost characteristics of communications satellites.

Upon reconsideration of its domsat decision in December of 1972, the Commission reiterated its policy by stating:

Our policy objective is that service between Alaska, Hawaii, and Puerto Rico and all mainland points shall be provided at rates and on terms comparable to those obtaining within the contiguous States and at the lowest possible cost.

The first general authorizations of domestic satellite system were issued in mid September 1973. At that time, these new carriers were advised to develop proposals for revised rates to accomplish rate integration by March 12, 1974.

In March 1974, A.T. & T. submitted a letter to the Commission in which it estimated that full rate integration of Hawaii and Alaska services would result in a reduction in annual gross revenues of about \$100 million.

This would result from applying the mileage bands in the existing mainland schedule with additional bands for outlying points, assuming certain traffic volumes in 1976.

However, stimulation of traffic due to reduced rates was expected to lower this amount to about \$85 million. A.T. & T. indicated that discussion with Alaska and Hawaii on the preparation of specific proposals for appropriate rates would continue.

Moreover, General Telephone and Electronics [G.T. & E.] responded by noting that the Hawaiian Telephone Co. previously had established a direct distance dialing rate 25 percent below the station rate and that it had also submitted a plan to the FCC for an addi-

tional across-the-board reduction of about 21 percent to become effective in May 1974.

On the matter of rate schedule integration, G.T. & E. stated that it was working with its connecting carriers to establish cost savings that might be realized from satellite operations in January 1976.

In May 1974, the Chief of the Commission's Common Carrier Bureau advised the carriers by letter that their submissions did not contain specific plans, schedules and economic data for the integration of these points into the domestic rate and service structure, nor did they set forth cogent reasons for failing to do so.

The Bureau Chief expressed disappointment that the parties, having been given 6 months to develop proposals, had not responded adequately.

A meeting with the carriers was scheduled for June 13 to review the matter. A list of questions was appended to this letter to solicit additional information to be discussed at the meeting.

On June 7, 1974, G.T. & E. Satellite Corp. answered the Bureau Chief's questions. With reference to MTS rate levels GSAT stated that some overall rate reduction would be considered when the GSAT/A.T. & T. satellite service became available, with further reductions to be considered as cost savings permitted.

Information was provided on traffic volumes, facilities, estimates of earnings as well as illustrative work papers of possible revised schedules.

A.T. & T. also replied to the Bureau's questionnaire on June 7. It noted that, in the period from March 1970 to May 1974, rates for MTS between the mainland and Hawaii were reduced by \$36.5 million.

A.T. & T. also stated that, in discussions with Hawaiian Telephone Co. and RCA Alascom, an arrangement was reviewed that would integrate the rate structure between the coterminous States and the offshore points into the domestic rate pattern.

This integration would include the use of similar mileage bands, classes of calls and time periods for reduced rates.

Moreover, it was indicated that some adjustment of rate levels might be appropriate. It was further stated that change in rate levels beyond initial adjustments would be introduced as new technology, improved facilities, settlement arrangements and other relevant factors permitted.

Supporting attachments provided analyses of costs, possible rates and revenue estimates based on 1976 traffic volumes.

On this same date, RCA Alascom noted that Alaskan interstate message telephone rates had been reduced by 29 percent, which amounted to \$24 million annually at 1974 traffic levels.

The company indicated a desire to negotiate integrated rates, but it emphasized the necessity to phase-in rate changes over time with full consideration of its overall revenue requirements and the effect on intrastate service.

At the June 13 meeting, discussion centered on the limited progress made to date in obtaining specific proposals. The carriers agreed to work toward informal proposals—to be formalized later—and that each offshore point should be treated separately to reflect unique circumstances.

Hawaiian Telephone Co. reported to the Commission in 1974 that, although efforts had been made with the assistance of the FCC's staff, agreement could not be reached on a jurisdictional separations plan for Hawaii due to its unique operations that do not conform to the application of the standard separations manual.

The company stated that it was committed to the integration of Hawaii into the domestic rate pattern, with due regard to maintaining low rates for telephone service within Hawaii.

During the period December 1974 through June 1975, additional correspondence was received from the carriers and the States concerning the rate integration question.

On July 1, 1975, the Commission approved a plan, in which the Alaska PUC concurred, for jurisdictional separations of RCA Alacom's Alaska operations.

At this point, let me focus individually on the status of our rate integration efforts.

First, concerning Puerto Rico, integration into the domestic rate pattern must await public interest findings based on a scheduled hearing to determine whether the government-owned and operated Puerto Rico Telephone Co. or a private carrier is the proper party to acquire and operate the Cayey, Puerto Rico Earth station now owned by Comsat. We expect that this case will be resolved within the next 12-18 months.

Respecting Hawaii, in July 1975, representatives of Hawaiian Telephone Co. and the staff met to review the progress of studies toward the development of integrated interstate MTS rates and to establish target dates for implementation of integrated rate schedules. Similar meetings with representatives of A.T. & T. and counsel for the State were held in August.

In early October, a meeting was held with representatives of A.T. & T. and Hawaiian Telephone at which a proposed rate schedule was discussed. The staff requested a joint statement by the carriers of the underlying support for their proposal. The staff also made all prior information and correspondence on rate integration available to counsel for Hawaii. Subsequently, counsel was provided with the mainland-Hawaii integrated rate proposal and associated material.

Recently, on November 26, a meeting with representatives of the two carriers and counsel for Hawaii and the State's economic consultant was held to discuss the integration proposal. The State's representatives agreed to advise the staff of their preliminary evaluation of the proposal in the second week of December. They were subsequently advised of the steps the staff anticipated taking to accomplish the first phase of rate integration, and it was agreed that Hawaii's preliminary evaluation would be reported to the staff by December 12.

To accomplish formal resolution after receipt of Hawaii's comments, the Commission plans to issue an order to the carriers allowing 30 days within which to file a formal rate integration tariff together with appropriate supporting data. Thereafter, we will allow 15 days for filing any comments on the carriers' formal proposal. The Commission will subsequently rule on the appropriate method for Hawaii rate integration. We expect that this can be completed by early March 1976, prior to the scheduled launch date for A.T. & T.'s satellite.

In any event, we will rule on rate integration prior to any grant of operating authority to the A.T. & T. system.

It should also be understood that the Commission has indicated its intention to review the results of rate integration after 1 year of operation and to determine what changes, if any, are warranted.

Concerning Alaska, at the August meeting with A.T. & T. the matter of rate integration with Alaska was also a topic of discussion.

Representatives of RCA Alascom met with the staff on September 25 to discuss the status of their studies relating to rate integration. Further meetings were undertaken by RCA Alascom and A.T. & T. which are to result in a specific proposal.

Last week the carriers met with the staff to discuss progress. Further study of the traffic data is to be made jointly by A.T. & T and RCA Alascom. These carriers have agreed to submit a joint proposal no later than January 15, 1976.

This joint proposal will be made available to the State, and a meeting of the carriers, the State, and the staff will follow.

Thereafter, procedures similar to those previously described for Hawaii rate integration will be implemented.

In September 1973, to alleviate serious deficiencies in the facilities available to serve Alaska, the Commission authorized RCA to establish an interim domestic satellite system.

Initially, this system included, in addition to RCA-owned earth stations in Alaska and the conterminous 48 States, the lease of satellite capacity from the Canadian system, pending availability of the U.S. domestic satellite. In December 1974 the Commission ordered RCA to shift to the Western Union Westar system. This shift was accomplished on May 2, 1975, and RCA is now using the Westar satellite for Alaska services.

On November 6, 1975, the Commission granted RCA final authorization to construct its own domestic satellite system, and, just last week, we authorized RCA to launch its first satellite on or about December 12 of this year. However, RCA had not made the requisite showing called for in the earlier satellite orders, that use of this system for Alaska MTS service would be at least as efficient as use of the planned A.T. & T. system. Consequently, we did not authorize the RCA system to carry Alaska MTS traffic on a regular basis at this time. We are hopeful that this question concerning the most efficient means for providing Alaska MTS service, as well as other outstanding issues which include the question of rate integration for Alaska, will be resolved through the negotiations and discussions now going on between the carriers and the State under the aegis of our Common Carrier Bureau. If not, they will be made the subject of an expedited hearing.

Because of the fact that domestic satellite services to Alaska have already been established on an interim basis to meet critical deficiencies in available facilities, we cannot realistically require that rate integration be achieved prior to grant of at least interim operating authority for whatever system is to serve Alaska.

However, we fully intend to resolve the rate integration issue prior to grant of permanent operating authority.

Finally, Mr. Chairman, I would like to note that while the present domestic rate schedule has not yet become applicable for these points, a number of rate reductions have already been instituted.

For example, prior to the Commission's domestic satellite order, the cost of an average Hawaii-Mainland call was \$14.58. Today, it is \$7.90.

Rate reductions have resulted from utilization of an Intelsat transponder acquired from Comsat at a bulk rate and a rate reduction condition contained in the authorization of the latest cable to Hawaii. Rate reductions have also been realized for Alaska services.

At this point we are working toward additional rate level reductions, and, of course, rate schedule integration.

Mr. Chairman, this concludes my prepared remarks. Mr. Hinchman and I will be pleased to respond to any questions the committee may have.

Senator INOUE. Thank you very much.

I note in your closing remarks, Mr. Chairman, that prior to the Commission's domestic satellite, the cost of the average Hawaii-Mainland call was \$14.58, and today it is \$7.90.

What is the average call on the mainland for the same distance?

Mr. HINCHMAN. Mr. Chairman, I am not sure for the same distance that there are similar distances on the mainland.

But I think the average call is in the range of \$2 to \$3, in that vicinity.

Senator INOUE. So our average cost is still about 200 percent above the mainland?

Mr. HINCHMAN. Yes.

Senator INOUE. Mr. Chairman, the Commission's December 5 order states that a section 214 application must be filed and granted before domestic satellite systems can be used to offer commercial service.

The order also indicates that the rate integration question will be resolved prior to a grant in any event.

The question is: Will the rate integration question be resolved for message telecommunications service prior to commercial service over the entire A.T. & T. domestic satellite system, or only prior to commercial service over that system to Hawaii?

Mr. HINCHMAN. Prior to authorization of any service over the A.T. & T. system.

Senator INOUE. For the whole system?

Mr. HINCHMAN. Yes, sir.

Senator INOUE. Will the specific rates be submitted, considered, and approved before the Commission authorizes commercial operations?

Mr. HINCHMAN. Yes; they will.

Senator INOUE. And this is as part of the application?

Mr. HINCHMAN. No; prior to the application.

We are, as you know, now going to ask the carriers for formal proposals, which will be submitted prior to the 214 application.

So we hopefully will rule on that even before we receive the 214 application.

Senator INOUE. Just for the record, can you define "rate integration?"

Mr. HINCHMAN. I think that what the Commission said in its satellite decision was rate integration in terms of the same schedule of rates, the same type of rate structure, adding mileage bands to the existing domestic rate pattern.

I think there is still a question, and I think the Commission indicated this, whether or not we can bring the levels in those mileage

bands down initially to exactly the same level that they would be in the domestic rate structure, or whether there should be a phased approach.

I don't think the Commission has reached a determination on that. I don't think we can reach a determination on that until we see the impact of the carriers' proposals for rate integration, what that would be and how those revenues would be made up.

So I think it is in terms of the rate structure, similar type of rates, but with additional mileage bands, and perhaps not the same level initially.

Senator INOUE. Will the MTS rates be based on averaging national costs?

Mr. HINCHMAN. That is the ultimate goal of the Commission's order, I think, to get to fully averaged rate schedules.

But the Commission indicated that this might have to be achieved in a phased approach.

So far we have not started the phased approach.

Senator INOUE. You spoke of the mileage bands. How significant is that in light of the satellite system?

Mr. HINCHMAN. Well, the difficulty, Mr. Chairman, is that the facilities used to serve these points are not just domestic satellite systems; there are existing facilities in being, and those revenues must be covered, those revenue requirements must be covered either by averaging all of those facilities into the domestic revenue requirements, or in some other way.

If we were starting from the beginning with no facilities in being, then costs for satellite services are not distance-sensitive, and it would be even easier to do.

Senator INOUE. If the desired and announced policy of FCC is carried out, will we continue to see televised ads which say "Call your loved ones at this rate, but this does not include Hawaii and Alaska"?

Mr. HINCHMAN. We would hope not, because we would hope there would be an integrated rate schedule, and we would expect there to be one, and there would be no asterisk.

Mr. WILEY. It would not necessarily be the same rate. I think Mr. Hinchman mentioned there might be some phasing in, as to the rate levels. But there would be an integration of the rate structure.

Mr. HINCHMAN. The carriers have estimated thus far, Mr. Chairman, that full rate integration will mean a gross revenue loss of some \$158 million to the interstate revenue base that would have to be made up in terms of increased rates, interstate rates, if we went to full rate integration.

Now we are not ruling out the possibility of going to full rate integration, but we are going to address that question in deciding whether or not we must have a phased integration program.

Senator INOUE. Now you spoke of national averaging. When will this come about? Can you predict that?

Mr. HINCHMAN. I don't think we can really respond to that, Mr. Chairman, until we have the carriers' proposals before us, until we can act on them.

I think the Commission has to take action on that. We would anticipate it is not a long time frame.

Senator INOUE. Can rate integration be judged in any form other than the approval of specific rates?

Mr. HINCHMAN. I am not sure I understand the question, sir.

Senator INOUE. When the Commission referred to a specific proposal for revised rates, did it mean a proposal containing specific rates and tariffs?

Mr. HINCHMAN. Yes. The Commission may or may not accept that, that is the proposal by the carriers, and the Commission may or may not accept that as complying fully with the rate integration requirements.

Senator INOUE. Has any carrier submitted a proposal which meets this requirement?

Mr. HINCHMAN. We have informally. We have an informal proposal from A.T. & T. and Hawaiian, as the Chairman indicated in his testimony, which proposes specific rates.

That is now the subject of review by the State. We expect their comments by this Friday, and following that we intend to request a formal proposal from the carriers.

Senator INOUE. On the first page of the Chairman's testimony you refer to an A.T. & T. letter of March 1974, which states that, "Discussions with Alaska and Hawaii on preparation of specific proposals for appropriate rates will continue."

This was discussion of rate integration with the carriers, not with the State, wasn't it?

Mr. HINCHMAN. I believe that is correct. I think it was discussion with RCA and with Hawaiian Telephone Co.

Senator INOUE. Do you contemplate that the State representatives will be a party to the informal discussions described in paragraph 7 of your order?

Mr. HINCHMAN. I believe they have been already involved as a party to the discussions, to the informal discussions, that is.

I think then we intend to adopt procedures which are more formal, which require formal proposals, and then there will be a period for comment by the State.

Senator INOUE. Will they participate in it, or just be kept apprised of the developments?

Mr. HINCHMAN. Well, they have participated and I think we have kept them apprised. There has not been really a negotiation. We have had meetings essentially to obtain from the carriers on an informal basis what their best judgments were as to what they could propose.

Mr. WILEY. Certainly in the formal proceeding they would have a full opportunity, as any other interested party, to file the appropriate comments and participate fully.

Senator INOUE. And it is your promise that the State of Hawaii and other parties will have an adequate opportunity to fully evaluate the proposals submitted by the carriers and the supporting data?

Mr. WILEY. Yes, sir.

Senator INOUE. Mr. Chairman, the FCC second report and order imposed a 6-month timetable for submission of rate integration proposals by affected carriers.

My first question: Have the current carrier applicants complied with this timetable?

Mr. WILEY. I think it is clear from my statement, Senator, that we don't think they did; they did not come forth in 6 months with the kind of proposals that were contemplated in the second report and order.

Senator INOUE. For the record, can you advise us as to how delinquent they are?

Mr. WILEY. Perhaps Mr. Hinchman can give the details.

Mr. HINCHMAN. Mr. Chairman, they came forward at the specified time, in 6 months, but at that point, instead of presenting specific proposals and rates, they indicated the impact that rate integration would have on overall revenues for interstate services, without presenting a specific proposal.

Senator INOUE. Can you give us any idea as to when the people of Hawaii might be able to enjoy an integrated rate?

Mr. HINCHMAN. In view of the fact that we intend to reach a decision on rate integration by the time the A.T. & T. satellite is launched, that is our expectation, based on the procedures we are following now, it would be March or April that there would be rate integration.

Again, I want to emphasize that may be the first phase, it may be a phased approach, and we haven't reached that determination yet.

Senator INOUE. Are you satisfied that the carriers are doing their best to comply with this plan, to cooperate?

Mr. HINCHMAN. I think it is clear that they have not been doing their best to come forth with a rate integration plan.

I believe we now have begun to get the information that we need from them through these informal discussions, to determine whether a rate integration plan is feasible.

Senator INOUE. What can Congress do to encourage the carriers to cooperate better with you?

Mr. WILEY. Well, of course you have a resolution that you submitted, Senator. I suppose that is one way.

Discussions with the carriers, such as we have had would be another way.

I think we are beginning to get the kind of cooperation that we expect and that is consistent with the order. We are hopeful in that respect, in any case.

The CHAIRMAN. If they would dismiss a few lawyers, wouldn't that help?

Senator INOUE. Thank you very much, Chairman Wiley.

Mr. WILEY. Thank you, Senator.

Senator INOUE. Senator Pearson?

Senator PEARSON. You announced your policy, the FCC policy in 1972, to integrate the domestic rates in Hawaii, Alaska, and Puerto Rico, and then you had another second order sometime later that provided that the carriers within 6 months would come in with some sort of proposal for integrated rates.

I take it the carriers said they didn't quite understand what your order was, so their interpretation led them to come in with less than an adequate proposal to implement your policy.

But pursuant to this resolution, and your order entered December 5, and your statement today, that problem is taken care of.

Is that right? There can be no misunderstanding now?

Mr. WILEY. There is no misunderstanding as to what the Commission's policy is. If there was a misunderstanding before it should be clear now.

Obviously, as Mr. Hinchman pointed out, there will be some period in which there will be a phasing in of rates.

Senator PEARSON. Well, do we have another 6-month period now to run for the offering of some proposal?

Mr. HINCHMAN. No, Senator, when we received the comments from the State of Hawaii on these informal proposals, we will give them 30 days to file a specific proposal for rate integration.

Senator PEARSON. Then you are going to think about integrated rates, either as a one-shot, or a phased approach?

Mr. HINCHMAN. That is correct.

Senator PEARSON. And integration of domestic rates means that the interstate rates here will rise as the Alaskan and Hawaiian rates go down?

Mr. HINCHMAN. Yes.

Senator PEARSON. Thank you.

Senator INOUE. Senator Stevens?

Senator STEVENS. Yes, Mr. Chairman, will you print my statement following the statement of Senator Inouye?

Senator INOUE. Without objection, it is so ordered.

Senator STEVENS. You say you fully intend to solve the rate integration issue prior to the grant of permanent operating authority for satellite facilities in Alaska.

Have you got a deadline for that decision as to the permanent operating authority?

Mr. HINCHMAN. No, Senator, we don't have a deadline for that particular grant.

We expect a proposal, joint proposal from RCA and A.T. & T. of an informal nature by January 15. We intend then to give some time for State comments on that.

Then we will do the same thing we have done for Hawaii, and request formal proposals and so I would guess it would be a couple or 3 months from that time before we would have that all wrapped up.

Senator STEVENS. I am of the opinion that there is an attempt here to shift the increased cost of the interstate carrier that would be brought about because of rate integration into the intrastate rate base.

Is there any indication that the Commission is considering this?

Mr. HINCHMAN. Well, if you simply did full rate integration under the present separation procedures that would be the effect, and that has been one of the problems we have been wrestling with, how to bring about rate integration without increasing the intrastate rates for either Alaska or Hawaii.

The same would happen in the case of Hawaii, if you simply do a rate integration.

Senator STEVENS. I don't understand how that would be the case.

My staff looked up the rates—and they are in my statement—and a station-to-station call between Anchorage and Denver on a day rate with operator assistance is \$4.10 for the first 3 minutes, with a charge of \$1.35 for each additional minute.

That distance, which is 3,000 miles, is equivalent roughly to the distance between New York City and Los Angeles. Yet the identical call between New York and Los Angeles is \$1.90 for the first 3 minutes, with a surcharge of 38 cents.

Now \$1.90 compares with the \$4.10, and 38 cents with the \$1.35, and is 115 percent higher for the first 3 minutes.

If you go to a 10-minute phone call, it rises to a 190 percent difference.

If we are dealing with satellites, where the terrestrial distance is immaterial, and the distance of the satellite is really the problem, why should there be any increased cost between Los Angeles and Hawaii, or Los Angeles and Anchorage, as compared to Los Angeles and New York? And why should there be a shifting of these costs into the intrastate rate market in order to accommodate the fact that Alaska and Hawaii are going into the satellite interstate rate base?

Mr. HINCHMAN. Senator, part of the problem is part of that \$4.10 figure you used goes to help support, at the present time, through the separation process, intrastate service.

If you lower that rate, so that the interstate call is not generating that amount of revenue, then part of those revenues are not flowing to help support intrastate rates. So therefore the intrastate rates must be raised to cover that, if you do a simple integration, as I indicated, without addressing the question of separation.

Mr. WILEY. In other words, if you address the question of separations, there might be some shifting to the overall nationwide interstate rates. But that is the decision that has to be reached.

Senator STEVENS. Has the Commission reached the determination that the difference in the long distance calls today is really to support the intrastate rate base?

Mr. HINCHMAN. It is partly because of the higher cost of facilities, as well. But those facilities exist and the fact we have domestic satellites gives us lower costs for the circuits carried by domestic satellites, but the costs of the old facilities must still be covered by the total revenues.

Senator STEVENS. That is what worries me, that both of our former territories are paying for facilities that are so antiquated we are going to be caught up in this situation of paying more for telephone service on an interstate basis than anybody else until we eliminate those old facilities.

I am sure you are familiar with the fight we have had trying to prevent the inclusion into the rate base of our carrier of dilapidated former Army communications system facilities. And now White Alice, a white elephant, is staring us in the face. They want to move that into our rate base.

I don't know if you have a comparable situation in Hawaii, but I have never heard such preposterous proposals coming forth as these to move 19th century type facilities into a modernized telecommunications system and to try and foist them off on us in terms of the rate base.

I am extremely disturbed about the proposal, because I understood when the Commission was sitting here and I asked them about this in 1972, they said we were going to have a proposal within 6 months.

And now we are in 1975, and now they say we are not going to approve a permanent satellite system until the integration problem is worked out. But at the same time, as I understand your statement, the permanent system cannot be worked out until integration is worked out.

Mr. HINCHMAN. That is correct. We plan to work out integration within the next few months.

Senator STEVENS. Well, it seems to me that perhaps we ought to legislate a role for the States, the offshore States and Puerto Rico, in terms of the Commission's procedures because I think that unfortunately we are coming into this system as new brothers or sisters, whatever you want to call us, at a time when the effect of it is going to be slightly traumatic on the rest of the system.

It is like trying to put us into the postage stamp rate, after it was established. Obviously if you put Alaska and Hawaii into the postage stamp rate after it was established, the rates all over the country would go up.

Thank God that was never the policy of the Post Office Department. But it has been the policy of the interstate carriers.

And now when we are trying to get into it, the fact is it would bring about a perceptible increase in costs all over the country, in order to give us equality, somehow or other I have a feeling that those increased costs are not going to be passed on to the other rate users, but they are going to be passed back into the intrastate system unless we can find a mechanism for preventing that.

Are you sure you can prevent that under the existing law?

Mr. WILEY. I think so, Senator.

Senator STEVENS. Are you sure you have a mandate to see to it that interstate rates are uniform throughout the United States, and that includes Alaska, Hawaii, and Puerto Rico?

Mr. WILEY. I think that is a question that has to be determined yet, as to how the rate integration will work, and whether or not it will in fact result in any increased cost to the intrastate rates, or whether it will be shared by all of the rest of the users in the United States.

I think that is a question the Commission is trying to work out with the carriers at this point.

But I am not prepared to give you a definitive response to that question.

Senator STEVENS. Our two States have 1½ million people; the rest of the country has 220 million. It doesn't take much of a mathematician to figure it out, about .001 mill would be the same thing as 10 cents to each Alaskan, and each Hawaiian.

Now that is the problem, as to whether the Commission feels it has the authority to require a postage stamp rate for interstate messages under your jurisdiction?

Mr. WILEY. It is also a question of policy, Senator, as to what would be appropriate and in the public interest.

Interstate rates—what was the estimate we had?

Mr. HINCHMAN. Our estimate is that full integration of all of these points into the domestic rate structure would result in about a 21½-percent increase in the interstate revenue requirement, total interstate revenue requirements for the rest of the Nation.

I don't know what that means in terms of an increase in a specific rate.

Senator STEVENS. Someone told me once that means a million dollars a percent. Is that roughly right today?

Mr. HINCHMAN. No. That is total earnings, not total interstate.

Mr. WILEY. About \$157 million that would be shifted on a full-rate integration proposal to interstate rates.

Now the question is how much of that should be shifted to the rest of the country, or whether any of it should be in fact reflected in the intrastate rates.

That is something we have not determined. As Mr. Hinchman suggested, it may be that a phased-in type of proposal will ultimately be found to be appropriate.

Senator STEVENS. Well, by definition they are telling us in the beginning that our interstate charges are higher than anywhere else, and we have had an advantage, they say, because of the present separation procedures.

Are you in accord with that Mr. Hinchman?

Mr. HINCHMAN. An advantage because of the present separation?

Senator STEVENS. Yes, there is more going into Alaska and Hawaii in the separation procedures than into other States.

Mr. HINCHMAN. No, sir, not in terms of percentage. I am only saying because the rates are higher for those areas, that there is more of a contribution for each call going to intrastate service, and if you eliminate that contribution by simple rate integration, then intrastate rates would have to go up.

But that is not what the Commission is contemplating. I want to emphasize that is what has been suggested by the carriers, but that is not a Commission position that that should be the method of integration.

Senator STEVENS. Again, I don't want to prolong this, I want to get back to the basic question.

Have you analyzed your existing authority to determine whether or not your direction is to maintain a uniform rate for interstate communications in a manner that would include Alaska, Hawaii, and Puerto Rico?

Mr. WILEY. There is also a policy issue involved here as to whether the Commission determines that that is in the public interest. That is the major question.

Senator STEVENS. I will be glad to try to get Congress to help you solve it if you don't have the authority today.

Mr. WILEY. I don't think it is a question of authority. It is a question of the basic policy involved. And that is something the Commission is going to have to focus on:

But we are going through these procedures, which will bring that question to the fore, and the Commission will have to determine what kind of a rate integration we are going to have, and at what pace.

Senator STEVENS. I think you ought to give us a statement, not of the policy issue, but on the authority issue. I think we can take care of the policy issue, but I am informed there are more long distance calls going into my State than there are coming out. So as a practical matter, we are not just talking about Alaskans, we are talking about

people doing business with Alaska, particularly in the development of the oil and mineral industry and everything going on up there. So I don't see why a person should have to be penalized for doing business in Alaska, and that is what is going on under the existing rate base.

If you say it is a policy decision, I think Congress ought to make the direction, as we did historically with the postage stamp rate for written communications. There ought to be a uniform rate for telecommunications.

Mr. WILEY. Senator, the Commission is working quite hard on this problem right now, and I think given a reasonable period—Mr. Hinchman has talked in terms of a few months—we may be able to come up with a decision which you can then review and if you determine it is not appropriate, of course, you are free to do whatever you feel is necessary.

Senator STEVENS. I have prolonged this enough, and we have to go to vote, but I am worried about 20 years from now.

I am led to believe the technology that is available right now would enable us to send written communications on a personal basis by telecommunications, so eventually I see the post office moving into this area.

If they move into this area, and we are still discriminated against, the written word that goes by telecommunications will leave Alaska, Hawaii, and Puerto Rico outside of a uniform written communications rate on a uniform basis within the United States.

Unless we solve this now, by the time we get to the point where you can use your telephone to send a message, a written message to Grandma in Arkansas or use your television to pick up the New York Times in Anchorage, then we are really going to be in tough shape.

And I think Hawaii is too. And that is not too far away.

Mr. WILEY. I can certainly understand your concern in that respect. That is essentially the kind of thinking that went into the Commission's original proposal in 1972, original decision in 1972, to try to integrate Hawaii and Alaska and Puerto Rico into the interstate rate structure.

Senator STEVENS. I understood the Commission's former direction was to prepare a plan for integration. We didn't face this policy issue in 1972. It seems to me the policy issue came up when A.T. & T. said we don't understand your order.

Mr. WILEY. No, the policy issue of integration has been made, there is no question about that.

We have been talking about integration of structure. Now the question is the rate, the question of whether or not there should be a phase in, that was specifically mentioned in the 1972 order, I can cite you the precise page on that.

There has been no change in policy at the Commission in this respect at all, Senator.

Senator STEVENS. I would appreciate it if you would give us your legal people's review as to whether or not you have the existing authority to require uniform rate integration.

Mr. WILEY. We believe we have that authority.

Mr. HINCHMAN. Senator, I think under the broad mandate of the

act, we have the authority; we have the responsibility to bring services to all people of the Nation at reasonable rates.

Senator STEVENS. At uniform rates, that is my question.

Mr. HINCHMAN. I do not think we have a specific mandate that says uniform rates. At low rates, reasonable rates, we have that mandate.

Senator STEVENS. But you have used it in the other 48 States. They are in fact uniform, aren't they?

Mr. HINCHMAN. I don't believe that is a result of specific Commission action to require that. They are uniform in terms of mileage, a call for a given distance is uniform.

Senator STEVENS. That is what I mean.

All right, thank you very much.

Senator INOUE. The Senate Commerce Committee will convene at 11:30 in executive session to consider matters on the agenda.

This hearing will stand in recess until 2 o'clock this afternoon.

Thank you very much, Chairman Wiley, for your assistance this morning.

#### AFTERNOON SESSION

Senator INOUE [presiding]. The hearing will please come to order.

Our first witness this afternoon is Mr. Wayne Minami, director, department of regulatory agencies, State of Hawaii.

Before you proceed, Mr. Minami, would you wish to introduce your associates, sir?

#### STATEMENT OF WAYNE MINAMI, DIRECTOR, DEPARTMENT OF REGULATORY AGENCIES, STATE OF HAWAII; ACCOMPANIED BY ROSEL H. HYDE; HERBERT E. MARKS, COUNSEL; AND NORMAN LERNER, ECONOMIC CONSULTANT

Mr. MINAMI. Thank you, Senator. I have with me our legal counsel, Mr. Rosel H. Hyde and Mr. Herbert E. Marks, and on my extreme right, Mr. Norman Lerner, who is our economic consultant for the State.

Senator INOUE. Welcome, gentlemen. Please proceed.

Mr. MINAMI. Mr. Chairman, members' of the subcommittee, I am Wayne Minami, director of the Department of Regulatory Agencies of the State of Hawaii. My responsibilities include the formulation of policies and presentation of matters on behalf of the State relating to telecommunications.

I am deeply gratified to have this opportunity to bring to the attention of the Congress the long-standing discrimination in telecommunications rates and services suffered by the State of Hawaii and those who wish to communicate with our State, and the confusion and uncertainty that surrounds the procedures for implementing the FCC's policy aimed at elimination of such discrimination.

This discrimination is not justified. It is contrary to the expressed purposes of the Communications Act. It is contrary to the specific expressed policy which is now 3 years old, of the FCC. It nonetheless continues to be perpetuated by those who profit from it—A.T. & T., G.T. & E./Hawaiian Telephone, and the international record com-

munications carriers who provide the mainland/Hawaii interstate services.

Since 1971 the State government has sought to eliminate this discrimination so that Hawaii's people will enjoy the rapidly increasing benefits and promise of telecommunications.

Today we ask this committee's support in urging the Commission to clarify the procedures for the implementation of its domestic satellite policy which will eliminate this established discrimination.

I think an initial and fundamental point here is that we are not concerned with trifles. The magnitude of this discrimination is enormous. Notwithstanding past reductions so frequently touted by the carriers, this is how our interstate telephone rates now compare to those in mainland States:

*Hawaii/mainland rate over mainland coast-to-coast rate (max.)*

Direct distance dialed rate:	Percentage
Daytime -----	76 to 110.
Evening -----	105 to 139.
Weekend and nights -----	233 to 289.
Operator-assisted station-to-station rate (percentage higher) :	
Daytime -----	62 to 92.
Weekend, evening, and nights -----	23 to 46.
Operator-assisted; person-to-person -----	77 to 111.

(The two percentages reflect the two zones reflected in Hawaii's rates and are based on a 3-minute call.)

Look at these numbers. A fair characterization is that we are charged twice what is charged here on the mainland.

The discrimination is not limited to telephone service. It encompasses television program transmission, telegraph message, telex, and private line circuits and specialized services provided by the international record carriers—ITT World Communications, Inc., RCA Global Communications, Inc., and Western Union International, Inc.

For example, a Hawaii user pays \$3,770 a month for a leased circuit between Honolulu and San Francisco—2,450 miles. A mainland user pays only \$1,000 for such a circuit from coast to coast—3,000 miles. Our telex rates are a whopping 333 percent higher than telex rates on the mainland. We lack interstate wide area telecommunications service [WATS], and Mailgram electronic transmitted mail service altogether.

We think these facts ought to shock some consciences. Their effects on Hawaii are profound. We are not unlike other States of the Union. Rapid economical communications are essential to our business community. Efficient telecommunications are the lifeline of a rapid and modern economy in Hawaii just as elsewhere. Hawaii businesses must place orders, process contracts, seek capital, and make sales. The fact that they pay more than twice as much for interstate telecommunications as mainland businesses directly affects the welfare of all of our citizens.

Hawaii's citizens have children, relatives and friends throughout the United States, just as other Americans do. The personal and social cost to our citizens, and to those who would like to call them, for calls not made as a result of the discriminatory rates, cannot be quantified, but it should not go unrecognized.

The recognition of the need to rectify this situation is not new. Three years ago in its second report and order concerning domestic satellite facilities, the FCC said two things:

(1) Hawaii should be integrated into the uniform mileage rate pattern that now obtains for the contiguous States, with all that such approach implies in terms of nationwide cost averaging and equalization for interstate ratemaking purposes.

(2) This should be done no later than the advent of domestic satellite systems.

These directives stemmed from the Commission's recognition that the principal virtue of satellite technology is the elimination of distance as a cost factor in ratemaking.

The record since 1972 is poor. The carriers ignored an initial 6-month timetable imposed by the Commission for submission of integration proposals. This failure was pointed out by the Chief of the Commission's Common Carrier Bureau over a year and a half ago.

In May of this year, our Governor renewed the State's call for integration in letters to the Chairman and the carriers. The carriers continued to fail to put forward a meaningful proposal.

We now know that in August 1975 a proposal was initiated by the carriers for Message Telecommunications Service. It was provided to the Commission staff in mid-October, and finally made available to the State on November 17. The supporting data was furnished on November 24.

In the meantime, the State has been diligently trying to ascertain the procedures to be followed in implementing the rate integration plan. The State saw that events were rapidly developing, so that domestic satellite systems were soon to be operational and nothing had been done about rate integration. In order to determine what are the procedures and in order to avoid being faced with a *fait accompli*, the State has found it necessary to enter five separate proceedings at the FCC in an attempt to assure that it was at least heard on the issue of whether the public interest is served by the operation of domestic satellite facilities with a continuance of discriminatory rates.

In fact, the State's initial formal pleading—(filed October 21, 1975)—which merely asks for a definition of procedures has yet to be ruled upon. This pleading was filed with the approval of the Commission staff. We have had notice that the Commission has in fact acted upon this pleading. However, we received notice of that subsequent to the submission of our testimony.

This State has emphasized that compliance with the Commission's own policy on integration must occur before the commencement of operations of nationwide satellite systems. This is the deadline set by the Commission in 1972. This deadline should be enforced. Despite what we believe are the State's clear statutory rights to a hearing prior to the operation of the systems, the carriers have attempted to fragment their applications for authority to operate the entire A.T. & T. domestic satellite system. If this procedural move is successful, the State could lose its right to insist that appropriate integration be ordered in connection with the commencement of operation of the nationwide systems.

Indeed, the carriers intend to operate their domestic satellite facilities without compliance with the Commission's rate integration policy. A.T. & T. and G. T. & E./HawTel have formed an express, unified policy of resistance to any movement toward integration with respect to the crucial issue of rate levels, based on a consistent approach to ratemaking.

The carriers' unified resistance to any integration with respect to rate levels is based on their assertion that the costs of providing service to Hawaii do not warrant any reduction. Yet they have provided neither the State nor the Commission with cost data. They have approached the problem with the single view that revenues must not be reduced significantly.

More important, any questions of cross-subsidy have long been mooted by established policy for Message Telecommunication Service.

The public in other remote states—and I don't concede Hawaii is remote for telecommunications purposes—where interstate links carry far less traffic than between Hawaii and the mainland, have long enjoyed the same communications services and rate patterns accorded users on the mainlines of communications.

The same applies to areas where the terrain is especially rugged and communications costs are especially expensive. Accordingly the State has emphasized that there must be an appropriate division of revenues between carriers in order that Hawaii's users not unduly bear the burden of integration.

Despite considerable public expense and effort, the State of Hawaii to date is uncertain whether the Commission will take appropriate steps to insure the enforcement of its 1972 policy requiring that Hawaii be integrated with the advent of domestic satellite systems.

We earnestly solicit the support of this committee in urging the Commission to fully resolve this issue promptly and prior to authorizing the operation of the new systems. There are no longer technical limitations on communications circuits available between Hawaii and the mainland. High capacity submarine cables and Intelsat satellites even now have excess capacity and the proposed domestic satellites will offer even more capacity at reduced costs. Discrimination against Hawaii remains only as a result of organizational, procedural and regulatory problems that can and must be eliminated.

Equality was promised Hawaii when it became a State of the Union. It is time that equality be delivered to improve the economic and social life of the people of the State of Hawaii.

In 1972 former Commissioner H. Rex Lee noted that notwithstanding the Statehood Act, Hawaii remains "the Nation's stepchild." We believe Hawaii has waited long enough and that it should now be accepted on an equal footing with its sister states.

Thank you for this opportunity to present the States's views and concerns in this important matter.

Senator INOUE. Thank you very much, Mr. Minami. I noted this morning you were present when the Chairman of the FCC gave his testimony and responded to some of my questions.

Would you care to comment on the Chairman's presentation?

Mr. MINAMI. Thank you, Senator.

I think I would like to point out that integration of the rate struc-

ture as was mentioned as a first point by the Chairman by itself is not acceptable to the State.

What we are talking about is rate level integration, and that is the cost averaging of MTS.

The FCC has stated they would do that on a phased-in basis and we have yet to see any proposals which present that matter of rate level integration in any of the carriers' proposals.

We also have some differences with the figures that were presented by the Chairman with regard to the impact of rate level integration for Hawaii and Alaska. We will ask for some background information on that, and would wish to respond to those impact figures in writing at a later date.

We are also concerned with the timetable for action by the Commission. The Commission has mentioned they are anxious to get the matter resolved before March 1976.

What we would like to point out is that the second decision and order was issued in 1972, and a timetable was set for rate integration. Here we are in 1975 and the State received its first proposal for rate integration on November 17, 1975, and at that it contained no background data. That data was submitted on November 24, just 2 weeks ago.

Subsequently, the Commission hopes to issue an order setting forth 30 days for the carriers to submit detailed proposals, and then the State will have 15 days in which to respond.

I think the record is clear that the Commission set its policy in 1972, that nothing was done very productive during that period, and here we are in 1975, and we will have approximately 15 days in which to comment on the carriers' proposals.

Therefore we are quite concerned that valuable time has been lost, and we are interested in being fully apprised of whatever the Commission does, with an opportunity to have full input during that procedure.

Senator INOUE. I don't know if you have the figures available, but could you give this Committee an approximation of the additional costs to consumers in Hawaii as a result of this discrimination since 1972?

Mr. MINAMI. We will try to get those figures for you, Senator.<sup>1</sup>

Senator INOUE. Am I correct to gather from your statement that you have little faith in FCC in pressing for this rate level integration?

Mr. MINAMI. We were very encouraged by the testimony that was presented this morning, Senator. We are very hopeful that given this testimony this morning we will be able to work with them.

Senator INOUE. In the memorandum opinion and order which was just released, FCC said that it will require that the Common Carrier Bureau staff keep representatives of Hawaii fully advised as to the progress of the informal discussions which are now taking place between the carrier applicants and the Bureau with respect to rate integration.

Would you say that up until now the State of Hawaii has been fully and fairly informed as to these discussions and negotiations?

<sup>1</sup> See p. 39.

Mr. MINAMI. I think I would have to say we were not. We were aware that the carriers submitted proposals to the Commission staff and there was a meeting between the staff and the carriers at which meeting the State was asked not to attend. That was on October 10 of this year.

The materials that were presented at that time were not presented to the State until November 17, so that there was a lag during that period.

I hope that based on this morning's testimony that we will not have a repetition of these events.

Senator INOUE. Would you say that your recent contacts with FCC would lead you to believe that the procedure and attitude has changed?

Mr. MINAMI. I hope that it has, based on this morning's testimony, Mr. Chairman.

Senator INOUE. I would presume that these high costs which are now being assumed by Hawaiian businesses eventually are passed on to our consumers, are they not?

Mr. MINAMI. That is right.

Senator INOUE. None of them are absorbing this.

Mr. MINAMI. No.

Senator INOUE. In your statement you have stated that in order to determine what procedures the FCC requires to be followed in implementing the rate integration plan, the State of Hawaii found it necessary to enter five separate proceedings at the FCC.

Would you elaborate on that, as to what five proceedings you are speaking of?

Mr. MINAMI. Mr. Chairman, I would like to defer to our counsel, Herbert Marks, on that, if I may.

Mr. MARKS. Yes, sir, the proceedings are as follows:

There was an application by Comsat General to launch the satellite that would be the vehicle for the A.T. & T. domestic satellite system. Neither that application nor any other application then pending contained any proposal for rate integration. Therefore we believed that prudence dictated that we file a pleading with respect to that authorization.

Similarly, A.T. & T. filed an application for authority to derive domestic satellite channels between the mainland and Hawaii, with no similar application for deriving other domestic satellite channels for the balance of the United States, thus severing the Hawaii services in a separate application.

We believed that that application which was also not accompanied by any proposal for rate integration, was improper, and we filed on that, lest it be granted.

We would note that they filed that application for 42 channels under what are called informal procedures, which had the Commission not acted within 15 days, would have been deemed automatically granted, and that would have been full authority had it been granted.

The Commission has advised A.T. & T. and G Sat, which was also a party to that application, that it will not be allowed to go into effect within the 15 days, and there will be a subsequent ruling which we have yet to see.

We have also filed motions with respect to the RCA system, because there was no rate integration proposal and indeed while the original application suggested service to Hawaii, that had become stalled and we thought it was appropriate to bring to the Commission's attention both the need for service to Hawaii off the RCA system, and the failure to address the rate integration area there.

And that involves the applications. There is a fifth application, excuse me, that involves an allocation of cables for Hawaii from a pool and there was an application to derive and provide additional circuits via submarine cable.

At the same time there was no determination of whether it was cheaper to use the cable or use domestic satellites. So we believed it was appropriate to keep that issue from being foreclosed until domestic satellites came into being.

I believe those are the five proceedings in addition to the one where we petitioned for declaratory ruling, which asks for procedural guidelines as to how the principal issues will be tested.

Senator INOUE. Am I correct to conclude from your response that had it not been for the State of Hawaii being alert, we would be in worse trouble today?

Mr. MARKS. Yes, sir, we brought this matter informally to the attention of the Commission staff at various levels on various occasions. We were told that it was not clear as to what procedures would be followed for implementation of the domestic satellite policy for passing upon it, or for resolving disputes, or for making any of the determinations.

Being faced with that statement, Senator, I don't think we had any other choice but to take these procedural steps, and having taken them, we believe that you are right, we would be in a much worse position today had they not been taken.

Senator INOUE. Am I also correct to conclude from your statement that FCC has not been too considerate or concerned about the rights of the State of Hawaii?

Mr. MARKS. Senator, that is a characterization that I would not like to have to assent to.

I would suggest, though, that the record speaks for itself, that it does not bespeak well of the regulatory process where, in order to find out what the rules of the game are, one has to file extensive pleadings at a cost to the State of Hawaii.

I prefer that the record speak for itself on this, and I think the record is clear.

Senator INOUE. Do we have any member of the Commission here? [Show of hand.]

I presume you are taking notes, sir.

Mr. IRWIN [David A. Common Carrier Bureau, FCC]. I am.

Senator INOUE. While we are on this point, sir, and I am addressing myself to the representative of the FCC, as a result of this morning's testimony by the Chairman, several questions have come up, and we would like to forward them by letter to the Commission and request it respond to them, sir.

Mr. IRWIN. Would you like me to take them to the Chairman, or will they be sent?

Senator INOUE. We will be submitting them later, sir.

Mr. IRWIN. All right.

Senator INOUE. Mr. Minami, could you in capsule form tell us about some of your problems relating to Mailgram? I realize this hearing is not concerned with Mailgram.

Mr. MINAMI. Senator, Hawaii is the only State in the Union which does not have Mailgram service, and it has been a State since 1959.

It is another example of the discrimination that is being fostered upon us in the telecommunications field.

Our Governor has sent letters to the FCC asking we be given the benefit of this program. We have had efforts by the chief of the Common Carrier Bureau to try and facilitate an interim arrangement whereby Hawaii could benefit from the Mailgram service.

What started out as a well-meaning effort has now bogged down. We have been subjected to many delays on the part of implementation because of the inability of the carriers to agree.

And with regard to the efforts by the Common Carrier Bureau to implement this system, I think they are to be commended. They took the effort to try and reach agreement.

We have, however, been unable to get the service to Hawaii at this time and I presume that negotiations are still continuing on this matter.

Senator INOUE. Your statement concerns itself with your relationship with the FCC.

Can you tell this committee about your relationship with the carriers involved, A.T. & T., and G.T.E. and Haw/Tel?

Mr. MINAMI. We have had many meetings with Haw/Tel within the State of Hawaii, and John Field, who is their vice president for governmental affairs has come in and discussed matters with us in very general terms.

However, we have not gotten any specific proposals for rate integration from Haw/Tel or from A.T. & T., and that is our problem.

That is, we have a good working relationship with regard to communicating with them, but when it comes down to specific proposals that we are interested in, we have yet to be supplied with any meaningful proposal.

Senator INOUE. It has been suggested that if we carry out full rate level integration in the United States it would mean an additional cost of \$157 million, which will have to be borne by the subscribers on the mainland.

What is your response to that, sir?

Mr. MINAMI. This is the figure that I alluded to in my earlier remarks, Mr. Chairman, that we have some question about that total figure. We would like to respond to that later in writing.

However, with regard to its effect on other States, I would like to point out that the effect would be minimal. What we are dealing with, that is, the traffic for Hawaii and Alaska, is a very small portion of the total revenues of the system and thus any shift in cost would not be very significant on the users of the other 48 States.

Senator INOUE. What is the total take of the system?

Mr. MINAMI. The total pool right now is more than \$5 billion.

Senator INOUE. Then even assuming that \$157 is a correct figure, it is \$157 million out of \$5 billion?

Mr. MINAMI. That is correct.

Senator INOUE. Who is a good mathematician here? What percentage is that? A man in the back says 2 percent.

VOICE. I believe it is 3 percent.

Senator INOUE. About 3 percent.

Mr. MINAMI. Mr. Chairman, I think in addition it should be pointed out that the effect of rate integration would not be to the benefit of the residents of Hawaii alone. That is, in testimony this morning mention was made that a lot of people call people in Hawaii, that therefore the benefits of rate integration would also be accorded citizens of other States as well, that is, people who make calls to Hawaii.

Hawaii has a large tourist industry, and we have a significant number of people who go to Hawaii and have the need to call friends and relatives on the mainland.

Finally, I think any discussion of potential cost would not be complete without recognizing that what we are talking about is a discrimination against one of our sister States of the Union; that is, we are being charged higher rates than what people in other States are.

Senator INOUE. Finally, if I may ask you, Mr. Minami, do you have any suggestions as to what this committee or what this Congress can be doing to further assist you in your endeavor?

Mr. MINAMI. Senator, I think the statement this morning by Chairman Wiley is an encouraging one, that is, that they are determined to work on the problem of rate integration before the advent or launching of the A.T. & T. satellite.

I might suggest that perhaps this committee may keep this hearing open, if possible, until the middle of April to see what kind of progress has been made in this area. That might be very helpful.

Senator INOUE. I have one other question. I noted from Chairman Wiley's statement and your response the fact that the State will be granted 15 days to file its comments.

Are you suggesting you should have more than that?

Mr. MINAMI. It may be that we may need more time than that. A lot depends on the proposals that are presented to us.

Like I said, the initial proposal that we received talked about rate structure integration, and is nothing we would consider to be rate level integration, or it would not be responsive to what the FCC has indicated in its second decision and order.

I would expect that a more responsive proposal by the carriers might require more than 15 days. But we cannot say that at this time.

Senator INOUE. I am certain the FCC will provide you more time if necessary.

Mr. MINAMI. I am hopeful that they will.

Senator INOUE. Well, thank you very much for your assistance this afternoon; it has been very helpful, sir.

Do you wish to make any further statements?

Mr. MINAMI. No, sir.

Senator INOUE. Thank you very much.

Mr. MINAMI. Thank you for the opportunity, sir.

Senator INOUE. Our final witness this afternoon is the director of the office of telecommunications, office of the Governor, State of Alaska, Mr. Robert M. Walp.

Mr. Walp.

STATEMENT OF ROBERT M. WALP, DIRECTOR, OFFICE OF TELECOMMUNICATIONS, OFFICE OF THE GOVERNOR, STATE OF ALASKA

Mr. WALP. Thank you, Mr. Chairman.

The Alaska Office of Telecommunications welcomes this opportunity to speak to this distinguished committee on the subject of rate integration.

Preliminarily, let me state that we support the resolution to promote the integration of the interstate services between the contiguous 48 States and Alaska, Hawaii, and Puerto Rico into the domestic interstate rate pattern.

The uniform domestic interstate rate pattern presently existing in 48 States is based upon the recognition that the Nation is an integrated whole and that policies and practices relating to interstate communication rates and services should be applied equally and uniformly to the entire Nation.

Unfortunately, Alaska, Hawaii, and Puerto Rico have been treated as foreign countries by the communications carriers in the design of their rates and services. This has meant that interstate charges between the U.S. mainland and Alaska, Hawaii, and Puerto Rico have been substantially higher than if they had been based upon the domestic interstate rate pattern. These unduly high charges have restricted communications between Alaska and the lower 48 States and have generally impeded the social, economic, and political integration of Alaska into the Nation. The development of satellite technology has eliminated any economic justification for discriminating against Alaska, Hawaii, or Puerto Rico because of the greater distances involved in communications.

Satellite costs are essentially independent of distance. The cost of communicating between Anchorage and Washington via satellite is inherently no greater than the cost of communicating between Baltimore and Washington via satellite.

In fact, because of the enormous economies in long distance transmission systems—especially those derived from satellites—Alaska traffic should make a significant contribution to the domestic interstate communications network by adding only very long-haul traffic, which is acknowledged to be less costly, more profitable, and more subject to technological improvement than short-haul traffic.

I must emphasize that rate integration specifically means incorporation into the domestic interstate rate pattern that is now applied uniformly throughout the contiguous 48 States and not just a slight reduction in the enormous rate disparities that now exist between the domestic interstate rate pattern and the current high rates now being charged.

Furthermore, integration into the domestic interstate rate pattern must not mean that reduced rates for interstate service between Alaska and the other States will be compensated for by increased intrastate rates within Alaska.

Such a rate structure change would mock the very concept of rate and service integration.

Rate integration should be undertaken to remove the discrimination that now exists in interstate rates to and from these points. And it

must not be removed by further burdening the intrastate communications users. Intrastate rates should not be affected by the integration of interstate rates.

Since the impact of rate integration upon traffic between Alaska and the other States may be immense, we stress that detailed information relating to costs, revenues, service volumes and stimulation factors be made available and carefully analyzed before specific modifications are made to the existing domestic rate structure.

We must take into account the adequacy of existing and planned facilities to handle increased traffic, and may find it advisable to incorporate integration in several steps.

Finally, let me say that we are encouraged by the FCC statements on this issue, and we are confident that the Commission will resolve the issue promptly. Certainly now is the time to move forward with this project. There is no reason why it cannot be resolved and implemented in the near future.

Thank you, Senator.

Senator INOUE. Thank you very much. I presume you were here this morning when Chairman Wiley testified?

Mr. WALP. I arrived near the end of the session unfortunately, but I have looked over his statement.

Senator INOUE. Would you care to comment on the statement, sir?

Mr. WALP. Well, I guess I am encouraged by the general tenor of his remarks.

I feel that the past performance of the Commission in this area has certainly not been very strong. But I am hopeful that in the future the Commission will play a more significant role and help implement the proceeding.

Senator INOUE. Mr. Walp, Senator Stevens is presently testifying on a very important measure, important to the State of Alaska, so he has asked me to ask several question on his behalf.

Has the State of Alaska been afforded an adequate opportunity to participate fully in the Commission's proceedings here under discussion?

Mr. WALP. To my experience, no. My experience is rather limited, as I am relatively new in this office.

However, there was a meeting on integration at the Commission last week among the carriers and the Commission staff personnel, and we were not invited, nor allowed to attend that meeting.

Senator INOUE. Does the State of Alaska view that the higher interstate communication rates in Alaska are ultimately passed on to the consumers of the goods and services in the State?

Mr. WALP. Yes, it is. It is a subject that is difficult to make firm statements on due to the lack of precise data, however.

Senator INOUE. If we should go through with integration, your intrastate rates will go up?

Mr. WALP. We are very concerned about that. I stress this in my prepared statement. And we want positive assurances that that will not occur.

This does imply transfers of funds then into the State if integration is brought about in an equitable manner.

Senator INOUE. In the State of Alaska's judgment, has the FCC been diligent enough in moving to implement the rate integration aspects of its domestic satellite order?

Mr. WALP. I would say up until this time, no.

Senator INOUE. Like the State of Hawaii, you are much more confident that changes will occur now?

Mr. WALP. Yes, sir.

Senator INOUE. Do you have any further statement you wish to make, sir?

Mr. WALP. Well, I think in relation to the concept of the extra costs being a burden upon the users in the lower 48 States, that our point of reference is wrong if we take that position.

In other words, the extra costs that are being levied now are being borne by the States of Hawaii and Alaska, and Puerto Rico.

And if true equity existed, we would be starting with a fully integrated system, and the question wouldn't appear.

Senator INOUE. Well, I thank you, Mr. Walp, your statement will be a great help.

I expect the committee to approve this resolution, and we hope to make this a matter of the sense of the Senate, sir.

Mr. WALP. Thank you, Senator. We appreciate your interest very much.

Senator INOUE. Thank you very much.

The chairman of the subcommittee has received a letter from State Senator John Leopold of the Sixth District of the State of Hawaii requesting that a prepared statement be made a part of the record.

His statement will be made a part of the record at this point.

A letter from Hon. George R. Ariyoshi, Governor of Hawaii, to Hon. Richard E. Wiley, Chairman of the FCC, and a letter to the chairman of the subcommittee from W. C. Rowland, president of the Hawaiian Telephone Co., will also be included in the record.

[The articles follow:]

#### STATEMENT OF JOHN LEOPOLD, STATE SENATOR, STATE OF HAWAII

Six months ago I wrote to the Honorable John Pastore, Chairman of the Subcommittee on Communications of the Senate Commerce Committee, respectfully inquiring what action the Subcommittee had taken or intended to take to prod the FCC to take action to grant the State of Hawaii equal status with Mainland states by lowering Hawaii's long-distance phone rates. My letter was forwarded to the Chairman of the Federal Communications Commission for his reaction, and FCC Chairman Richard E. Wiley responded that the FCC had established requirements relating to integration of the State of Hawaii into the Mainland rate pattern upon initiation of domestic satellite service to Hawaii. Mr. Wiley said that the FCC expected to take appropriate action before the domestic satellite system of the American Telephone and Telegraph Company would be authorized to begin operation, scheduled for early 1976.

I am pleased that Senator Inouye has introduced legislation to prod the FCC to take action to effect the lowering of Hawaii's long-distance phone rates. I want to commend Senator Pastore and Senator Stevens for co-sponsoring this legislation.

I have attached for the record a copy of a petition now circulating in the State of Hawaii, which asks the FCC for equal long-distance phone rates for Hawaii's people. The petition states that the residents of Hawaii oppose the start of new domestic-satellite phone service unless Hawaii residents are given satisfactory rates which are integrated into the Mainland rate structure and satisfactory service which is of the same, equal or better quality, convenience and character as that enjoyed by Mainland states. The petitioners believe that local service subscribers of Hawaiian Telephone Company must not be made

to unduly bear the burden of revenue reductions, if any, that may occur as a result of extending a uniform pattern of long-distance rates to Hawaii.

With many phone calls going by satellite (over 44,000 miles out and back), surface distances are no longer a reasonable factor in the rate-setting procedure. Yet Hawaii continues to be penalized on long-distance rates. The lowest Hawaii-West Coast rate is about four times the lowest West Coast-East Coast rate.

The fight the people of our State are waging for lower long-distance phone rates and the Mailgram service is in reality an extension of Hawaii's long-time crusade for equal rights, the capstone of which was Statehood.

I want to urge the Subcommittee on Communications of the Senate Commerce Committee to act favorably upon Senator Inouye's Resolution and to do all that it can to recommend favorable action by the full Commerce Committee as well.

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THE STATE OF HAWAII

We, the undersigned residents of the State of Hawaii, respectfully petition the Federal Communications Commission to grant the State of Hawaii equal status with Mainland states by lowering Hawaii's long-distance phone rates. We oppose the start of new domestic-satellite phone service unless Hawaii residents are given satisfactory rates which are integrated into the Mainland rate structure and satisfactory service which is of the same, equal or better quality, convenience and character as that enjoyed by Mainland states. Local service subscribers of Hawaiian Telephone Company must not be made to unduly bear the burden of revenue reductions, if any, that may occur as a result of extending a uniform pattern of long-distance rates to Hawaii.

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EXECUTIVE CHAMBERS,  
Honolulu, May 15, 1975.

HON. RICHARD E. WILEY,  
*Chairman, Federal Communications Commission,*  
*Washington, D.C.*

DEAR CHAIRMAN WILEY: I am writing to express the concern of the State of Hawaii that there has been no apparent action by the communications common carriers providing communications services between Hawaii and the United States mainland, Alaska and Puerto Rico to move forward in accordance with the very specific requirements of your Commission as set forth in the Second Report and Order of the Commission in the Matter of Establishment of Domestic Communications-Satellite Facilities by Non-Government Entities as adopted June 16, 1972 (FCC Docket No. 16495). I particularly refer to paragraphs 37 and 38 of the Commission's Order.

The State of Hawaii has previously presented evidence of the adverse treatment accorded the State in the provisioning and tariffing of common carrier telecommunications services (telephone, telegraph message, telex, private line and other specialized services). We were confident in 1972 that the Federal Communications Commission recognized the existent discrimination and would cause action to integrate Hawaii (as well as Alaska and Puerto Rico) into the established domestic rate and service patterns for communications services applicable throughout the contiguous states.

Discussions and research into submissions provided your Commission by the communications common carriers involved disclose resistance to compliance with the Commission's stated policy and intent of 1972. The Commission established a timetable for submission of proposals by the carriers for the integration of their charges and services into the domestic pattern. This timetable related to the authorization of domestic satellites. The six-month time schedule has long expired and time is running out for the Commission to receive and review proposals yet to be submitted in order to approve revised rates prior to the time authorization will be sought for the commencement of domestic satellite service by American Telephone and Telegraph and General Telephone and Electronics, which we understand is to be operationally ready by January 1976, to be followed shortly by RCA.

The State of Hawaii is vitally interested in this proceeding and the promised economic and social benefits due its citizens as equals with the citizenry of the other states of the United States. Rate integration is essential and overdue. Any arguments against implied or actual cross subsidies between revenues retained in the Hawaii service and those retained in communications services between the other states on the mainland are mooted by established Commission policy and practice within the mainland states and by the Commission's decision of 1972 to integrate Hawaii "into the uniform mileage rate pattern that now obtains for the contiguous states, with all that such approach implies in terms of nationwide cost averaging and equalization for interstate rate-making purposes." (FCC 72-531, paragraph 37).

Prior to the Communication's authorizing commencement of service utilizing the several domestic satellite communications systems now authorized to be constructed, the State of Hawaii desires to review the proposals for revised rates and services and to insist that Commission ordered and appropriate rate integration is achieved. The State of Hawaii will oppose any authorizations for commencement of services utilizing any of the new satellite systems in the absence of satisfactory rate and service integration. The State will also insist that new domestic satellite systems include service for Hawaii at the time of commencement of service between any other states. The State will also be concerned and will need to determine that appropriate divisions of revenue have been agreed to between carriers serving intrastate in Hawaii and carriers serving interstate throughout the United States and internationally to insure that the people of Hawaii do not unduly bear the burden of rate integration.

I hope that these matters can be resolved in a timely manner and not require the initiation of hearing proceedings. We will be pleased to work with you in resolving difficulties which may exist or develop.

With warm personal regards, I remain,

Yours very truly,

GEORGE R. ARIYOSHI,  
*Governor.*

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HAWAIIAN TELEPHONE CO.,  
*Honolulu, Hawaii, December 5, 1975.*

HON. JOHN O. PASTORE,  
*Chairman, Commerce Subcommittee on Communications, U.S. Senate,  
Washington, D.C.*

DEAR SENATOR PASTORE: We have been informed that the Commerce Subcommittee on Communications will hold hearings on FCC policies with respect to domestic satellite service and the integration of interstate services between the Mainland and Alaska, Hawaii and Puerto Rico into an enlarged domestic rate structure.

It occurs to us that perhaps a brief statement of Hawaiian Telephone Company's position regarding rate structures for communications services between Hawaii and the Mainland may be helpful to your committee.

Simply stated, our ultimate objective is to accomplish integration into an enlarged domestic rate structure without imposing the burden of that accomplishment on the shoulders of the Hawaiian people. We have made much progress in this direction over the past ten years and in fact an average Hawaii-Mainland telephone call costs half as much today as it did six years ago.

We intend to continue working with all parties concerned so as to achieve our goal at the earliest practical date. If there is any way we can assist you or your committee, please call upon us.

Sincerely,

W. C. ROWLAND,  
*President.*

Senator INOUE. If there are no further statements, the hearing is adjourned.

[Thereupon, at 2:50 p.m., the hearing was adjourned.]

## ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATE OF HAWAII,  
OFFICE OF THE DIRECTOR,  
DEPARTMENT OF REGULATORY AGENCIES,  
Honolulu, Hawaii, December 30, 1975.

HON. DANIEL K. INOUE,  
U.S. Senator, Russell Senate Office Building, Washington, D.C.

DEAR SENATOR INOUE: The Subcommittee on Communications held hearings on Senate Resolution 318 on December 9, 1975. At that hearing, I testified on behalf of the State of Hawaii. During the course of that testimony, two matters arose which were to be covered in a further response to the Subcommittee. These matters are covered below.

### Issue 1

What is the estimated additional cost to users of Message Telecommunications Service in Hawaii from overcharges since 1972 because there has been no rate integration?

*Response.*—We estimate such overcharges to be approximately \$88 million. However, we might also note that this figure should be doubled if we also consider the effect on MTS users on the Mainland who communicate with Hawaii.

### Issue 2

During their testimony the witnesses for the Federal Communications Commission stated that the Carriers estimate the impact of full rate integration for Alaska, Hawaii, Puerto Rico and the Virgin Islands to be \$158 million per year, or about 2.4% of total interstate Message Telecommunications Service.

*Response.*—The information furnished was based on information provided by the carriers which gave only an Average Revenue Per Message for a single month for each location before and after integration. No supporting information was furnished upon which to base a detailed analysis of those figures. However, based on the State's analysis of other carrier submissions with respect to Hawaii services, which used similar factors, it has been the State's view that these factors overstate the effect and ignore important matters such as growth, etc. It is the State's estimate that the magnitude of the impact in terms of reduced revenues will not exceed one-half of the amount projected by the carriers, or about 1.2%. Of course, the State of Hawaii has not reviewed data affecting the other locations involved.

Thank you for the opportunity to submit this information for the record.

Sincerely yours,

WAYNE MINAMI,  
Director.

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FEDERAL COMMUNICATIONS COMMISSION,  
Washington, D.C.

JOSEPH R. FOGARTY,  
Communications Counsel, Committee on Commerce, Subcommittee on Communications, U.S. Senate, Washington, D.C.

DEAR MR. FOGARTY: I am responding to your letter of December 12, 1975, requesting clarification of certain portions of our testimony on rate integration during the December 9 hearings. While I have not yet had an opportunity to review the transcript, from the excerpts cited in your request I can certainly appreciate your concern about possible confusion.

There are two aspects of our testimony which, when taken together, may account for some of the confusion. First, since we are just now at the point of

requesting final specific proposals from the carriers, and comments thereon, we cannot state precisely what action we must or will take to accomplish rate integration in a manner which best serves the public interest. Secondly, it should be understood that there is a distinction between rate structure integration and rate level integration, neither of which have been realized, but both of which are the subject of the Commission's rate integration policy. (Some examples of rate structure are: basic message unit (*e.g.*, one minute), extra minute charges, application of distance-sensitive mileage bands, etc.) While we anticipate little difficulty in achieving prompt rate structure integration, both immediate and time-phased rate level integration will be under consideration.

Following are answers to specific questions under Category I:

*Question 1.* Is immediate rate integration a possibility that will be considered?

Answer. The possibility of immediate rate integration will definitely be considered, along with other possibilities such as the time-phased integration mentioned in the Commission's prior orders.

*Question 2.* If rate integration is not effected immediately, must the carriers submit and the Commission approve a specific plan that will ultimately be a rate schedule based on nationwide average costs?

Answer. The Commission will require that the carriers submit a specific plan for a rate schedule based on nationwide average costs. We will also request an analysis of the overall revenue impact of this plan, as well as its projected impact on both Hawaii intrastate and overall interstate revenue requirements and rates, under various assumptions as to separations and settlement arrangements. Based upon our evaluation of these submissions and comments thereon, the Commission will either approve the carrier plans (with appropriate tariff amendments to follow) or order that the carriers shall not receive operational authorization until they shall have first fulfilled the Commission's rate integration condition by adopting an alternative, Commission-originated plan for rate integration.

*Question 3.* In the latter case, what is the maximum period (the outside limit) in which the Commission is committed to accomplish full integration?

Answer. The Commission has not established any arbitrary outer limit on full rate integration, pending availability of the information to be obtained pursuant to the procedure outlined above. A three to five year period has been mentioned in preliminary discussions, but at this point there is no firm basis for any specified period.

*Question 4.* If there is not a firm commitment to proceed with all deliberate speed to a rate schedule based on nationwide average costs, in what sense is there rate integration other than in mere nomenclature?

Answer. There is a firm commitment to proceed with all deliberate speed to a rate schedule based on nationwide average costs. However, the Commission must decide what constitutes "all deliberate speed," given the circumstance that full rate integration of the offshore locations must inevitably result in some burden on the interstate revenue MTT pool, and—absent some change in present ownership and/or settlement arrangements between AT&T and the Hawaiian Telephone Company—the prospect of a burden on Hawaii intrastate users.

*Question 5.* In this regard, doesn't the *Second Report and Order* mandate that ultimately there must be uniform rates, but that a statement of such uniform rate levels may occur in time phases?

Answer. Please refer to previous answers.

Respecting your Category II questions, it is not anticipated that full rate integration for Hawaii will result in any significant increase in mainland rates. However, this turns on what is meant by "significant." Present data submitted by the carriers, which may not adequately reflect elasticity in revenue resulting from lower rates, indicates a reduction of the 1975 MTS interstate revenue pool of about 2.4% for full rate integration of Hawaii, Alaska, Puerto Rico and the Virgin Islands.

I trust this information will be helpful. If you should desire further clarification of either substantive or procedural aspects of our rate integration efforts, please let me know.

Sincerely,

RICHARD E. WILEY,  
Chairman.

ALL AMERICA CABLES AND RADIO, INC.,  
New York, N.Y., January 28, 1976.

Hon. JOHN O. PASTORE,  
*Chairman, Subcommittee on Communications; Committee on Commerce, Dirksen  
Senate Office Building, Washington, D.C.*

DEAR SENATOR PASTORE: After many years of providing reliable and efficient overseas telephone services in Puerto Rico, we are distressed by recent statements which unjustly question the importance of our role there as an interstate and foreign communications common carrier. Because one such statement was submitted to the Subcommittee on Communications of the Committee on Commerce by the Honorable Rafael Hernandez Colon, Governor of Puerto Rico, we believe that the record before your Committee should include a statement of the All America Cables and Radio, Inc. (AAC&R) position on issues raised in that statement.

Although we share Governor Colon's interest in the improvement of local telephone services in Puerto Rico, we do not agree with his preference for local government ownership and operation of overseas facilities serving the island. In our view, there are very good reasons why AAC&R should continue to provide overseas services while special efforts to improve local services are pursued. And, notwithstanding the misleading label of "middleman" placed on AAC&R's role in providing overseas services, the fact is that our facilities and services (not duplicated by any other carrier) are an essential part of interstate and foreign communications between Puerto Rico, on the one hand, and the U.S. Mainland and foreign countries, on the other hand. In any event, the objective of integrating rates to and from off-shore points into the Mainland rate structure, which is being addressed by your Subcommittee, and the continuance of efficient interstate services will not be advanced by transferring overseas facilities to a local government entity.

As you may know, AAC&R and predecessor ITT subsidiaries have been the providers of overseas services in Puerto Rico since 1936. Modern efficient facilities, including the international satellite system and transistorized submarine cables, have been utilized on a timely basis during this entire period. Moreover, while the quality of overseas services has to a large extent been masked by local telephone service problems, the AAC&R transmission services are of the highest quality and are fully comparable to the matching transmission services of American Telephone and Telegraph Company (AT&T) operating on the U.S. Mainland. Through the use of diverse and efficiently operated facilities, AAC&R and its sister company serving the Virgin Islands, ITT Communications, Inc.—Virgin Islands (ITTCIVI), provide efficient, integrated overseas services in the Puerto Rico/Virgin Islands area.

From all that we've seen or heard thus far, there is no contention that a change in carriers is required to improve the efficiency, quality or reliability of overseas telephone services. Thus, from an operational point of view, continuance of AAC&R's role in Puerto Rico must be preferred.

It is argued, however, that because AAC&R or another ITT company does not provide local services in Puerto Rico, AAC&R is an unnecessary "middleman" between the Puerto Rico Telephone Company (PRTC) and AT&T insofar as Mainland/Puerto Rico services are concerned. Since Governor Colon and others seem content to rely on the evil implications of the word "middleman," the proposed remedy—ownership and operation of interstate and foreign communications facilities by a local government entity—is designed to solve an imaginary or unstated problem. In the circumstances, we are obliged to call the following facts to your attention:

- (a) The role of AAC&R as the interstate and foreign communications carriers in Puerto Rico is similar and corresponds to the role of AT&T Long Lines, which operates separately and distinct from local independent (non-Bell) telephone companies on the Mainland;
- (b) The services and facilities provided by AAC&R are essential to good overseas communications and they are *not* a duplication of services and facilities provided by any other carrier;
- (c) AAC&R, in conjunction with ITTCIVI, utilizes modern cable, satellite, microwave and other facilities to provide such services in the Puerto Rico/Virgin Islands area;

(d) Ouster of AAC&R from Puerto Rico would not result in any cost savings, it would not eliminate any resale or mark-up of services, and it would not result in any beneficial integration of services or facilities; and

(e) Steps toward rate integration (between Mainland/Puerto Rico rates and Mainland interstate rates) will be delayed by the obvious desire of the Puerto Rican Government to use revenues from overseas services to subsidize local operations.

Against this background, we are faced with the undisguised political objective revealed in the Governor's statement, namely, to obtain *additional subsidies* for Puerto Rico. Certainly, this parochial aim should not be accomplished without regard to the public interest factors cited herein, particularly where local government control over interstate and foreign services is the means.

Perhaps the most basic issue to be addressed by interested parties will be whether public or private ownership of interstate and foreign communications facilities and services should be provided by a local government entity. Public ownership is particularly inappropriate in the instant case where the reliability of services to and from the Virgin Islands is dependent on the availability of access to overseas facilities located in Puerto Rico. But even if facilities in the Puerto Rico/Virgin Islands area were not established on an integrated basis, one would have to consider the importance of FCC control of interstate and foreign services. That control is and can be effectively maintained over privately-owned carriers without constant involvement in local political affairs. On the other hand, exercise of such control would be very difficult, if not impossible, if the overseas carrier is a local government entity. In this regard, we note that, under its new ownership, PRTC has already attempted to distinguish itself from other carriers. For example, PRTC opposes interconnection of customer-provided equipment to its facilities, contending before the FCC that ". . . on the basis of its unique situation a government controlled monopoly is preferable to a free enterprise system." Another departure from normal practice is PRTC's disavowal of the FCC tariffs applicable to the overseas telephone services in which it participates. Recently, PRTC went so far as to impose a surcharge of \$325 per month on Puerto Rico/Mainland private line users for "access" to the local network—no new equipment or service is involved. Indeed, the Governor's statement is further evidence of the Commonwealth's continuing appeal for special treatment.

Charges that ITT, as former owner of PRTC, failed to provide local services of a quality comparable to that which is provided on the Mainland would have to be addressed in light of the political and economic environment in which that company operated. If there is any serious interest in that subject, we are prepared to discuss it in depth. For the purpose of dealing with current issues, however, we are limiting our comments in this response to the single point which seems to deserve attention.

When ITT owned PRTC, that company, like other local telephone companies throughout the United States, was faced with rising costs and revenue requirements. Rate increases were necessary. Unfortunately, contrary to Governor Colon's statement that the Puerto Rico ". . . Public Service Commission repeatedly has found it necessary to grant rate increases to PRTC," no increase in rates was authorized by the Public Service Commission (PSC) after it had approved a rate increase in 1964 (later modified by Court action). In 1973, ITT was advised that, rather than approve all or part of PRTC's 1972 rate application, the Puerto Rican Government would prefer to acquire the local telephone company and thereby derive certain alleged financial advantages associated with government ownership of the telephone company. Nonetheless, within one month after the transfer of control of the telephone company, in 1974, the new owner, the Puerto Rico Telephone Authority (PRTA), increased rates at least 32%. (Under local law, PRTA rates are not subject to review by the PSC.) When one considers the fact that telephone company revenue requirements no longer include several taxes paid during the company's period of private ownership, the additional charges for local telephone services in Puerto Rico and the loss of tax payments to the Commonwealth place the so-called advantages of government ownership in serious doubt.

With respect to efforts to improve local services, what remains to be determined is how the huge capital additions initially proposed by the PRTA will be financed. By now, there should be no doubt that the telephone company will absorb an inordinate share of Puerto Rico's borrowing capacity. In any case, improvement of local telephone services to match Mainland standards are hundreds of millions of dollars and many years away.

The Governor's statement calls for subsidization of local telephone services. Obviously, if AAC&R is displaced by the local telephone authority, such subsidization would be facilitated; insofar as subsidy from AT&T is concerned, it should also be obvious that Mainland customers would bear that burden. Without arguing the merits of subsidies, we must reject that objective as justification for the displacement of AAC&R. The transfer of revenues from overseas and Mainland operations to satisfy the requirements of local operations would not advance rate integration; instead, such actions would be tantamount to the imposition of a hidden tax on users of overseas and Mainland services. (We do recognize, however, that adjustments in the allocations of revenues between PRTC and AAC&R will be appropriate in the future, and such adjustments were provided for in a ten-year agreement, expiring at the end of 1983, between PRTC and AAC&R.)

Certainly, in light of AAC&R's record of providing efficient, high-quality services, under regulation of the FCC, we can only believe that the substitution of a government entity for AAC&R would have to be based on a political philosophy which has not heretofore been favored in the United States.

We recognize that this statement does not cover many points or answer all the questions that may have arisen in this matter. Therefore, in addition to thanking you for receiving these comments, we stand ready to furnish any additional information you may require.

Respectfully yours,

GEORGE F. KNAPP,  
*President.*

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FEDERAL COMMUNICATIONS COMMISSION,  
*Washington, D.C., February 9, 1976.*

Hon. JOHN O. PASTORE,  
*Chairman, Communications Subcommittee,*  
*U.S. Senate, Washington, D.C.*

DEAR SENATOR PASTORE: This is in response to your letter dated January 20, 1976 requesting the Commission's response to the following questions:

(1) Under the Communications Act of 1934, as amended, is the Commission required to determine and apply uniform principles with respect to rate structures and rate levels for interstate communications within all the fifty states? If so, does the Act also require uniform integrated rates throughout the fifty states? (Reference to relevant provisions of the Act is requested.); and

(2) How have the existing uniform interstate rates for the contiguous forty-eight states evolved; what have been the respective roles of the FCC and the carriers in this development?

There is no provision in the Communications Act, as such, which requires the application of uniform principles with respect to rate structures and rate levels for interstate communications within all the fifty states. However, Section 202(a) declares it "unlawful for any common carrier to make any unjust or unreasonable discrimination in charges, practices, classifications, regulations, facilities or services for or in connection with communication service . . . or to make or give any undue or unreasonable preference or advantage to any particular person, class of persons, or locality, or to subject any particular person, class of persons, or locality to any undue or unreasonable prejudice or disadvantage." Under this provision the Commission would determine whether any discrimination for like communications services among localities is "unjust or unreasonable" or any prejudice or disadvantage to any locality is "undue or unreasonable," depending on the facts and circumstances before it. The burden to show that any discrimination, preference, advantage, prejudice or disadvantage is not unjust or unreasonable is upon the carrier.

It appears that both the Commission and the carriers played instrumental roles in the evolution of uniform interstate rates. The elimination of rate inconsistencies was regarded as one of the Commission's "first objectives" during its early years.

Certain Bell System companies maintained exceptions to the general interstate rate schedules until 1946, which is generally regarded as the year demarking uniform rates. However, New England Telephone Company did not join in the uniform schedule until March 1952. The uniform interstate rate schedules were adopted by both concurring and connecting carriers over time; the last such carrier dropped "other line charges" collected in lieu of the uniform rates in 1972.

The uniform schedule of interstate rates are implemented through the "division of revenues" procedures whereby each of the twenty-three Bell System Associated Companies and the Long Lines Department of AT&T jointly provide interstate service. Under this process, although plant costs and expenses vary among the companies, interstate revenues are divided among the companies in a manner intended to recognize cost differences. The independent companies recover their costs for interstate traffic provided jointly with the Bell System Companies through settlements with Bell. The Commission also participates with the state commissions and the carriers in promulgation of jurisdictional separations. These procedures ascribe the costs and revenues between interstate services and state operations which are under state jurisdiction.

Sincerely,

RICHARD E. WILEY,  
*Chairman.*

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STATEMENT OF HON. RAFAEL HERNÁNDEZ COLÓN, GOVERNOR, COMMONWEALTH OF PUERTO RICO

As the Governor of the Commonwealth of Puerto Rico, I thank you for the opportunity to present to your subcommittee our views on the very important question of communications rate integration for our island.

But before I address the question of rates, it is essential that you understand the background of Puerto Rico communications—particularly with respect to telephone service.

As you know, Puerto Rico is an island with one large, crowded metropolitan area, San Juan, and a few smaller cities. Most of the island, however, is characterized by rugged mountainous terrain and dense, tropical vegetation. Because of this rugged terrain, the telephone is a primary method of communication for the 42 percent of our population that live in these rural areas.

It is also important that this subcommittee understand the nature of the telephone system that serves our island. It differs considerably from that which you rely so heavily upon here in Washington, D.C., or in your home states. The telephone service supplied throughout the mainland United States by AT&T and the several independent companies is the best in the world. But in Puerto Rico, neither the *scope* nor the *quality* of service approaches that which you are used to here. Our telephone system, like many other aspects of our island's basic economic infrastructure, is still in the process of development and is far from achieving maturity.

For many years, the people of Puerto Rico have been served by two separate telephone systems. Since 1942, the Puerto Rico Communications Authority has supplied service in the most rural areas which would otherwise have been isolated. This governmental authority is a small but essential part of our telecommunications system.

The largest part of our telephone service—over 90 per cent—is owned and operated by the Puerto Rico Telephone Company—PRTC. Until quite recently, PRTC was a wholly owned subsidiary of International Telephone & Telegraph—ITT. However, in July of 1974, the Commonwealth took the unprecedented step of acquiring PRTC from ITT, and PRTC is now owned by the newly formed Puerto Rico Telephone Authority.

Why did Puerto Rico undertake this drastic and unique measure? The answer is quite simple. We acquired the telephone company so that it could be developed in a manner which will eventually give the people of Puerto Rico telephone service on a par with that available elsewhere in the United States. After many years of continuing effort by the government of Puerto Rico and the Public Service Commission, it was apparent that the owners of PRTC were unable or unprepared to provide adequate telephone service at rates comparable to mainland rates.

Since 1952, our Public Service Commission repeatedly has found it necessary to grant rate increases to PRTC. Although these increases were conditioned upon the company's providing better services, time and time again these conditions were not met. From then until now, PRTC has been unable to provide telephone service to all who request and require it. Even worse, it has been unable, in many respects, to provide adequate and reliable service to its existing subscribers. Finally, in 1973, PRTC sought an increase in its rates of over 50 per cent, while at the same time it was being fined by the Public Service Commission

for its failure to meet specific service standards. At that point, it became obvious that a new approach was required.

#### THE CONDITION OF THE PRTC SYSTEM

At the time the Telephone Authority acquired PRTC, the system faced three major problems. First, an extraordinarily high percentage of call attempts encountered equipment difficulties which prevented their completion. PRTC operating data shows that equipment difficulties were encountered by approximately one out of every three calls originated. Second, the record shows that telephones were frequently out of order for weeks and months at a time. Repairs sometimes took up to six months, and rarely was trouble eliminated within a normal period. Third, the waiting period for new telephone service was excessive. It was not unusual for new customers seeking service to be forced to wait for six months or even longer; not infrequently, the waiting period was three to five years. By the end of 1974, PRTC had almost 32,000 orders for new residential and business installations which it was not able to fill. This figure represented a threefold increase since 1969.

Some other statistics will help to illustrate the magnitude of our problem. At the time we acquired PRTC, there were 15.6 telephones in Puerto Rico for every 100 people. On the United States mainland, there were 66 telephones for every 100 people—over four times the telephone density found in Puerto Rico. Even in San Juan, the island's metropolitan area with a population of approximately 850,000, there were less than 33 telephones per 100 people. Compare this to Washington, D.C., a city of similar size, where there were then 130 telephones for every 100 people.

The incidence of telephone needing repair services was also much greater in Puerto Rico than on the mainland. In 1974, the Bell System's experience was 4.8 trouble reports for every 100 telephone stations. In that same year, PRTC had almost 25 trouble reports per 100 stations. In short, a telephone user in Puerto Rico could expect five times the number of troubles that a mainland customer would experience.

Our Telephone Authority is committed to a major capital expansion program and an employee training program which are designed to improve the quality and adequacy of PRTC service over the next several years. This program will entail a capital expenditure of approximately \$575 million by 1979. It is essential to the economic and social well being of Puerto Rico that we be successful in our efforts to achieve adequate and efficient telephone service for our people and our businesses. Our efforts to attract new business and investment to our island are hampered by a poor telephone system. Even more importantly, a poor telephone system jeopardizes the health, safety and welfare of our citizens.

#### THE PROSPECT OF LOWER OFF-ISLAND RATES

With this background, it is not surprising that we in Puerto Rico welcomed the Federal Communications Commission decision to integrate Puerto Rico into the domestic rate structure. The rates charged for communication between Puerto Rico and the mainland are extremely important to the government and people of our island. A large number of Puerto Ricans are now living throughout the mainland United States, and most retain strong ties to family and friends in Puerto Rico. But few of our people are wealthy—in fact many are quite poor—and the cost of telephone toll calls can be prohibitive.

Proper toll rates between Puerto Rico and the mainland are also essential to our economic development. Being an island, our businesses are heavily dependent upon the United States for raw materials, for supplies, and for markets. The cost of telephone service to and from the mainland is therefore significant in our continuing efforts to broaden the island's economic base by attracting new business and developing existing enterprises.

But while we favor steps that will achieve rate reductions, we must also be realistic. There are problems that must be confronted and issues that must be resolved if rate reductions are to be achieved for Puerto Rico without complicating our already difficult communications problems.

A primary problem that must be confronted is the need to establish a satisfactory division of revenues among the carriers involved. At the present time, telephone traffic from Puerto Rico to the mainland passes from the land-based facilities of PRTC to the overseas facilities of an ITT subsidiary, All America Cables & Radio—AAC&R, and then into the facilities of AT&T. Under the present

agreements for the division of revenues from traffic between Puerto Rico and the mainland, AT&T gets 50 cents of each dollar in revenue, ITT's subsidiary gets 25 cents, and PRTC gets 25 cents.

If rates are reduced and this division of revenues remains the same, PRTC will be severely injured. The use of domestic satellite facilities may reduce costs for AT&T and ITT since they supply the overseas circuits; but there is no cost reduction for PRTC because its facilities are land based. Its costs remain the same whether the telephone signal reaches its facilities via satellite or via submarine cable. In fact, PRTC's costs will even be increased because it will be required to expand its facilities to add new telephone circuits to handle the increased traffic volume that lower rates will stimulate.

PRTC estimates that if toll rates to the United States mainland were immediately reduced to domestic levels without a corresponding alteration of the division of revenues, it would experience a minimum net adverse impact of \$12 million annually. The magnitude of this loss would seriously affect the financial integrity of PRTC. It would be forced to make up this shortfall by increasing residential and business rates for service within the island. Intra-island toll rates could not be increased since to do so would make them equal to or higher than rates to the mainland.

Increased on-island rates would be disastrous for the people of Puerto Rico. Our rates are already higher than what many of our people can afford. For example, in 1974, it was estimated that rates in San Juan were 10 to 15 percent higher for residential service than in mainland United States cities having a local calling area of equal size. Our cost of living is so high that the U.S. Civil Service Commission provides an *increase* in base pay for federal employees assigned to Puerto Rico. Yet per capita income in Puerto Rico is hardly more than one-third of the United States average. Over 60 percent of the families in Puerto Rico live below the national poverty level.

As these facts demonstrate, we can hardly afford to be placed in a position where our on-island service is required to subsidize service to the mainland. To prevent such subsidization, the integration of Puerto Rico into the domestic rate structure must be accompanied by a new division of revenues that will insure that PRTC is fairly and properly reimbursed for its costs in providing its portion of the service.

The FCC, by means of several revisions of the Separations Manual, has recognized that improved technology has produced large economies of scale in the utilization of long haul facilities, but only minimal economies in the utilization of local facilities. Thus, the separations formulas have been altered, most recently in the Ozark plan, to assign more local plant to the interstate services. These revisions of the Separations Manual recognize the indispensable need for local facilities to originate long distance traffic and have had the effect of minimizing local rate increases and equitably distributing the fruits of technology between local and long distance rates. To date, however, PRTC has not had the benefit, afforded all other independent telephone companies in the United States, of participating in these separation plans, to the great detriment of the Puerto Rico telephone user.

The integration of Puerto Rico into the domestic rate structure also raises questions regarding the ownership of facilities used to connect Puerto Rico with the mainland.

Telephone traffic between Puerto Rico and the mainland is currently routed through undersea cables and communication satellite circuits. Both the cables and the Cayey, Puerto Rico, satellite earth station are currently owned by entities which do not provide direct telephone service to customers in Puerto Rico. AT&T and ITT together own nearly all of the undersea cable circuits. Similarly, ITT and Comsat have a 91.5 percent ownership share in the earth station. The other ownership interests in both the cables and the earth station are held by international record carriers.

At the time cable ownership was determined, ITT provided most of the local telephone service within the Commonwealth of Puerto Rico. Since most of the cable traffic was between the mainland and Puerto Rico, ITT and its mainland counterpart, AT&T, were granted the authority to own these facilities.

A similar situation existed with respect to the Cayey earth station. The earth station was built as part of the international communications satellite system. Accordingly, ownership of the earth station was shared by Comsat, the U.S. entity responsible for providing international communications satellite service,

and the other authorized international carriers. One again, ITT obtained a large ownership share because it was the major local carrier in Puerto Rico.

A use-related ownership formula based on acceptable settlement procedures is both logical and equitable. The FCC has stated that, in regards to earth station ownership:

Any major departure from this principle would, in essence, mean that a carrier ready, willing, and able to pay for facilities which it actually requires to handle traffic would be required to lease them from a second carrier. The sole function of this second carrier would be that of the investor in facilities on which such second carrier would realize a return at the expense of the first carrier-user.<sup>1</sup>

Unfortunately, the sale of PRTC by ITT to our Telephone Authority has produced just such an undesirable departure from this policy. ITT now functions as an unnecessary middleman carrier between PRTC and AT&T.

ITT no longer directly serves any Puerto Rican telephone customers. Yet, telephone traffic between Puerto Rico and the mainland must still be routed from AT&T or PRTC through interconnections with an ITT subsidiary. Such an arrangement places ITT in the position of a middleman carrier whose only function is that of an investor. And our studies indicate that ITT's return on that investment is quite substantial. The presence of such a middleman carrier is, as the Commission has recognized in other contexts, both inefficient and contrary to a use-related ownership policy. Middleman ownership increases costs to the primary carrier users, in this case AT&T and PRTC. And these increased costs are, of course, ultimately reflected in higher rates to the public.

It appears that the FCC may be willing to recognize this problem. In its *Second Report and Order on Domestic Communications-Satellite Facilities*, the Commission established the policy that AT&T (the mainland carrier) should provide "MTT services via domestic satellite to [Puerto Rico, Hawaii and Alaska] in conjunction with the appropriate local carrier. . . ."<sup>2</sup> Such a policy not only will serve to reduce costs by eliminating unnecessary middlemen, but will also prevent costly and unnecessary fragmentation of responsibility among several carriers for the planning and provision of facilities necessary to achieve integrated service.

Implementation of this policy is currently being tested before the Commission in a dispute between PRTC and ITT over ownership of the Cayey earth station. ITT's subsidiary, AAC&R, applied to the Commission for permission to purchase the Cayey earth station from Comsat. Our Telephone Authority opposed this transfer since ITT is no longer the local carrier in Puerto Rico and its ownership of the earth station would perpetuate its undesirable role as a middleman between PRTC and AT&T. Recognizing that the transfer to ACC&R might not be in the public interest, the Commission designated the matter for hearing. It is my hope and my expectation that this controversy can be quickly and properly resolved so that domestic satellite service to Puerto Rico will not be further delayed.

Proper action by the FCC with respect to satellite facilities between the mainland and Puerto Rico will still leave ITT in its middleman carrier position for traffic that is carried over undersea cables. This is a problem which we are studying and which this subcommittee and the FCC may have to confront in the future.

#### UNIQUENESS OF PUERTO RICO'S COMMUNICATIONS PROBLEMS

The matters I have brought before you today illustrate that the communications concerns of Puerto Rico go far beyond the question of integrated rates—important as that issue is. I welcome the opportunity to explain to this distinguished subcommittee just how serious and different our problem are. Puerto Rico is *not* the mainland United States—and our problems, particularly in this area of communications, are wholly unlike those of any other jurisdiction for which this Congress legislates or the FCC regulates.

The unique economic, social, and political relationship between Puerto Rico and the United States has been the focus of two years of studies and public hearings conducted by the Ad Hoc Advisory Group on Puerto Rico. This body was jointly appointed by the President of the United States and the Governor of Puerto Rico in 1973 and was co-chaired by former Senator Marlow W. Cook and

<sup>1</sup> *Ownership and Operation of Earth Stations*, 5 F.C.C. 2d 812, 818-19 (1966).

<sup>2</sup> 35 F.C.C. 2d 844, 858 (1972).

the Honorable Luis Muñoz Marín. In its Report, transmitted to the President in October of this year, the Advisory Group concluded that the application of federal laws and administrative regulations to Puerto Rico must remain flexible.

The Advisory Group's conclusions are consistent with the distinctive treatment Congress itself has frequently given to problems existing in Puerto Rico. For example, certain provisions of the Interstate Commerce Act, the federal income tax laws, and the federal minimum wage laws, among others, are presently inapplicable in Puerto Rico. I urge your subcommittee to recognize that a different legislative and regulatory approach may also be appropriate in solving Puerto Rico's unique telecommunications concerns.

Sensitivity to the unusual character of the communications problems confronting Puerto Rico has already been shown by the FCC by its approval of the transfer of ownership of PRTC from ITT to our Telephone Authority. The FCC must also be prepared to be flexible in other areas to meet our situation. For example, our Telephone Authority is presently asking the FCC to recognize that it is inappropriate for the Commission to apply its policies regarding interconnection with customer supplied terminal equipment in the same manner in Puerto Rico as in other jurisdictions. Likewise, it may well be that Puerto Rico requires a different approach to the question of division of revenues among carriers from that applied where telephone systems are more developed.

#### SUMMARY

We, in Puerto Rico, applaud the Federal Communications Commission for adopting a much needed policy of integration of telephone service to Puerto Rico into the domestic rate structure. But the Commission's *Second Report and Order* is only the first step toward achieving the goal of high quality, low cost telephone service to all U.S. citizens regardless of where they reside. Moreover, that first step was taken three years ago, in 1972, and it does not appear that any substantial progress has been made toward its implementation. This concerns us in Puerto Rico because difficult problems must be solved before rate integration can take place. It is essential that these problems be confronted quickly.

Specifically, the Commission must recognize that the integration of Puerto Rico into the domestic telecommunications structure will require a new division of revenues in order to permit the continued upgrading of telephone service within Puerto Rico. The Commission must also act quickly to decide who should own the vital Cayey, Puerto Rico, earth station, since ownership of the earth station directly affects the rates for, and quality of service between, Puerto Rico and the mainland. Finally, the Commission and this subcommittee must be prepared to be flexible in confronting other problems that may arise with respect to Puerto Rico.

I welcome this subcommittee's interest and concern, and I hope that you are prepared to continue this interest until the people of Puerto Rico, as well as those of Hawaii and Alaska, are fully accorded the service and rates for telecommunications services which the advent of satellite technology has made possible.

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#### STATEMENT OF WESTERN UNION INTERNATIONAL, INC.

Western Union International, Inc. (WUI) is pleased to briefly outline its views concerning the integration of telecommunications services and rates between the United States Mainland and United States off-shore States and other locations into the pattern prevailing within the Mainland.

WUI is one of the three leading international record carriers and provides all forms of record, data, voice/data, and telegraphic services between the U.S. Mainland, on the one hand, and U.S. off-shore and foreign points, on the other hand, via an integrated network of submarine cable and communications satellite facilities. As an international record carrier, WUI is independent from, and has no corporate affiliation with, The Western Union Telegraph Company whose operations are confined fundamentally to the continental United States and adjacent countries in North America pursuant to Section 222 of the Communications Act of 1934, as amended.

With respect to the State of Hawaii and the Commonwealth of Puerto Rico, WUI provides all of the foregoing services from these two off-shore points to the U.S. Mainland, and from these off-shore points to foreign nations through-

out the world. With respect to the State of Alaska, WUI has not yet been able to obtain authority from the Federal Communications Commission (FCC) to provide comparable services although WUI has made every reasonable effort to gain such authority and presently has pending before the FCC a petition for reconsideration of its denial of WUI's application.

WUI is committed to implement the rate and service integration policy to Hawaii and Puerto Rico, and hopefully to Alaska depending upon the FCC's ruling upon the aforementioned petition for reconsideration. This Subcommittee is inquiring into this policy with the advent of domestic satellite service. Although WUI does not presently plan a domestic satellite system of its own, it does propose to move its Hawaiian and Puerto Rican overseas services from the Intelsat international system to the domestic satellite system of the American Telephone & Telegraph Co. (AT&T), pursuant to FCC policy regarding this satellite reconfiguration. AT&T has agreed, in principle, to the use of its system by WUI for Mainland/Hawaii and Mainland/Puerto Rico services. However, satellite and earth station costs are not yet available from AT&T. Therefore, WUI is not in a position today to specify its exact rates applicable to its services to these two off-shore locations via the forthcoming domestic satellite system.

In order to demonstrate to this Subcommittee our dedication toward rate and service integration, we will briefly recount a decade of our progress, with special emphasis upon service to and from the State of Hawaii.

WUI was the first, and remains the only, international record carrier to extend *direct* service to any neighboring island of Oahu. As a direct result of the commencement of direct service to Hilo, Hawaii by WUI, rates for all of our services, including cablegrams, telex, and private line service, were reduced for Hilo down to the level prevailing for Oahu. Also, the other neighboring islands, including Hawaii, enjoyed reduced cablegram rates. Although WUI has been operating at Hilo since 1972 pursuant to *temporary* FCC authority with some 15 interim renewals, we are hopeful that the FCC will soon make our authority permanent in view of these beneficial service and rate reductions.

There has been pending before the FCC our proposal to reduce Hawaii/Mainland telex rates and cablegram rates by about 25% contingent upon the following reasonable actions by The Western Union Telegraph Company (Western Union which is separate and independent from WUI): (1) withdrawal by Western Union of its 1975 increases in its landline handling charges within the continental U.S. for interconnected cablegram message service to Hawaii; and (2) a roll back of its interconnected telex charges within the continental U.S. to pre-1971 levels for Mainland/Hawaii service.

During the last decade WUI has established dramatic reductions in rates for overseas services to and from Hawaii. For example, telex rates have been reduced by about 20% between Hawaii and many foreign overseas points; and in many cases the minimum charging period for this service has been reduced from three minutes to one minute. Since 1965, the monthly rates for Hawaii/Mainland private line alternate voice/data service have been reduced from \$17,000 down to \$3,770. Likewise during the same time frame, private line telegraph rates have been reduced from about \$6,000 per month down to \$250 per month. These reductions of nearly 80% for alternate voice/data service and of about 96% for telegraph service contrast sharply with the inflationary spiral of nearly all other costs, including charges for communications services within the continental U.S.

There has been pending before the FCC WUI's application to provide mailgram-type services between the U.S. Mainland and each of Hawaii and Puerto Rico. In the case of the State of Hawaii, WUI's proposed mailgram-type rates are lower than those provided by Western Union on the Mainland.

Accordingly, not only does this Subcommittee have WUI's commitment to implement the rate and service integration policies to U.S. off-shore locations, but also WUI's past record for the State of Hawaii should show our dedication toward this goal.

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#### STATEMENT OF THE WESTERN UNION TELEGRAPH CO.

The Western Union Telegraph Company (Western Union) welcomes this opportunity to present a statement concerning the policies of the Federal Communications Commission designed to insure that the advent of domestic satellite communications will be accompanied by the integration of communications serv-

ices between the Mainland and Alaska and Hawaii under an enlarged domestic rate structure.

The communications services provided by Western Union may be divided into the following three general areas:

(1) *Public Message Services.*—These include essentially the telegram and money order services. Most of such messages are placed with Western Union by toll-free phone calls to one of Western Union's three Central Telephone Bureaus. Other means of sending messages include, in part, over-the-counter filing at public offices and filing via teleprinter. Delivery methods include delivery by phone, messenger, and tieline.

(2) *Mailgram Service.*—Mailgrams are filed with Western Union and electronically transmitted through Western Union facilities to a teleprinter in a serving post office near the addressee. The message is taken off the teleprinter, placed in a windowed envelope, and delivered by a Postal Service carrier in the next mail delivery.

(3) *Teleprinter Exchange Services.*—These include essentially the TWX and Telex networks whereby teleprinter subscribers may correspond with each other in hard copy.

(4) *Private Line (Wire) Services.*—These include the providing of channel capacity (e.g., voice-grade and data channels) and communications equipment, systems, and related services to business and governmental customers.

For purposes of brevity, we have described our three main service categories in summary and broad terms. Each of the three categories actually includes a wide variety of subcategories and service features designed to meet public needs. We would be pleased to supply a more detailed statement of our communications services upon request of this Subcommittee.

At present we provide our communications services essentially within the 48 contiguous states and do not provide services directly within Alaska, Hawaii,<sup>1</sup> or Puerto Rico. The long lines carrier for intrastate and interstate Alaskan service is RCA Alaska Communications, Inc. (RCA Alascom).

As for record communications between the lower 48 states and Hawaii (as well as other overseas locations), Western Union performs what is known as the "domestic landline haul" function. That is, in connection with messages (such as cablegrams or overseas Telex) between the U.S. Mainland and overseas points, Western Union performs carrying function on the Mainland (including, e.g., acceptance and delivery) and interconnects at a gateway city with an international record carrier (IRC), with the latter performing the overseas carrying function.<sup>2</sup>

Western Union was the first company to implement a domestic satellite system. The first WESTAR satellite went into orbit in April 1974 and use of that satellite for commercial operations began in July 1974. This was followed several months later by the successful launching of WESTAR II. A third satellite is maintained on the ground and will be launched when needed. Our domestic satellite communications system utilizes two satellites in orbit and five earth stations, which are located near New York, Atlanta, Chicago, Dallas, and Los Angeles. Through employment of Western Union connecting terrestrial microwave and cable facilities we are able to provide door-to-door service to our satellite customers. Our satellite system is used essentially for the provision of Private Line services to customers (including other carriers), though we use some satellite channel capacity for purposes of our own public services.

It has been our desire to make the WESTAR satellite system a truly nationwide communications service reaching all 50 states, so that all 50 states can gain the rate benefits which the WESTAR system has introduced.<sup>3</sup> Unfortunately, to this time the Commission has not authorized us to extend the WESTAR service offerings to members of the public in the states of Alaska and Hawaii. We hope that the Commission's policy in this respect will change so that the people of Hawaii and Alaska will be able to benefit from the economically priced

<sup>1</sup> An affiliated company, Western Union of Hawaii, Inc., provides intrastate teletypewriter exchange service in the State of Hawaii. Interconnection with U.S. overseas carriers enables the teletypewriter customers of Western Union of Hawaii, Inc., to correspond with Mainland teletypewriter subscribers.

<sup>2</sup> The U.S. IRCs are ITT World Communications, Inc. (ITTW), RCA Global Communications, Inc. (RCAG), Western Union International, Inc. (WUI), and TRT Telecommunications Corporation (TRT). The designated gateway cities for the first three IRCs are New York City, San Francisco, and Washington, D.C. The gateway cities for TRT are New Orleans and Fort Lauderdale-Miami.

<sup>3</sup> The rates for WESTAR service are contained in tariffs duly filed with the FCC.

WESTAR services that have been available since July 1974 to the citizens of the lower 48 states.

#### HAWAII

Turning to Hawaii specifically, in February 1971 we filed an application with the Commission to construct a satellite earth station at Kipapa, Oahu (File No. 71-DSE-P-71). This was one of a group of applications which we filed at that time proposing a domestic satellite system to include a space segment and earth stations at various locations, including one in the state of Hawaii. The Commission had for some years been conducting a domestic satellite rulemaking proceeding (Docket No. 16495) and this proceeding continued beyond the date we filed our Hawaii earth station application. The satellite proceeding ended with the Commission's release on June 16, 1972, of its Second Report and Order, and its release on December 22, 1972, of its Memorandum Opinion and Order resolving petitions for reconsideration.

Western Union thereupon moved forward expeditiously to perfect its domestic satellite applications and was the first to receive satellite grants (in January 1973). Consistent with an FCC recommendation,<sup>4</sup> the WESTAR satellites were constructed with a special spot beam for Hawaiian service so that the system could provide good quality service to Hawaii.

Around the beginning of 1974, with the launch of WESTAR I then imminent, Western Union proposed to the Commission that it direct the carriers providing service between Hawaii and the Mainland (viz, AT&T, Hawaiian Telephone Company, ITTW, RCAG, and WUI) to take satellite transponder service from the WESTAR system in lieu of the Comsat/INTELSAT satellite system because WESTAR would be less expensive and the cost savings could be reflected in lower Hawaii/Mainland rates to the consuming public. The Commission declined to order the Hawaii carriers to take service from Western Union in lieu of Comsat, but authorized Comsat to provide transponder service only until the end of 1974 so that the Commission could at that time compare the Comsat and WESTAR services to Hawaii from technical and rate standpoints (MO&O's released January 11, 1974, and February 14, 1974, 44 FCC 2d 685, 45 FCC 2d 252).

As already stated, the WESTAR system was successfully launched in April 1974 and commercial operation commenced in July 1974. The spot beam for Hawaii could not be activated because of the absence of a Commission authorization enabling Western Union to provide WESTAR service to Hawaii. With the end of 1974 approaching, Western Union on November 29, 1974, filed a pleading (a) requesting that the Commission deny the application by the Hawaii carriers (AT&T, Hawtel, RCAG, ITTW, and WUI) to extend the Comsat/INTELSAT service for an additional term, and (b) offering the Hawaii carriers transponder service at an extremely favorable rate in comparison with Comsat's offer. This petition was followed by a large number of responsive and related pleadings and letters. The attractively priced Hawaii transponder service proposed by Western Union led Comsat to make substantial rate reductions in the Hawaii transponder service it was providing to the Hawaii carriers. A factor ultimately defeating Western Union's service offer was its lack of earth station facilities in Hawaii. Ironically, Western Union had been applying for Hawaii earth station facilities (that is, at Kipapa) since February 1971.

Related to the Kipapa earth station application (File No. 71-DSE-P-71) is another application filed by Western Union, pursuant to Section 214 of the Communications Act (File No. W-T-C-25), proposing to use the Kipapa earth station to provide WESTAR service to Hawaii. That application also remains ungranted, notwithstanding that a grant would bring significant reductions in the cost of communications services between Hawaii and the Mainland. The Section 214 application includes a proposed rate schedule for private line service to Hawaii, and the rates contained therein are set forth in Attachment 1 to this statement.<sup>5</sup>

<sup>1</sup> Par. 34(a). Report and Order released March 24, 1970. Docket No. 16495.

<sup>5</sup> Western Union International, Inc. (WUI), on page 3 of a statement dated December 9, 1975, addressed to this Subcommittee, has asserted that it has proposed to reduce Hawaii/Mainland telex rates and cablegram rates "... by about 25% contingent upon the following reasonable actions by The Western Union Telegraph Company...: (1) withdrawal by Western Union of its 1975 increases in its landline handling charges within the continental U.S. for interconnected cablegram message service to Hawaii;

(Continued)

Western Union has also spearheaded the drive to bring Mailgram service to the State of Hawaii. It filed its application to extend the attractively priced Mailgram service to Hawaii on April 4, 1972. That application languished in the administrative process for over three years while the Commission was considering the arguments of WUI and the other IRCs to the effect that Section 222 of the Communications Act barred Western Union from providing record communications to overseas locations. This legal problem was resolved by a Memorandum Opinion & Order released June 23, 1975 (FCC 75-673), in which the Commission ruled that Western Union is eligible to provide Mailgram service to overseas locations.<sup>6</sup>

Almost immediately thereafter Western Union filed an amendment to its Hawaii Mailgram application (File No. I-T-C-2618A) updating it to reflect the changes that had occurred during the three years since the application had been filed. The proposed rates represent true integration of Hawaii service into the domestic rate pattern for Mailgram service, in accordance with the FCC's policy objective. The amended application is now being processed by the Commission's Staff. The IRCs, subsequent to Western Union's initial Mailgram application, filed their own applications to provide forms of electronic mail service (that is, a Milgram-type service) between the Mainland and Hawaii. The Commission must ultimately decide which of these various pending applications shall be granted. In the meantime, the Commission has been endeavoring to establish an interim arrangement for Mailgram service to Hawaii wherein all applicants would participate in the rendition of an interconnected Mailgram service. Western Union has made a number of concessions in an effort to facilitate the establishment of this interim arrangement, but agreement of all parties still has not been obtained.

We are submitting as Attachment 2 to this statement a summary of Western Union's role in the providing of the Mailgram service on the Mainland. We think it fair to characterize Western Union's role in the providing of Mailgram service as one of creativity and innovation in the development of new service features to meet evolving public needs. It is hoped that the FCC will move at an early date to authorize the extension of the benefits of the Mailgram service to the last state (Hawaii) without such service.

#### ALASKA

For many years Western Union has participated in the provision of communications services between Alaska and the lower 48 states, first in cooperation with Alaska Communications System (ACS), and then in cooperation with RCA Alascom. Some traffic between the lower 48 states and Alaska is being routed terrestrially and some via satellite. With respect to terrestrial routing, Western Union's historic role has been to relay record traffic (including public message, Telex, and Private Line) from the lower 48 states to Seattle (that is, the Canadian border) where it has turned the traffic over to RCA Alascom (previously ACS) for relay to the intended Alaska recipient. In the other direction, Western Union has accepted interstate traffic from ACS (now RCA Alascom) at Seattle (the Canadian border) for relay to a location in the contiguous 48 states.

(Continued)

and (2) a roll back of its interconnected telex charges within the continental U.S. to pre-1971 levels for Mainland/Hawaii service."

The suggestion by WUI that Western Union receives excessive compensation for its domestic landline haul functions in connection with cablegrams is totally incorrect and without any basis in fact. Indeed, WUI recently agreed to a formal settlement specifying the very level of compensation to which it now objects. As to telex, we simply point out that our rates were cost-justified when filed and remain cost-justified today. In contrast, WUI is earning an unreasonably high rate of return from its overseas telex services and should be required to establish lower rates for such services. See Western Union's "Complaint and Petition for Investigation", FCC File No. TS-4375, filed September 22, 1975, pp. 19-20. WUI's suggestion that the Hawaii/Mainland rates should be reduced at Western Union's expense is nothing more than an offer by WUI to reach into someone else's pocket to finance its own operations.

<sup>6</sup> More specifically, the Commission ruled that Section 222 at most bars Western Union from reentry into overseas common carrier services that it was providing prior to the enactment of that section in 1943; that this covers the public telegram service; that Mailgram is a new service with features making it significantly different from the telegram; and that, consequently, Section 222 is not a bar to Western Union's providing of Mailgram service to overseas locations, including Hawaii. The Commission directed that Western Union's application to extend Mailgram service to Hawaii be accepted for filing and processed.

RCA Alascom first used the Comsat/INTELSAT system for satellite circuits between Alaska and the lower 48 states. In 1973 Alascom secured permission from the FCC to utilize the Canadian Telesat (Anik) satellite system for traffic pertaining to Alaska. RCA Alascom then placed both interstate and intrastate Alaskan traffic on the Telesat satellite system, including message toll telephone service.

In 1974 and 1975 Western Union filed various pleadings with the Commission demonstrating that Western Union's satellite system would be capable of meeting RCA Alascom's needs for satellite circuits for traffic between points in Alaska and between the lower 48 states and Alaska. Western Union showed that utilization of the WESTAR system by RCA Alascom would allow Alascom to realize significant cost savings over use of the Canadian Telesat system, which savings could be flowed through into rate reductions for the benefit of Alaskan users. In addition, Western Union pointed out (1) that the Intergovernmental Understanding of November 1972 between the United States and Canada looked towards use by one country of the other's domestic satellite facilities only if the user's own domestic satellite facilities were inadequate; and (2) that since the WESTAR system could meet Alascom's satellite communications needs there was no longer any justification for continued use by Alascom of the Canadian satellite system. These efforts were strenuously resisted by RCA Alascom (and RCAG).<sup>7</sup>

Western Union's efforts were ultimately successful and starting on June 1, 1975, Western Union commenced the use of the WESTAR II satellite to meet the needs of RCA Alascom for satellite circuits for interstate and intrastate Alaskan purposes. The service provided by the WESTAR system to RCA Alascom is both economical and of excellent technical quality.

Western Union desires to continue providing satellite circuits for the needs of RCA Alascom and it has determined that it can provide sufficient transponder circuitry on the WESTAR system to meet Alascom's growth needs for years into the future. It bases this conclusion in part on correspondence and traffic projections received from RCA Alascom.

On November 6, 1975, the FCC issued a Memorandum, Opinion, Order & Authorization (FCC 75-1246), pertaining to the joint satellite system proposed by RCAG and RCA Alascom. In that Order the Commission, in part, determined that message toll telephone service relating to the State of Alaska (including both interstate and intrastate traffic) should be provided via the domestic satellite system which is capable of providing satisfactory service at the lowest costs. (See, in particular, pars. 54 through 57 of the Order.) At the beginning of that Order (par. 1) the Commission mentioned the fact that the WESTAR system is being used presently to meet satellite circuit needs relating to Alaska, but thereafter, in discussing the prospects for long-term satellite service to meet Alaskan communications needs, it discussed specifically only the satellite systems proposed by RCA and AT&T/Comsat General. The Commission concluded that a hearing would probably be necessary to decide whether the Alaskan traffic should be carried on the AT&T or RCA satellite system and it specified tentative issues which would involve a comparison of the technical and cost characteristics of only those two systems. However, in the hope that AT&T and RCA would reach a settlement voluntarily the Commission said (par. 98) that it would wait 90 days before ordering a hearing so as to allow time for negotiation and possible simplification of the matters at issue.

In view of the Commission's policy looking towards a choice of the satellite system that would meet Alaskan traffic needs with satisfactory technical quality at the most economical cost, Western Union announced its desire to take part in the negotiations ordered by the Commission (and in any subsequent hearing). Western Union's intention to participate was stated in letters filed on November 25 and December 4, 1975 (appended hereto as Attachments 3 and 4). Also, on December 8, 1975, it filed a petition for reconsideration or clarification of the November 6, 1975 Order, requesting that the Commission make clear that Western Union should be considered, along with the other satellite carriers, in determining who should provide service to RCA Alascom.

<sup>7</sup> RCA Alascom and RCAG were both using Telesat Anik satellite facilities, the former for traffic relating to Alaska and the latter for Private Line services entirely within the lower 48 states. They filed joint pleadings resisting the efforts of Western Union to persuade the Commission that there was no justification for use by the RCA companies of a foreign satellite in view of the technical capabilities and cost advantages of the WESTAR system.

Western Union has participated fully in all the meetings that have been held to date (November 26 and December 1, 2, and 10). It has furnished data to the other parties<sup>8</sup> and has been analyzing traffic and technical material received from the other parties. The Commission has noted that progress is being made in these negotiations.<sup>9</sup>

However, our letters of November 25 and December 4 and our active role in the current negotiations seem to have escaped the attention of some commission personnel. This appears from the following statements in a Commission Memorandum Opinion and Order released December 10, 1975 (FCC 75-1334), in response to a petition by the State of Hawaii pertaining to integration of Hawaii and Alaska into the domestic rate pattern:

... RCA presently provides service to Alaska via space segment obtained from Western Union. Intensive negotiations are now underway to resolve issues dealing with some of the more important aspects of domestic satellite service to Alaska. See Appendix C to our Memorandum Opinion, Order and Authorization (F.C.C. 75-1246, released November 6, 1975). These issues concern matters such as whether the RCA or AT&T domestic satellite system should be used to provide interstate MTS to Alaska and whether the state of Alaska should own facilities used for provision of common carrier services. Also underway are separate negotiations on rate integration itself. If these negotiations and the other steps outlined herein are not fruitful there will be a hearing. Under the foregoing circumstances, it would be unrealistic to delay a grant of at least interim operating authority with respect to service to Alaska. (par. 5).

We are unable to understand the last sentence, which appears to indicate that there is some present need for a new grant of "interim operating authority" for Alaskan satellite service. WESTAR is now satisfactorily providing such service and can continue to meet Alaska traffic needs until the negotiations (and possible subsequent hearing) are finally concluded and the long-term supplier is selected. It is hoped that all personnel of the Commission will shortly recognize that WESTAR is now meeting Alaskan communications needs and can continue to do so; and that, consequently, there is no need for alteration of the status quo or for any service dislocation while the negotiations are in progress. Clearly the proper effectuation of the Commission's Alaska policy requires recognition of WESTAR's current role in serving Alaska and careful evaluation of Western Union's proposal for longer-term service in comparison with the proposals of RCA and AT&T.

#### CONCLUSION

The WESTAR system has brought to the lower 48 states the benefits of long distance communication at lower rates than formerly prevailed for equivalent terrestrial transmission. It is Western Union's desire and objective to extend these benefits to all 50 states. This objective has been reflected in our efforts to date and will be manifested in future efforts to be made by the company.

#### ATTACHMENT 1

##### *Proposed charges for private line Westar Services to Hawaii*

48 kHz unchannelized service, duplex between Hawaii and the west coast, fulltime (annual)-----	\$192,000
Video service, occasional, one-way either direction (initially only to Hawaii):	
Hawaii-Los Angeles (per hour)-----	1,750
Hawaii-New York (per hour)-----	2,550
Private line voice channels, fulltime:	
Hawaii-Los Angeles (annual)-----	20,400
Hawaii-New York (annual)-----	32,400
Data, fulltime:	
2,400 bps (annual)-----	17,550
4,800 bps (annual)-----	23,400
1.5 Mbps data, one-way, fulltime, from east coast to Hawaii (annual) --	720,000

<sup>8</sup> The other parties are RCAG, RCA Alascom, State of Alaska, AT & T, and the FCC's Common Carrier Bureau.

<sup>9</sup> *RCA Global Communications, Inc., et al.*, Memorandum Opinion and Order released December 4, 1975 (FCC 75-1328), Par. 39.

## ATTACHMENT 2

## THE WESTERN UNION TELEGRAPH Co.

## MAILGRAM SERVICE

The following is a summary (in essentially chronological form) of the role The Western Union Telegraph Company has taken in providing Mailgram service:

(a) At the National Postal Forum in 1968 Earl Hilburn President of Western Union, proposed that the Postal Service and Western Union cooperate in the offering of a new communications service to be known as Mailgram.

(b) In July 1969 a Mailgram test in cooperation with the Postal Service commenced in certain selected cities. On January 1, 1970, Mailgram service was begun for Telex subscribers in 12 cities. Service was extended to all infocom subscribers on October 1, 1970; to all Telex subscribers in New York City on January 1, 1971; to all Telex subscribers in another 11 cities on March 1, 1971; and to all Telex subscribers in six additional cities on June 6, 1971.

(c) On April 5, 1971, Western Union commenced the acceptance of Part III (VOM) Mailgrams. This involved the acceptance at New York City public offices of Mailgrams filed via telephone, tieline, and over-the-counter.

(d) On April 14, 1971, Western Union inaugurated Part II (computer tape originated) Mailgrams whereby magnetic tape reels of Mailgrams could be delivered to Western Union in New York City and Mahwah (New Jersey) for ultimate transmission to the SPO's. Part II Mailgram service was extended to Detroit on August 23, 1971; and to Philadelphia and Chicago on December 24, 1971.

(e) By October 16, 1971, all Telex subscribers had the capability of sending Mailgrams via their teleprinters.

(f) As of November 15, 1971, TWX subscribers became able to input Mailgrams through their teleprinters.

(g) Starting March 1972 the routing of Mailgrams through the ISCS computers was phased out and Mailgrams began to be routed through the Infomaster computer installation at Middletown, Virginia.

(h) Prior to June 1972, Part II magnetic tape Mailgram service was available in 7 cities. Since that month 20 additional cities have been added as reception points for Part II tapes. The tapes are accepted by Western Union at these 27 locations and transmitted by PDP-8 minicomputers via 2400 baud lines to the Infomaster computer installation at Middletown, Virginia, and from there routed to the appropriate SPO.

(i) Originally Western Union placed low speed receive-only teletypewriters in the SPO's. Some post offices received such large volumes of Mailgrams that Western Union had to place banks of low speed teleprinters in such SPO's. In order to improve the efficiency of operations, on July 15, 1973, the first high speed teleprinter went into operation at an SPO. Since that date, high speed printers (operating at up to 4,745 wpm) and the controlling PDP-11 minicomputers have been installed in 40 of the SPO's.

(j) As of July 18, 1973, Part II (computer originated) Mailgram was expanded to provide for direct input by customers of Mailgrams, on a computer-to-computer basis, to the Infomaster installation at Middletown. Prior thereto the customer had to physically deliver such tapes to Western Union at one of the magnetic tape reception points, but with this direct input option customers became able to transmit Mailgrams from anywhere on the Mainland directly to Infomaster on a computer-to-computer basis.

(k) On July 25, 1973, the Mailgram certified return receipt feature was inaugurated. In this option, the Mailgram bears a code designator. The clerk at the SPO sees the Designator, tapes a return receipt card on the back of the Mailgram envelope, and writes the registry number on the card. The cards are pre-addressed by Western Union at Middletown. When the return receipts have been signed by the recipient of the Mailgram, the Postal employee places them in the mail. Western Union receives, sorts, and delivers the cards to the sender.

(l) On August 30, 1973, the confirmation copy feature was inaugurated. Through this service a confirmation copy in the form of a Mailgram is sent to the sender of a Mailgram (or a telegram) that is filed by telephone with Western Union.

(m) On December 1, 1973, Mailgram service to and from Alaska was inaugurated.

(n) On May 1, 1974, the report delivery feature was begun. This feature can be used by the sender of a money order to receive a Mailgram reporting delivery of the money order.

(o) On November 5, 1974, Mailgram service from Canada was inaugurated. On February 12, 1975 Mailgram service to Canada was begun.

(p) As of May 1, 1975, service was begun whereby Mailgrams could be input via certain facsimile machines, word teleprocessing, and time sharing terminals inductively coupled (through the telephone handset) to telephone lines.

(q) As of June 13, 1975, a tariff provision became effective whereby a customer sending more than 250,000 Mailgrams in a month will gain a discount if such Mailgrams may be sent by Western Union in off-peak hours.

(r) On July 12, 1975, the business reply Mailgram became available. A Postage-paid reply envelope is enclosed with the Mailgram and the addressee may use that envelope for sending a response or enclosure to the Mailgram sender.

(s) As of July 24, 1975, customers with pre-punched paper tapes of Mailgrams became able to avail themselves of Part II service at the rates applicable to magnetic tape reels. Formerly only magnetic tapes could be presented to Western Union.

(t) Starting October 1, 1975, a Part II Mailgram customer may gain a special discount by sending more than 250,000 Mailgrams a year. Such Mailgrams will be sent by Western Union during off-peak hours.

(u) Over the years the number of SPO's has risen to 121. Total Mailgram volumes have shown the following growth: 1970—370,000; 1971—3,111,000; 1972—6,270,000; 1973—10,844,000; 1974—19,804,000; 1975—22,216,000 (based on first 8 months annualized). Western Union engages in continual review and upgrading of the physical facilities and software used in the Mailgram network. Improvements in processing are constantly sought and implemented. Tests are performed in cooperation with the Postal Service to make sure that delivery is prompt and efficient from the SPO's.

#### ATTACHMENT 3

WESTERN UNION,  
November 25, 1975.

Re RCA Global Communications, Inc. and RCA Alaska Communications, Inc.  
File Nos. 13, 14, 15, and 16-DSS-P-71, etc., and File No. 2-DDS-LA-76

Mr. VINCENT J. MULLINS,

*Secretary, Federal Communications Commission, Washington, D.C.*

DEAR MR. MULLINS: In its November 6, 1975 Memorandum Opinion, Order and Authorization (FCC 75-1246), pertaining to the satellite proposals of the RCA applicants, the Commission has reiterated its earlier determination that message-toll telephone (MTT) service relating to the State of Alaska should be provided via that domestic satellite system which is capable of providing satisfactory service at the lowest cost. (See, in particular, pars. 54 through 57 of the Order.) In that Order (which considered only the proposed RCA and AT&T/Comsat General systems), the Commission concluded that a hearing probably would be necessary to resolve that matter. However, in the hope that AT&T and RCA would reach a settlement voluntarily, the Commission said (par. 98) that it would wait 90 days before designating hearing issues.

Thereafter, on November 14, 1975, RCA filed a "Petition for Immediate Partial Reconsideration and Relief", which, if granted, would eliminate any hearing on the matter of which satellite system should be the vehicle for MTT service for Alaska. Specifically, RCA is seeking an immediate declaration by the Commission that RCA Alascom will be able to place its Alaskan interstate and intrastate telephone traffic on the RCA satellite system.

The Commission appears to have assumed from the outset that the AT&T satellite system, rather than the RCA system, would most likely provide the greatest cost savings to the Alaskan long lines carrier. (See pars. 67 and 68, MO&O released December 22, 1972 in Docket 16495.) However, in that December 1972 Order the Commission did not foreclose the possibility that RCA might show subsequently that "the cost of using [an RCA satellite system] for interstate-MTT service to Alaska would be less than or approximately equivalent to the use of the domestic satellite system facilities of AT&T . . ." (par. 68). On October 24, 1974, the State of Alaska filed a Petition to Deny (in reference to

File No. 2-DDS-LA-76) which amply demonstrates why the RCA proposals may not present a true competitive alternative to use of the AT&T satellite system. It is clear that the only sure way to achieve the Commission's objectives for Alaska is to require that all satellite carriers who are willing and able to provide satisfactory service to RCA Alascom be given a reasonable opportunity to bid for such service.

For some months RCA Alascom has been using Western Union's WESTAR satellite system for Alaskan traffic, including both interstate and intrastate MTT service. This use has demonstrated that the WESTAR system is operationally capable of meeting RCA Alascom's present MTT and other communications service requirements at an economical cost.

For the foregoing reasons, Western Union requests that the Commission provide that in the impending negotiations RCA Alascom should be required to consider the service offerings of any qualified supplier of satellite services, including Western Union. Further, if the negotiations are unsuccessful and a hearing is subsequently ordered, the issues (set forth tentatively in Appendix C of the November 6 Order) should be revised to call for a comparison of the WESTAR service to Alaska with the service that would be provided by the AT&T and RCA systems. Correspondingly, Western Union would be made a party to such hearing, along with RCA, AT&T, and other interested parties. Proceeding in this manner will prejudice neither the interests of the public nor the rights of any party. Pending the ultimate decision, RCA Alascom can continue to receive all of the satellite service which it requires from WESTAR. In this connection, Western Union is willing to provide only the amount of transponder capacity which RCA Alascom actually requires. In the meantime, there is no reason why RCA cannot launch its satellite as planned.

RCA's desire for expeditious resolution of problems raised in the Commission's November 6 Order (as expressed in RCA's "Petition for Immediate Partial Reconsideration and Relief") should not be permitted to thwart the procedures that have been instituted by the Commission to guarantee that the Alaskan public will have access to communications services at the lowest rates possible via a domestic satellite system. The fact that RCA proposes to launch a satellite on December 12 should not impel the Commission into precipitate action that would nullify those procedures, especially since RCA has known since December of 1972 of the likelihood that Alaskan MTT traffic would *not* be carried on the RCA satellite system. Given the circumstances, the Commission's decision to postpone a final ruling on which satellite system should carry Alascom's traffic until further consideration of the competing proposals is entirely reasonable.

As we have shown, full protection of the people of the State of Alaska requires that the public benefits available from the attractively priced WESTAR services be considered in the negotiations now to be held and in any subsequent hearing (should one be ordered).

Respectfully submitted.

EARL D. HILBURN,  
*President.*

ATTACHMENT 4

WESTERN UNION,  
*December 4, 1975.*

Mr. WALTER R. HINCHMAN,  
*Chief, Common Carrier Bureau, Federal Communications Commission,  
Washington, D.C.*

DEAR MR. HINCHMAN: As you are aware, in accord with the Commission's Memorandum Opinion, Order and Authorization (FCC 75-1246, released November 6, 1975) pertaining to the satellite proposals of the RCA Applicants, your Staff has initiated discussions among interested parties concerning the provision of Message Toll Telephone ("MTT") service for Alaska. Western Union has been participating in these discussions.

By letter dated November 25, 1975, Western Union advised the Commission of its view that RCA Alascom should be required to consider WESTAR service as one of the available alternatives. Moreover, we pointed out that during the pendency of the proceedings envisioned by the Commission, RCA Alascom could continue to obtain all its satellite service requirements from Western Union.

At the December 1 and 2 negotiating sessions, Western Union reiterated its willingness and ability to continue to handle Alascom's traffic. Representatives

of RCA disputed our claim that the WESTAR II satellite has adequate capacity for this purpose and suggested that our position was based upon an ignorance of Alascom's requirements. This contention by RCA is clearly unfounded and in our judgment could only have been made in furtherance of RCA's effort to secure reversal of the Commission's November 6 Order.

The facts are that RCA recently advised Western Union in writing of its requirements for satellite transponder service through December, 1976. RCA's letter—a copy of which is attached as Exhibit A—plainly shows the *total* RCA requirements to be only 11 full-time transponders at the end of 1976. That forecast is confirmed by traffic data furnished to Western Union by RCA on December 3. Moreover, our understanding is that only 9 of the 11 transponders are proposed for Alaskan service and that the others would be used by RCA Globcom for private wire service in the continental United States. Western Union has confirmed to RCA that these requirements can be met.

It is therefore clear that WESTAR II has ample capacity to handle all of RCA Alascom's requirements through the end of 1976 and that RCA has been aware of this fact for some time. This is true even if *Globcom's* CONUS services are also provided via WESTAR II. However, these Globcom services could, of course, be shifted to WESTAR I without serious difficulty if Alascom's needs expand faster than anticipated. In addition, Western Union has a third satellite completed and ready for launch. We would give serious consideration to launching this satellite to meet Alascom's needs if this proves to be in the public interest. Furthermore, prior to the end of 1976, both the RCA and AT&T satellite systems should be in operation. At this point, RCA Alascom will have available ample competitive alternatives from which to make the best choice for its long term needs. Accordingly, there is plainly no reason for precipitate Commission action on the RCA Applicants' Petition for Partial Reconsideration of the November 6 Order or in connection with the negotiating sessions now underway. Thorough and orderly evaluation of the competing proposals for Alaskan satellite service will not in any way limit the efficacy or quality of the service provided by RCA Alascom during the coming year.

In reflecting on the proceedings to date, several additional comments appear in order:

RCA repeatedly implies that the Commission's November 6 Order deprives RCA Alascom of the Alaskan MTT service which was previously ceded to it in connection with the acquisition of the Alaska Communications System. This is a red herring. The issue—as the Commission recognized—is whether RCA Alascom should have the unrestricted right to invest in any facilities it chooses for providing MTT service, irrespective of the impact its decision may have on the rate-paying public in Alaska. Ordinarily, as RCA argues, the choice of facilities may well be a management prerogative. However, in the instant case, RCA Alascom is not an independent carrier. There is a real question whether RCA Alascom's—and Alaska's—best interests are being subordinated to the corporate interests of RCA in becoming a domestic satellite carrier.

Second, RCA's efforts to pressure the Commission into a hasty and unreasoned decision on Alaskan service, by threatening to withhold the scheduled launch of its satellite and by suggesting that the Commission will be responsible for any adverse consequences to RCA, are unconscionable. RCA's satellites were constructed pursuant to waivers granted under Section 319 of the Act, waivers that made clear that RCA was proceeding at its own risk. The basic purpose of the normal Section 319 requirement for a construction permit is to forestall premature construction and thereby insulate the Commission from the very sort of high-pressure tactics now being employed by RCA. Having obtained a waiver, and having assumed the risks attendant thereto, RCA should not now be heard to contend that hasty Commission action is required because of RCA's launch schedule. Indeed, the Commission would be entirely justified on the basis of RCA's current strategy in barring the RCA satellite system from providing any service to Alaska.

Under the circumstances, we believe the Commission should proceed with caution. In particular, the Commission should have the advantage of evaluating all of the competitive alternatives before it determines what is best for Alaska. To facilitate these determinations, RCA Alascom should be directed to negotiate directly, in good faith, with all potential suppliers of transmission service.

Very truly yours,

JOEL YOHALEM,  
General Solicitor.

RCA,  
September 5, 1975.

DIRECTOR, WESTAR OPERATIONS,  
Glenwood Earth Station,  
Vernon, N.J.

DEAR MR. JUDSON: At our meeting of 8/20/75 W.U. requested that we provide them with our transponder requirements through September, 1976 so that they can reserve space for our needs, both for expected service on Westar II through April 1976, and for the purpose of planning for the contingency that we require extended use or backup from W.U.

Attached is a scheduled carrier configuration based upon the most current projections. They call for the following transponder requirements.

October 1975 through December 1975 (inclusive)—7 full time transponders.

January 1976 through April 1976 (inclusive)—9 full time transponders.

May 1976 through April 1976 (inclusive)—10 full time transponders.

September 1976 through December 1976 (inclusive)—11 full time transponders.

In addition we will require one occasional use transponder over this period.

It should be recognized that these projections could be changed by developments including expanded development of the occasional use TV market.

Please advise if you require any further information.

Very truly yours,

G. A. Long.

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