Before the Senate Utilities Committee
Remarks by
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Thank you Mr. Chairman and members of the committee for inviting Sprint's views on the telecommunications market.

I thought it might be helpful to begin with a snapshot of Sprint in that market and in Kansas.

I am proud of the fact that Sprint's ancestral home is Kansas. Our beginnings can be traced to Abilene more than 100 years ago where Cleason Brown – a businessman, farmer and civic leader – founded the Brown Telephone Company. I believe I read somewhere that he did so as much as a service to his neighbors as a business proposition.

Through acquisitions, the Brown Telephone Company grew into the United Telephone System and its parent company, United Telecommunications.

In 1983, United Telecom entered the long distance business as U.S. Sprint in partnership with GTE. We built the nation's first all fiber-optic network which spans coast to coast and border to border. We became so well known in that business that United Telecom was renamed Sprint.

In 1995, we launched Sprint PCS and once again built a nationwide network – this time a wireless network. Sprint PCS became the fastest growing company in U.S. business history – growing from zero revenue to $10 billion in annual revenue in about six years.

Today, Sprint associates number 60,000 worldwide. They are responsible for generating about $25 billion in annual revenue.

About 16,000 Sprint associates work in the State of Kansas, and about 14,000 of our Kansas workers are located at Sprint's World Headquarters Campus in Overland Park. About 11,000 Sprint associates make their homes in the state.

Our Kansas payroll totals $1.2 billion annually and produces about $56 million in state income taxes.

And while our long distance and wireless businesses have often grabbed the spotlight, we are still a local telephone service provider. We provide local telephone service to more than seven million homes and business in the United States. In Kansas, we serve 133,000 access lines in 147 communities like Gardner, Junction City, Russell and Garnett.

That's who we are and who we are proud to be.

Now, I need to turn away from the snapshot of Sprint and focus a broader picture, and that is how Sprint views the telecommunications landscape.

In a nutshell, it is a world where the distinction between services is becoming more and more blurred because of advances in such technology as wireless, Internet, and broadband telephony. It is a world where one service can easily be substituted for another service, or completely replace it.

This is a far different world than the one in which I began my career thirty years ago. In that world, the agreement between regulators and local telephone companies was relatively simple. It was our job to build networks to serve everyone at affordable rates. In return regulators would preserve our monopolies and allow us to earn a fair profit.

That began to change in 1996 when Congress passed the Federal Telecommunications Act and this legislature passed a companion state law. These laws created Competitive Local Exchange Carriers and required incumbent local telephone companies to lease their networks to these new competitors at wholesale rates.

By the end of 2003, this first wave of competitors had won about 16% of the local residential market and about 25% of the medium and large business market. The FCC reports that Competitive Local Exchange Carriers had garnered about 22% of the local market in Kansas as of June 2004.

And now a second wave of competition is upon us. This time it is coming from competitors who own their own networks. Wireless providers are encouraging consumers to cut the cord. And cable telephone providers are making strong inroads with their voice over internet protocol service.

Let's take a look at wireless first.

In the last five years, the number of wireless subscribers has nearly doubled. In 2003, more than 280 million Americans subscribed to wireless service, which equals 56% of our entire population.

In the last ten years, wireless minutes of use per month have nearly tripled and now exceed 500 million minutes a month.

This surge in usage is not only the result of subscriber growth, it is also the result of a dramatic decline in wireless rates. In the last ten years, the average rate for a wireless minute fell by 80% -- from about 50 cents a minute to about 10 cents a minute.

In the last ten years, the difference in revenue generated by wireline service and wireless service also shrunk dramatically – from $70 billion to $46 billion.

And what about the future? In the next two years, wireless minutes of use are expected to grow 80% faster than wireline minutes.

In short, wireless service is quickly overtaking wireline service by every measure.

We know from first-hand experience that wireless services is being substituted for traditional wireline service. When a Sprint long distance customer purchases Sprint wireless service, we see a 26% decline in long distance usage during the first month.

I don't have numbers specific to Kansas, but nationally, about 6% of wireline customers have cut the cord and now rely solely on their wireless service.

No less of a challenge to traditional local telephone service is cable telephony.

Time Warner is already in the business in the Kansas City area, including Sprint's Gardner, Spring Hill and Bucyrus exchanges. When customers discontinue local service, we do not know if they are leaving us for a competitor of just leaving town. What I do know is that we have experienced a 15 percent decline in our residential and business access lines in Gardner during the last year.

Cable telephony is in its infancy, but its potential to capture market share is huge. Cable service passes about 97% of all households in the United States. Kansas is no exception. Here, cable passes 96% of Sprint's residential customers.

Nationally, about 15% of all cable subscribes have cable telephony available to them. But that number is expected to grow to 85% within three years. Earlier this month, Comcast announced that it intended to market Internet-based phone service to 15 million homes by the end of this year and grow that number to 40 million within 18 months.

Let me close by going back to my original theme. The lines distinguishing one telecommunications service from another are becoming increasingly blurred. One service can easily be substituted for another and, more often than not, can completely replace it.

In other words, consumers have choices. And where and when they have choices, Sprint believes we can and should reduce and even eliminate regulation. Where and when consumers have choices, what purpose does costly government regulation serve?

That's what I hope this legislature will undertake this year – a close examination of the telecommunications market and reduce or eliminate unnecessary and costly regulation.