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# United States Senate

COMMITTEE ON COMMERCE, SCIENCE,  
AND TRANSPORTATION

WASHINGTON, DC 20510-6125

July 12, 2002

The Honorable Michael K. Powell  
Chairman  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, D.C. 20554

Dear Chairman Powell:

Over the course of the past year, the telecommunications industry has experienced significant economic disruption. Hundreds of thousands of jobs have been lost and the total debt load of telecommunications companies rivals that of the savings and loans and junk bond industries combined. This meltdown has been influenced by a number of critical factors, including the overall downturn in the economy, the current crisis facing the financial markets, poor business judgements, and now most recently revelations of massive accounting fraud at WorldCom has raised questions about the financial health of the entire telecom sector.

As it stands, numerous companies have entered bankruptcy, while others are on the brink of bankruptcy. Clearly this raises the previously unimaginable possibility that millions of consumers risk significant disruption of their basic telephone and data services. The Communications Act provides explicit authority to the Federal Communications Commission to prevent service disruption. Section 214 (a), in part, provides: "No carrier shall discontinue, reduce, or impair service to a community, or part of a community, unless and until there shall first have been obtained from the Commission a certificate that neither the present nor future public convenience and necessity will be adversely affected thereby. . ."

While there have been many telecommunications companies that have entered bankruptcy or are under extreme financial distress, three companies, Global Crossing, Qwest, and WorldCom are at the forefront of the news. While those responsible at these companies must be punished – with criminal penalties where appropriate – a disruption of service could lead to loss of local, long distance, and/or international telecommunications service to both residential and business customers. Consumers rely on these services and expect that these services will be readily available to them. To assure that all possible steps are being taken to prevent such debilitating disruptions, please provide any contingent plans that exist or steps the FCC has taken to ensure uninterrupted service. In addition, please discuss what, if any, coordination has occurred between the Commission and the state Public Utility Commissions. Moreover, should you believe that the FCC needs additional statutory authority to appropriately address this issue

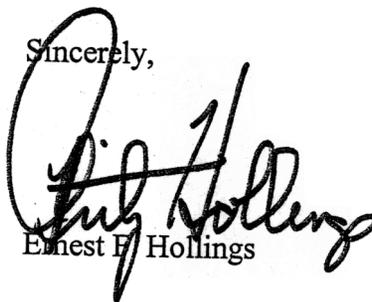
please include that in your response. The U.S. telecom sector is the world's finest and it is my expectation that the FCC works to insure that it remains so even during this most difficult period.

Additionally, I must stress that a failing in some parts of the industry has been due to fraudulent accounting. I have examined similar accounting issues in the Commerce Committee with respect to the Enron Corporation and, with respect to the telecommunications industry, I have advocated consistently that the FCC not reduce or eliminate its existing accounting requirements. While the FCC's accounting requirements do not directly protect shareholders or investors, they do protect consumers from being overcharged for service. In this environment it is also clear that relying solely on the financial records companies provide Wall Street is an insufficient basis to determine whether consumers are being protected. I understand that the FCC has a proceeding pending in which it is seeking to reduce its accounting requirements even further. In today's context, the deregulatory nature of this proceeding appears ill-advised.

Rather, your task should be to review the FCC's current accounting oversight authority and, in conjunction, with the state Public Utility Commissioners work to enhance the FCC's accounting rules to help protect consumers in this environment. While it is unlikely that additional accounting rules would have prevented outright fraud, perhaps they could help mitigate against these problems in the future.

I trust that you understand that under these circumstances your foremost responsibility is to protect the integrity and reliability of the Nation's telecommunications network as well as to ensure continued service to consumers during this turbulent time. Please provide a timely response so that the Committee may proceed with its work in this matter.

Sincerely,



Ernest F. Hollings

EFH/amk