

HJR

32

RECEIVED

MAY 5 1976

FACILITIES DIVISION
COMMON CARRIER BUREAU

APR 30 1976

MR. CHAMBERS

RCA

Mr. Vincent J. Mullins, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D. C. 20554

Re: Alaska Rate Integration

Dear Mr. Mullins:

April 27, 1976

On March 30, 1976, representatives of the American Telephone and Telegraph Company (AT&T) and RCA Alaska Communications, Inc. (RCA Alascom) met with the Commission staff to discuss a proposed schedule for implementation of rate integration for Mainland/Alaska Message Telecommunication of rate integration for Mainland/Alaska Message Telecommunications Service (MTS)*

In response to a request made by the Commission staff at that meeting, AT&T and RCA Alascom are filing this letter to inform the Commission of their rate integration proposal. Despite recent Commission decisions involving AT&T which appear inconsistent with this objective, AT&T and RCA Alascom believe that they should comply with the Commission's rate integration directive. AT&T and RCA Alascom propose to do so in three approximately equal steps.

* As used herein, "rate integration" means inclusion of the rates for AT&T's and RCA Alascom's joint interstate message telecommunications service between points in the U.S. Mainland and points in Alaska into the uniform mileage rate pattern that obtains on the Mainland. (Second Report and Order, Domestic Communications Satellite Facilities, Docket No. 16495, 35 FCC 2d 844 (1972), para. 37.)

Mr. Vincent J. Mullins, Secretary
April 27, 1976
Page Two

Was
18ms
internal

The first step toward rate integration was taken when tariff revisions became effective on March 29, 1976.** A second step - bringing the then existing rates 50% closer to the objective - will follow in early 1978. The third step toward rate integration will follow in early 1980.

[As discussed in the March 30 meeting, AT&T and RCA Alascom will submit the data underlying their rate integration proposal in February, 1977.] AT&T and RCA Alascom feel that their formal proposal should be based upon, and include, the most up to date traffic and revenue data available, and that this data should be collected without incurring additional costs, if possible.

AT&T conducts an annual CMDS* study using October as the study month. This, along with a similar study provided by RCA Alascom, would supply the basis for computing estimated traffic, revenue and cost data necessary for a complete and accurate rate integration proposal. The first step toward rate integration was instituted on March 29, 1976, and in order to obtain data reflecting the effects of step one, October, 1976 would be the appropriate study month.

The collection of data runs for six (6) weeks after the close of the study month, and six (6) additional weeks are required to process and summarize the data collected. The data must then be analyzed and traffic and revenue projections must be made. In addition, in order to calculate an elasticity

** Among other things, these revisions established a structure of MTS rates conforming to the Mainland rate structure and reduce annual Mainland/Alaska MTS revenues by about \$11.9 million. The rate reduction was designed to lower the then present average revenue per message (ARPM) by approximately 21%.

* Centralized Message Data System.

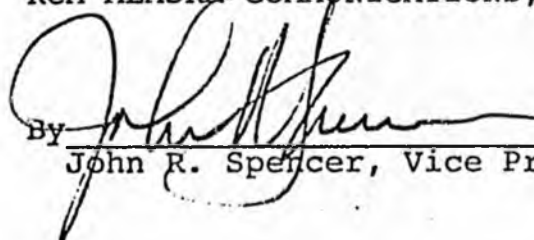
Mr. Vincent J. Mullins, Secretary
April 27, 1976
Page Three

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At the present time, AT&T and RCA Alascom have not yet determined upon the settlements to accompany steps two and three. These arrangements may or may not be included in the underlying data submitted in February, 1977; in any event, the Commission will be kept informed of this matter.

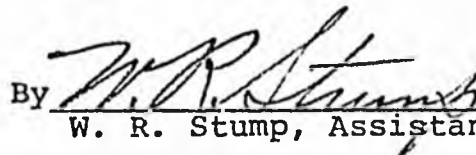
Respectfully submitted,

RCA ALASKA COMMUNICATIONS, INC.

By 

John R. Spencer, Vice President

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

By 

W. R. Stump, Assistant Vice President

cc: Messrs: David A. Irwin, Gray R. Oddi,
Robert M. O'Brien

Engineer
Haw

Ken Larsen - Continental (U-D), Glacier State

Phase 1:

- 7.8 million messages
avg rate = \$7
- revenue from the 7.8 = \$54.6 million
 - AT+T gets 500 M
 - RCA shares \$54.1 million
- then take 30% of \$7.00 = \$2.10
 - 7.00
 - 2.10
 -
 - 4.90 = avg rate per msg
 - revenue = \$38.2 million
 - AT+T gets \$400 M

RCA's share = \$37.8 million

This info is 7-1-77 to 12-31-77

- using 6 mos.

on revenue

- left w/ \$6.4 million

+2

32.8 million - total revenue

$$\begin{array}{r} 54.1 \\ -37.8 \\ \hline 16.3 \times 2 \\ \hline 32.6 \end{array}$$

Since he didn't see us down
there, run it by him
- will check it out
w/ Finance Dept.

RCA Alaska Communications Inc.
629 L Street / Anchorage Alaska 99501
Tel (907) 272 8411
John R Spencer Vice President & General Counsel

RCA

COPY OF TAPE
ON HJR 32

LA21 1344 11.38 JA01 0009 11.48 04/12/77

TO: CINDY OR MERLE, JNU.
FROM: SUSAN, FBX.

MESSAGE TO: MR. MIKE COUMBE (RE: THE HOUSE COMMERCE
COMMITTEE) IN RESPONSE TO YOUR REQUEST :
FROM: WALLY BAER/ GENERAL MANAGER, GREATER FAIRBANKS
CHAMBER OF COMMERCE/ FAIRBANKS, AK. 99701/ PH: 452-1105:

THE GREATER FAIRBANKS CHAMBER OF COMMERCE BOARD OF DIRECTORS
AT THEIR APRIL 11 TH. MEETING PASSED THE FOLLOWING RESOLUTION:
"THAT WE ENCOURAGE OUR CONGRESSIONAL DELEGATION TO SHOW
INTEREST AND KNOW THE FACTS CONCERNING RCA'S RATE
INTEGRATION PROCEEDINGS SO THAT THE FINAL DECISION
DOESN'T UNFAVORABLY IMPACT THE ALASKA RATEPAYER AND
INDUSTRY WITH INTRASTATE RATE INCREASE. FURTHERMORE, WE
SUGGEST FOLLOWING THE SAME RATE IMPLEMENTATION PROCEEDURE
ON PHASE-2 AS OCCURED WITH PHASE-1 OF THESE PROCEEDINGS."
EOM.

THANKS, AND PLEASE DELIVER A.S.A.P. /S/ EOM

STATE OF ALASKA
Inter-Department Route Slip

TO:
MAIL STATION NUMBER 3100
DEPARTMENT House State Affairs
ATTENTION Committee

- | | |
|--|--|
| <input type="checkbox"/> Approval | <input type="checkbox"/> Note & Return |
| <input type="checkbox"/> Signature | <input type="checkbox"/> Initial & Return |
| <input type="checkbox"/> Comment | <input type="checkbox"/> Return As Requested |
| <input type="checkbox"/> Contact Me | <input type="checkbox"/> Return For Approval |
| <input type="checkbox"/> Prepare Reply | <input type="checkbox"/> Necessary Action |
| <input type="checkbox"/> For Your File | <input type="checkbox"/> Your Information |

Remarks:

File HSR 32

FROM:
MAIL STATION NUMBER 0800
DEPARTMENT Commerce
BY Pearl Good DATE 4/11

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HJR 32
 Title Relating to Review of Interstate and Intrastate Telephone Service & Rates
 Requested by House Commerce Committee Date 30 March 1977

II. FISCAL DETAIL

Agency Affected Commerce and Economic Development
 Program Category Affected Protection
 Budget Request Unit(s) Affected Alaska Public Utilities Commission

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		250.0				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL						

FUNDING (Thousands of Dollars)

GENERAL FUND		250.0				
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

1. The APUC does not have staff to accomplish tasks set forth in a full rate proceeding with RCAA. Revenue requirements and rate of return will be contracted to consultants outside the state.
2. It is anticipated that a portion of the expenses associated with the investigation and hearing would be allocated back to RCAA under Sec. 42.05.651 of the Alaska Statutes. Monies received from allocated costs return to the General Fund.



IV. DATE March 30, 1977 PREPARED BY Marvin R. Weatherly, Commissioner
 AGENCY Alaska Public Utilities Commission
 PHONE 272-1487

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

The APUC

was responsible

for supplying
the fiscal note

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APR 30 1976

FACILITIES DIVISION
COMMON CARRIER BUREAU

RCA

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Mr. Vincent J. Mullins, Secretary
April 27, 1976
Page Two

WA-
181
interline

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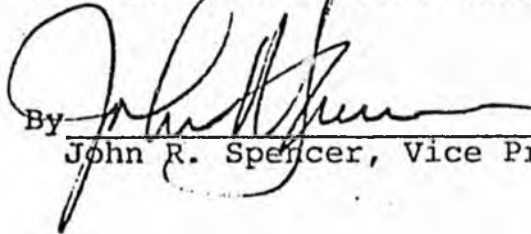
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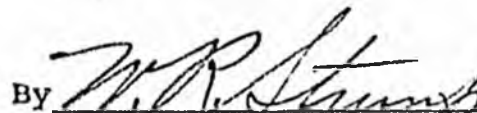
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cc: Messrs: David A. Irwin, Gray R. Oddi,
Robert M. O'Brien

457-3934
202-457-3891
212-393-8408

~~TOPIC CODES (212) 394 1111~~

~~Director Overseas Services~~

Introduced: 3/18/77
Referred: Commerce

~~Deputy Director: Mrs. Tuggle
Mexico, Alaska
ext-6215
(212) 393 9700~~

~~(201) 234 7825~~

BY THE STATE AFFAIRS COMMITTEE
BY REQUEST

1. IN THE HOUSE

HOUSE JOINT RESOLUTION NO. 32

3. IN THE LEGISLATURE OF THE STATE OF ALASKA

4. TENTH LEGISLATURE - FIRST SESSION

5. Relating to review of interstate and
6. intrastate telephone service and rates.

7. BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8. WHEREAS Alaska is a land of vast distances, rugged terrain, widely
9. scattered population, and limited transportation facilities; and

10. WHEREAS the people of Alaska must rely in large measure upon telephone,
11. telegraph and other telecommunications services as a substitute for trans-
12. portation; and

13. WHEREAS the people of Alaska have been required to pay far higher rates
14. for interstate telephone service than have citizens in other states; and

15. WHEREAS the advent of satellite communications has largely eliminated
16. distance as a factor in setting long distance telephone rates, thus making
17. possible the lowering of charges for interstate long distance telephone
18. service; and

19. WHEREAS the Federal Communications Commission determined in 1973 that
20. this historic discrimination against the people of Alaska should be eliminated
21. through the integration of rates for Alaska telecommunications service into
22. the rate patterns existing in the contiguous forty-eight states, and that
23. the rate integration should take place with the beginning of domestic
24. satellite service to Alaska; and

25. WHEREAS RCA Alascom and the American Telephone and Telegraph Company
26. have stated their intention to the Federal Communications Commission to
27. implement a rate integration plan; and

28. WHEREAS rate integration, as proposed, will eliminate the disparity in
29. interstate telephone rates to Alaska in three approximately equal steps, the

1 first of which began in March, 1976; and

2 WHEREAS phase II of rate integration, scheduled to be implemented on
3 July 1, 1977, will provide a 50 per cent reduction in the existing disparity
4 between the rates paid by Alaska consumers for interstate telephone calls
5 and those paid by consumers in the contiguous forty-eight states; and

6 WHEREAS this reduction in interstate telephone rates will provide signi-
7 ficant public benefits by making service more widely affordable and by
8 strengthening the ties of Alaskans to their fellow citizens in other states;
9 and

10 WHEREAS the local long lines carrier, RCA Alascom, has recently sought
11 to delay the introduction of phase II of rate integration and its attendant
12 benefits to the people of Alaska by claiming, without any relevant justifica-
13 tion, that rate integration could lead to a 300 per cent increase in Alaska
14 intrastate telephone rates; and

15 WHEREAS RCA Alascom has failed to provide a rate integration proposal
16 for phases II and III, and the data underlying that proposal, as promised
17 to the Federal Communications Commission and the people of Alaska; and

18 WHEREAS RCA Alascom has provided no relevant, documented justification
19 for any delay in the scheduled implementation of phase II of rate integration
20 on July 1, 1977; and

21 WHEREAS no increase in intrastate telephone rates may be or should be
22 implemented without the submission of complete documentation and justification
23 to the Alaska Public Utilities Commission; and the full consideration of that
24 body; and

25 WHEREAS RCA Alascom has never been subjected to a thorough regulatory
26 audit nor have its interstate or intrastate telephone rates ever been investi-
27 gated as permitted and provided for in the Alaska statutes and the Federal
28 Communications Act of 1934;

29 BE IT RESOLVED that the Alaska State Legislature urges

1 **1.** the Federal Communications Commission to disapprove any request for
2 a delay in the implementation of phase II of rate integration as planned on
3 July 1, 1977;

4 **2.** the Federal Communications Commission to institute under its powers
5 granted by the Communications Act of 1934 an investigation, audit and rate
6 proceeding to determine the lawfulness of all RCA Alascom charges, practices,
7 classifications and regulations for or in connection with its interstate
8 telecommunications services; *Discontinue - according to RCA*

9 **3.** the Alaska Public Utilities Commission to institute an investigation,
10 audit and rate proceeding to determine the lawfulness of RCA Alascom's
11 intrastate rates, classifications, rules, regulations, practices, services
12 and facilities under AS 42.05; *Weatherly - APUC has conducted audits since Summer 76.*

13 **4.** the Governor through his Office of Telecommunications to participate
14 fully in these proceedings before the Federal Communications Commission and
15 the Alaska Public Utilities Commission so that the interests of the citizens
16 of Alaska may be fully protected and advanced. *Weatherly - Already are*

17 COPIES of this resolution shall be sent to the Honorable Richard E.
18 Wiley, Chairman, Federal Communications Commission; the Honorable Ted Stevens
19 and the Honorable Mike Gravel, U.S. Senators, the Honorable Don Young, U.S.
20 Representative, members of the Alaska delegation in Congress; to the members
21 of the Alaska Public Utilities Commission; and to the Governor's Office of
22 Telecommunications.

23 APUC - "Counterproductive" - *Weatherly*
24 No fiscal note.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HJR 32
 Title Relating to Review of Interstate and Intrastate Telephone Service & Rates
 Requested by House Commerce Committee Date 30 March 1977

II. FISCAL DETAIL

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 Program Category Affected Protection
 Budget Request Unit(s) Affected Alaska Public Utilities Commission

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IV. DATE March 30, 1977 PREPARED BY Marvin R. Weatherly, Commissioner
 AGENCY Alaska Public Utilities Commission
 PHONE 272-1487

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

JAY S. HAMMOND
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

7 April 1977

The Honorable Joseph H. McKinnon
Chairman
House Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Alaska

Dear Chairman McKinnon:

I have strongly supported full rate integration for Alaska at the earliest possible time. It has now been over five years since the FCC first directed the responsible carriers to submit their plans for rate integration; any further delay due to the inability of RCA Alascom and AT&T to establish a plan for dividing interstate telephone revenues is unacceptable to the people of Alaska. This separations plan must, of course, ensure the economic viability of all participating carriers without the necessity of intrastate rate increases attributable to rate integration.

Recognizing the views expressed by the telephone industry regarding HJR No. 32, I, in consultation with the Alaska Public Utilities Commission and the Office of Telecommunications, believe the Resolution could be strengthened by the addition of language stressing our concern regarding the economic health of the Alaska telephone industry and the initiation of a Joint Board proceeding to develop a truly Alaska oriented separations methodology.

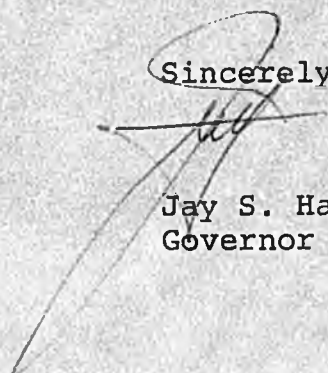
However, I must point out that Phase II of rate integration-- which will lower Alaska interstate rates by 30 percent--can and must go forward as scheduled on 1 July 1977. Since RCA Alascom and AT&T have not resolved their differences with respect to the division of revenues, the FCC should order an interim settlement which will insure against the need for any intrastate rate increase growing out of rate integration.

I am recommending that the Resolution be amended, as enclosed, and will fully support the Resolution in its amended form.

The Honorable Joseph H. McKinnon
Page 2
7 April 1977

I urge rapid passage of the amended Resolution by the House and Senate believing it will help make full rate integration for Alaska a reality.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jay S. Hammond", is written over a horizontal line. The signature is stylized and somewhat cursive.

Jay S. Hammond
Governor

Enclosure

RECEIVED
BUREAU OF
MINE REVENUE
WASHINGTON, D.C.

CONFIRMATION COPY

26 MAR 77 4:39

C#V

02048 NL ANCHORAGE ALASKA 118 03-26 0415P AST
PMS HOUSE COMMERCE COMMITTEE ATTN JOE MCKINNON
JUN

SUBJECT: HOUSE JOINT RESOLUTION NUMBER 32 10TH
LEGISLATURE FIRST SESSION. RELATING TO REVIEW OF
INTERSTATE AND INTRASTATE TELEPHONE SERVICE AND RATES.

INTERIOR TELEPHONE COMPANY OPPOSES THE PASSAGE OF
HOUSE JOINT RESOLUTION NUMBER 32 IN ITS PRESENT
FORM. INTERSTATE RATE INEGRATION BASED ON SOCIAL
POLICY WITH NO REGARD FOR THE TOTAL STATEWIDE
ALASKA TELEPHONE REVENUE REQUIREMENT WILL CAUSE SERIOUS
FINANCIAL HARM TO NOT ONLY THE ALASKA TELEPHONE
SYSTEM, BUT THE GENERAL PUBLIC WHICH IT SERVES.
IMMEDIATE ATTENTION SHOULD BE GIVEN TO THE INTEGRATION
OF TOTAL ALASKA TELEPHONE INVESTMENT WITH
THE REMAINDER OF THE UNITED STATES AND METHODS OF
MEETING FINANCIAL REQUIREMENTS PRIOR TO ALLOWING
REDUCTIONS IN MAJOR REVENUE SOURCES THROUGH FORCED
RATE REDUCTIONS.

AH EATON VICE PRESIDENT AND GENERAL MANAGER
INTERIOR TELEPHONE COMPANY ANCHORAGE ALASKA

#



TELEGRAM

RCA ALASKA COMMUNICATIONS, INC.

PHONE: 866-6440

BUREAU, ALASKA 99501

#

1977 APR 28 11 22 AM

02017 ANCHORAGE ALASKA 32 04-03 1333A AST

PMS REP JOE MCKINNON

JUN 0452

THE ALASKA PUBLIC UTILITIES COMMISSION IS IN SUPPORT OF
AMENDMENTS TO HJR32 AS PROPOSED BY THE OFFICE OF THE GOVERNOR.
THE AMENDMENTS ADDRESS THE CONCERNS PREVIOUSLY EXPRESSED
BY THE APUC

MARVIN R WEATHERLY COMMISSIONER FOR THE ALASKA PUBLIC
UTILITIES COMMISSION

GSAT was granted authority to utilize its earth stations with AT&T's system in lieu of operating a separate system using NSS satellites. This modification did not alter the rate integration condition on GSAT's original grant.

During the period between October, 1973 and June, 1975, the Chief, Common Carrier Bureau (Bureau) made repeated attempts to obtain acceptable proposals for integration of rates and services between Hawaii, Alaska and Puerto Rico/Virgin Islands and the mainland. The States of Alaska and Hawaii and the Commonwealth of Puerto Rico also expressed their views to the Commission on the integration question. The Bureau requested submissions from the affected carriers and met with the carriers both jointly and individually. The information and submissions forthcoming from the carriers did not embody any comprehensive proposals or fulfill the requirements for integration as set forth in the Second Report. Subsequently, our rate integration efforts became individualized for the different service points, beginning with Hawaii. Thus, we will trace the remainder of our progress and set forth our determinations separately.

Hawaii

In July, 1975, the Bureau met separately with HTC, AT&T and the State of Hawaii to determine the status of integrating MTS rates for Hawaii and to establish dates for implementation of integrated rate schedules. A tentative proposal was later submitted by AT&T and HTC. The State of Hawaii had previously filed a petition for declaratory ruling clarifying the procedures to be followed by domestic satellite carriers in fulfilling rate integration requirements for Hawaii. In our Memorandum Opinion and Order, FCC 75-1334 (released December 10, 1975), recon. denied, 57 FCC 2d 953 (1976), (Order) we considered the State of Hawaii's petition and stated that we would attempt to resolve rate integration questions prior to the actual filing of Section 214 applications for domestic satellite systems and would certainly resolve the issue prior to their grant. We also stated that the affected carriers for Alaska and Hawaii would be required to file specific and fully-supported proposals.

In accordance with that decision, in a January 15, 1976 letter (FCC 76-21) we directed AT&T and HTC to submit a formal MTS rate integration proposal for Hawaii within thirty days. The carriers were instructed to describe the proposal in full detail, including the rate structure and rate levels and charges, as well as to provide complete cost and economic justification and drafts of all tariff pages. Alternative proposals were to be provided; one to be fully implemented immediately and the other in three equal steps, the first becoming effective



Alaska

The Bureau met with AT&T in August, 1975 and with RCA Alascom in September, 1975 to determine the status of studies relating to integration of MTS rates to Alaska. Further discussions between AT&T and RCA Alascom were held with the purpose of negotiating a specific integration proposal. We acknowledged these negotiations in our Order of December 10, 1975 and also stated that the lack of adequate communications facilities to serve Alaska would likely necessitate a grant of interim operating authority prior to full resolution of the rate integration question. On December 2, 1975, the Bureau again met with the carriers to review the progress, at which time it was agreed that a specific proposal would be submitted by January 15, 1976.

Tariff revisions which AT&T and RCA Alascom termed Step I of MTS rate integration to Alaska were filed on January 29, 1976 and became effective March 29, 1976. The carriers and the Bureau met on March 30, 1976 to discuss development of a further proposal for Alaska integration. AT&T and RCA Alascom on April 27, 1976 submitted a joint letter containing a general proposal for implementation of Steps II and III rate integration, paralleling the Hawaii plan. Each step embodies an approximate one-third reduction in the rate disparity. Unlike the Hawaii proposal, however, the Alaska plan does not contain specific rate schedules or supporting materials for Steps II and III. In explanation of this difference, AT&T and RCA Alascom state that Step I for Alaska embodied more extensive structural changes than for Hawaii. Since the effects of these changes on traffic, revenues and costs is unknown, the carriers intend to determine and evaluate these effects by February, 1977. At that time, it is anticipated that AT&T and RCA Alascom will submit the details of their proposals for Steps II and III. AT&T and RCA Alascom propose to implement the second step in early 1978 and the third step in early 1980.



The State of Alaska considers the AT&T/RCA Alascom approach to be reasonable, but requests the Commission to establish a specific deadline for the submission of the plans for Steps II and III. The State also asks that the Commission require earlier implementation of the remaining steps if the Step I evaluation indicates such will not result in degradation of service. The State expresses an interest in having specific data compiled on the capacity of RCA Alascom's network and the costs of providing MTS.

It is our determination that the joint AT&T/RCA Alascom proposal for integration of MTS between the mainland and Alaska is acceptable, with several alterations. First, we are requiring AT&T and RCA Alascom to submit the results of their Step I studies and specific rate integration plans for the remaining steps by February 1, 1977. We will also expect these steps to be implemented at 18 month intervals, with Step II becoming effective by July 1, 1977 and Step III by January 1, 1979. We find no compelling reason to delay the implementation of these steps beyond the above dates. While we note that AT&T and RCA Alascom have not agreed on division of revenues for Steps II and III, we expect the carriers to commence negotiations on this subject immediately. Should we find it necessary to designate this issue for hearing, as in the case of Hawaii, we expect to complete the procedure in a timely fashion. Based on the above considerations, we are specifically conditioning the grant of the AT&T satellite facilities authorization upon the written submission by AT&T, before the authorization becomes effective, of its commitment to implement its MTS rate integration proposal for Alaska, as modified above. We are likewise requiring RCA Alascom to submit its commitment within 30 days from the release of this decision. In this regard, we remind RCA Alascom of its obligation to implement integration plans not only for MTS, but for all other services as well. The construction permits for the earth stations of RCA Alascom's satellite system serving Alaska were subject to the policies of the Second Report. In addition, RCA Alascom was given notice in the interim authorization of its domestic satellite system that any permanent authorization would be subject to the Commission's final decision.

We will not require any interim offering of WATS for Alaska for the same reasons we set forth with regard to Hawaii. However, when and if AT&T files a tariff replacing the present inward and outward WATS services, it shall include Alaska in such offering and our authorization herein will be so conditioned. We are not yet in a position to determine whether the RCA or the AT&T system will be regularly authorized to serve Alaska. Accordingly, we reemphasize the conditions imposed on all domestic satellite authorizations in Docket 16495 requiring full and prompt implementation of rate and service integration for Alaska. RCA Alascom's proposal for services other than MTS, filed on June 21, 1976, is not yet ripe for



Commission consideration. Therefore, we will defer any further order on other authorized services pending consideration of that proposal and any related pleadings. Since RCA Alascom already holds temporary authority to provide these services via its domestic satellite system, we are requiring the same commitment from RCA Alascom within 30 days for integration of all their services and charges.

Puerto Rico/Virgin Islands

In our Order of December 10, 1975, we noted that resolution of the rate integration question for Puerto Rico would likely be delayed because of the pendency of the proceeding in Docket No. 20598. That proceeding involves the question of the "appropriate local carrier" to own the Cayce earth station. All America Cables and Radio, Inc. (AAC&R) is seeking to acquire the ownership interest of COMSAT and the Puerto Rico Telephone Company (PRTC) claims that it, rather than AAC&R, is the "appropriate local carrier." PRTC initiated discussions with AT&T and AAC&R concerning integration in April, 1976. In a letter of May 21, 1976 to AT&T, AAC&R, PRTC and the Virgin Islands Telephone Company (VITELCO), the Bureau recognized the need for immediate negotiations among the parties for the purpose of submitting tentative proposals for MTS rate integration between the mainland and Puerto Rico and the Virgin Islands. Although the Bureau acknowledged that the outcome of Docket No. 20598 may have an effect on some details of the proposal for Puerto Rico, it stated that all the parties would be involved to some extent in providing MTS regardless of the disposition of the earth station ownership question and that the integration question should be resolved simultaneously. The Bureau directed the parties to report the progress of their negotiations to the Commission by July 1, 1976. We will direct the Bureau to assist in these negotiations to assure that proposals are timely developed or that any areas of disagreement are brought before us for resolution as soon as possible.

We are of the view that integration of MTS rates for Puerto Rico and the Virgin Islands should be accomplished as soon as practicable. We anticipate that the carriers will agree upon a proposal similar to those before us for Hawaii and Alaska. Although the carriers have not yet submitted a proposal, we envision a plan which would remove the rate disparity in two approximately equal steps, the first of which should become effective by July 1, 1977 and the second by January 1, 1979. We do not anticipate any departure from this schedule or goal, absent a strong showing of good cause. As with the other services and service locations, we are conditioning the subject authorization upon AT&T's written commitment to this principle. Any authorizations to use the

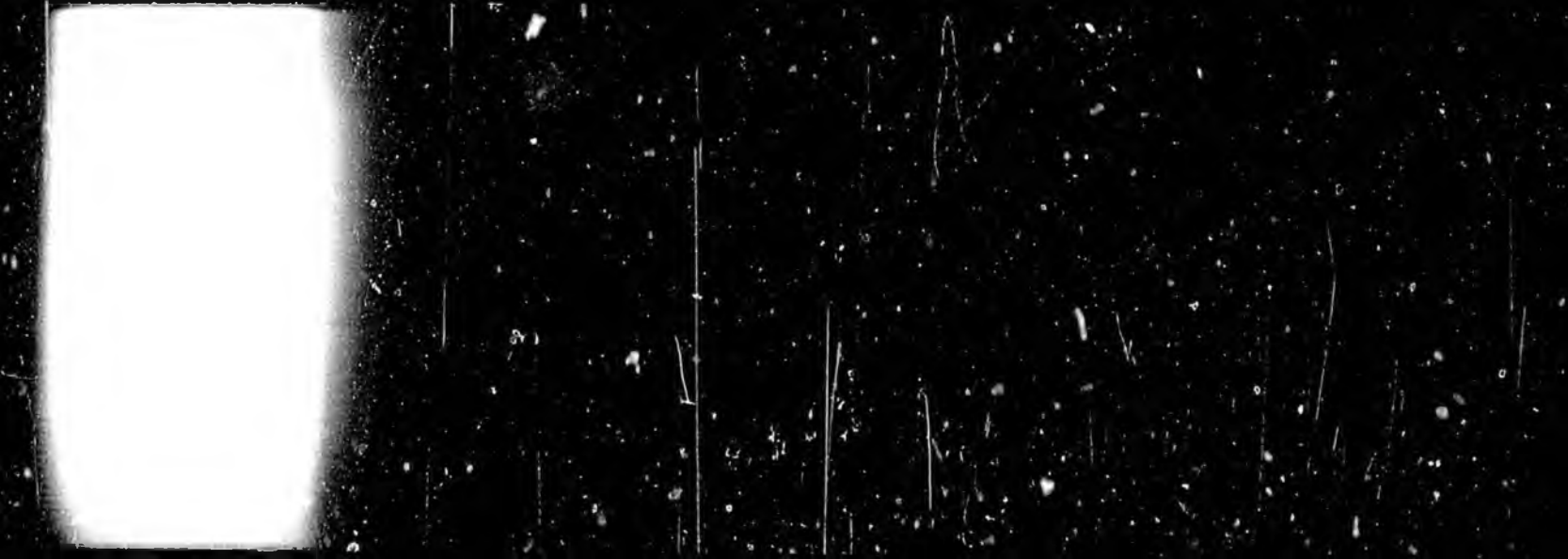


THE EFFECT ON RCA ALASCOM INTERSTATE
REVENUES OF PHASE I AND PHASE II OF
RATE INTEGRATION, ASSUMING EXISTING
DIVISION OF REVENUES (99% OF REVENUES
TO RCA ALASCOM; 1% OF REVENUES TO AT&T)

<u>Year</u>	<u>RCA Estimates^{1/}</u>		<u>ARPM^{3/}</u>	<u>AT&T Estimates^{2/}</u>	
	<u>Msg. Vol.</u>	<u>RCA Settlement</u>		<u>Msg. Vol.</u>	<u>RCA Settlement</u>
	(in millions)			(in millions)	
1976			\$6.94	12.3	\$84.2
1977					
Step I			\$6.99	14.9	\$103.2
Step II	19.7	\$95.9	\$4.91	16.5	\$80.3
effect			\$5.90	15.7	\$91.8
1978	21.1	\$102.97	\$4.88	20.3	\$98.1

Thus, RCA's revenue projection for Phase II is even higher than AT&T's and both projections show that RCA will receive significantly more revenue per year during Phase II than it did during Phase I.

1. The figures shown for RCA are based upon the revenue projections submitted by RCA Alascom to the FCC in the rate integration meeting held in Washington, D. C., on January 26, 1977. The chart at page 19 of the RCA submission shows that RCA projects message volumes of 9.87 million (19.7 million - annualized) messages (\$69.4 ÷ \$7.03 per message) during the first six months of Phase II (the last six months of 1977) and 21.1 million messages (148.54 million ÷ \$7.03 per message) during 1978 -- the last twelve months of Phase II. The message volumes shown by RCA for both periods are higher than those used by AT&T in its rate integration proposal.
2. The figures shown for AT&T are taken directly from its rate integration proposal (Appx. B, Attach. B) submitted at the FCC rate integration meeting on January 26, 1977. Although AT&T projects lower message volumes than does RCA, its submission



(Footnote 2 continued)

still shows that RCA will receive higher annual settlements under Phase II during 1977 and 1978 than it did under Phase I during 1976. These higher settlements derive from the traffic growth and stimulation assumptions implicit in the January 26, 1977, RCA and AT&T submissions.

3. Average Revenue Per Message (ARPM) is taken from the January 26, 1977, AT&T rate integration proposal and was used to determine the RCA settlements during Phase II using RCA's projected message volumes.



PHASE II RATE INTEGRATION IMPACT ON ALASKAN MTS.

(\$ MILLIONS)	6 MONTHS 1977	12 MONTHS 1978	18 MONTHS TOTAL
* ALASKA INTERSTATE SETTLEMENT @ \$7.03 (KEEP WHOLE)	69.4	148.54	217.94
GROSS MTS REVENUE PROJECTION	(54.0)	(121.2)	(175.2)
ATAT	40.1	28.1	
REVENUE DEFICIENCY	<u>15.24</u>	<u>27.34</u>	<u>42.58</u>

* INCLUDES LOCAL CONNECTING COMPANY SETTLEMENTS

DEFICIENCY
\$42.58
MILLIONS





Alaska Telephone Industry Task Force

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(907) 276-3322

MEMBERS:

ALASKA PUBLIC UTILITIES COMMISSION
GOVERNORS OFFICE OF TELECOMMUNICATIONS
ALASKA TELEPHONE ASSOCIATION
RCA ALASKA COMMUNICATIONS, INC.

March 28, 1977

Mr. Joe McKinnon
House Commerce Committee
Juneau, Alaska

Dear Mr. McKinnon:

The Alaska Telephone Industry Task Force has reviewed House Joint Resolution No. 32 with grave concern. While we support and encourage rate intergration at the earliest possible time, we believe if it is not done with caution and skill, the results could be disasterous for Alaska telephone users.

The promise of massively lower interstate rates is truly an intoxicating idea. This is especially true in Alaska, where so much business is done with the economic centers of the rest of our country. It is redundant to note that the high cost of transportation and communications in the business community is reflected in the price of all our goods and services and any reduction in costs would certainly be welcomed. Unfortunately, there are few true "give-a-ways" in this world, and interstate rate reduction is no exception. It is imperative that we Alaskans recognize the dangers here and not go in with eyes half closed; mesmerized by the promise of a savings that may not be realized.

Like the man who cuts off the top of the blanket and sews it on the bottom to make the blanket longer; lowering interstate rates without lowering interstate costs will simply increase intrastate rates the same amount. In this case, revenues needed to run the Alaskan telephone system remains unchanged before and after interstate rate reduction and any loss of revenues now received from the interstate caller must be made up by the intrastate caller.

If the Alaska rate payer made exactly the same amount of calls to the "Lower 48" that he makes to points within Alaska, and the cost of providing both services were the same, he would be as well off (but no



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better) after rate intergration as he was before. To better understand this, assume that on the average I pay \$100.00 per month for the toll calls I make, and half of them terminate in Alaska, and half in the rest of the world. Therefore, it's reasonable to set rates so that half of my \$100.00 or \$50.00 each month goes for interstate toll charges and \$50.00 for intrastate charges. Also, assume the revenues needed to support the provision of telephone service is \$100,000,000 per year, of which \$50,000,000 is derived from interstate charges, and \$50,000,000 is derived from intrastate charges. Then, suppose that the FCC orders a \$30,000,000 reduction in rates for interstate charges in order to carry out its social policy of making interstate service available to our state at the same rates now enjoyed by our sister states. The costs have not been reduced by this social policy decision and the revenue needed to run the Alaska telephone system remains unchanged at \$100,000,000. In order to continue to receive the \$100,000,000 each year to keep the telephone system running, the intrastate rate must now be adjusted by the \$30,000,000 loss from the interstate billing. Now, instead of paying \$50.00 per month for interstate toll calls and \$50.00 per month for intrastate calls, I now pay \$20.00 and \$80.00 respectively. The total, however, remains at \$100.00 and I am no better or worse off.

Naturally, this example would only be valid if Alaskans truly made percisely the same calls outside the state that they make inside the state. This is hardly the case in reality and a more realistic example might be 80% of all calls terminating in Alaska and 20% outside. But, thanks to the historic method of setting rates as a function of airline distance, the interstate rates with its greater distances may generate \$80,000,000 and intrastate with its shorter distances might generate the remaining \$20,000,000 of the total revenue required. Unfortunately, the shift of \$30,000,000 now would be a 150% increased requirement on intrastate rates, and it is for this reason that we are so frightened by any plans to keep going forward with rate intergration before the Alaskan rate payer can be protected.

The key to understanding this issue is to realize that these three phases of rate reductions represent a social policy decision that ignores entirely what it costs to provide telephone service. In the "Lower 48", rate intergration works because the total national toll revenues are polled and divided among the industry as a function of their individual cost of service. The lower costs of serving urban areas generates surplus revenues which are utilized to serve the high cost of rural areas of America.



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However, Alaska is a rural state entirely, and we have not yet expanded to the point where all Alaskans have basic telephone service. Even with current rates, we still need more revenues that we are now billing for interstate service. With each phase of rate reduction the deficiency will grow worse unless the FCC and the Bell System do for Alaska what has been done for every other state: Let us recover our fair cost of providing interstate service from the interstate revenue pool and not have to go to the Alaskan rate payers who are already overburdened with telephone charges as high as anywhere in the nation.

Our Task Force is deeply involved in the development of Alaska's interstate revenue requirement and expects to complete a statewide cost study before the end of the year. This must be done before Bell and the FCC will allow any improvement in Alaska's revenue retention. Further rate reduction before this study can be completed should be considered very carefully and possibly postponed until it can be completed.

Please be assured that we realize that the best interest of the telephone industry is consistent with an early intergration of rates and costs with the "Lower 48" and we are working for the earliest completion of our work. Already we have completed traffic studies on forty-one exchanges in the state and in April we begin financial analysis of sixteen operating companies. When this is complete we will couple the results with other "cost companies" in Alaska and prepare a total cost package for negotiations with the Bell System. Until these results are in, arbitrary rate reductions is equivalent to Russian roulette. We have waited twenty years for rate intergration. Can a few more months really make that much difference? In any case, I urge you to consider the matter carefully and make haste slowly.

I must apologize for the haste of this letter to your committee. Unfortunately, our work keeps me out of town a great deal. If for any reason you desire further conversation on this subject please contact me at your earliest convenience.

Yours very truly,
ALASKA TELEPHONE INDUSTRY TASK FORCE

Keith G. Ragsdale

Keith G. Ragsdale
Executive Director

KGR/ch



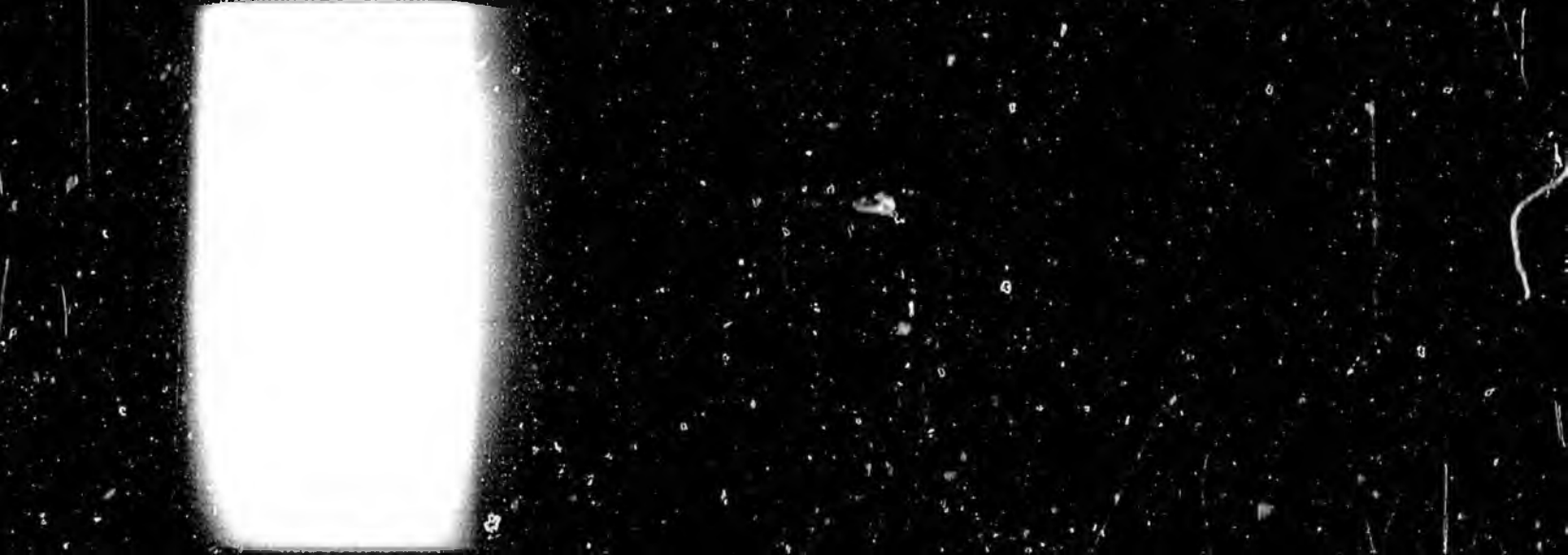
Notify George Shaginaw

Office of Telecommunications

HJR 32

Rate integration

Cindy McBurney



Adequate return on investment - What is rate of return

Phase I March 76 25.4%
 7% = 30 II July 1, 77 1/2 of remaining def.
 III Jan 1, 79 Remainder

Inter Intra

Satellite	60	15	12
Terrace	40	85	400

4
30
420

Rate of return eating ~~30~~ mill ¹² 5%

200	15%	12 → 5
10 million	7%	1/30
No phase II	11.9%	18.5 inv. 9.2
210 currently	300	

14% 10% 30
 12% 7
 5%

5/12

7/100
30

12
5

10/70

1
3

14%