

A

B

16

5

# COMMITTEE REPORT

## HOUSE

FURTHER: FINANCE

2/17/81

(5)

Date: \_\_\_\_\_

Mr. Speaker:

The Committee on LABOR & COMMERCE has had HB 165

"An Act creating the public utility revolving loan fund; and providing for an effective date."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for HB 165 (290)  same title  
 new title
- and recommends DO PASS
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

*[Handwritten signatures]*

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MEMBERS HAVING  
OTHER RECOMMENDATIONS:

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\_\_\_\_\_  
CHAIRMAN

TO: MEMBERS OF THE HOUSE LABOR AND COMMERCE COMMITTEE

REGARDING: HB 161

FROM: Joseph Merrill, Ph.D, CPA  
Vice President - RAI Public Utilities  
Consultants, Inc., Anchorage

Below is a brief summary of why we feel a bill supporting a Public Utilities Revolving Loan Fund is necessary - that is, the problems that such a bill can help resolve -

1. Public utilities are regulated as to the rate of return they are allowed to earn. When the regulated rate is less than the interest rate a utility is required to pay for construction, the result is obvious - no construction.
2. Most rural telephone systems in Alaska have obtained their construction funds from the federal REA program at interest rates of 2% - 5%. However, the process is slow and recently doubts have arisen as to the reliability of the long-term aspects of that program. Because of the delays in dealing with Washington, construction seasons are missed, costs increase and the nature of the program makes interim (short-term) financing difficult, if not impossible.
3. The type of collateral offered by a utility makes potential lenders leery. For example, who wants to repossess 30 miles of underground telephone cable?
4. When a utility is organized as a co-op, requiring co-signers on a bank note is not relevant, resulting in a hesitancy to loan on the part of many lenders.
5. Short construction seasons, barged freight, etc., make delays of a few weeks, delays of a year in practice.
6. An example of the effect of differing interest rates is given below. Assume a \$1,000,000 loan and 200 telephone subscribers, with a 30 year loan amortization schedule.

Continued on Page 2

<u>Interest Rate</u>	<u>Total annual payment to amortize loan</u>	<u>Monthly amount per subscriber</u>
5%	\$ 65,000	\$27.08
8%	38,800	37.00
10%	106,000	44.16
15%	152,300	63.45
20%	200,800	83.66

A state program designed to resolve these types of problems should incorporate the following features:

- 1 - An awareness of the common aspects of all utilities as well as the unique aspects of each type (i.e. telephone, power, etc.).
- 2 - A process whereby construction - period funding can be handled more speedily than permanent long-term financing, yet deal with both.
- 3 - Distinctions between co-ops and privately owned corporations.
- 4 - The recognition of the unique collateral and equity circumstances of utilities.
- 5 - An awareness of the need for loans at interest rates well below the rate of return permitted under regulated circumstances.

Accordingly, we would recommend that the program be administered and serviced through banks with a minimum amount of their direct participation and be governed by a special board under the Department of Commerce and consisting of -

- A banker (of a participating bank).
- A lawyer.
- An accountant and finance person.
- A representative from the public utilities commission.
- An engineer of the specialty of the type of utility applying for the loan.
- A public representative.
- A representative of the Department of Commerce.

These brief notes are not meant to be comprehensive explanations but rather to highlight the aspect of an ideal bill.

Our firm is representing the support of such a bill by the Alaska Telephone Association, and our clients.

# WORK ORDER REQUEST FORM

142- 135

KEYWORDS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

ASSIGNED TO \_\_\_\_\_

REQUEST FOR: BILL  RESOLUTION  RESEARCH  OTHER

SUBJECT \_\_\_\_\_

REQUESTED FOR \_\_\_\_\_ BY \_\_\_\_\_ EXT. \_\_\_\_\_

\* DELIVER TO \_\_\_\_\_ TAKEN BY \_\_\_\_\_

INSTRUCTIONS, EXPLANATIONS \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

OBTAIN

SPECIAL DRAFTING INSTRUCTIONS ATTACHED

AUTHORIZED TO CONFER WITH \_\_\_\_\_

RETURN \_\_\_\_\_

\_\_\_\_\_ TO REQUESTER

APPROVED: \_\_\_\_\_ Director, Legal Services

REVIEWED \_\_\_\_\_

IN 4/8 DUE \_\_\_\_\_

TYPED - Draft \_\_\_\_\_ DATE \_\_\_\_\_

Final \_\_\_\_\_ DATE \_\_\_\_\_

PROOFED \_\_\_\_\_ DELIVERED \_\_\_\_\_

SPECIAL INSTRUCTIONS TO TYPIST/PROOFREADER

DRAFT

FINAL

FROM THE DESK OF .

**Jackie N. Dukes**

Ken

This analysis is comparison  
of total payback assuming  
ten consecutive loans (one per year)  
of \$600,000 each, 20 year life,  
using 5% and 12% cost of  
money.

If you need more data,

let me know.

Jackie

**MAIL**  
NEXT DAY SERVICE

# POST OFFICE TO ADDRESSEE



**FROM:**

Customer Number, if any:

**TO:**  
Capitol Bld Room 409  
Pouch V  
Tombau AT 99811

<b>ORIGIN:</b>	
Initials of Receiving Clerk:	57
P.O. ZIP	07641
Date in	15/11/79
Time in	11:01
Weight	1.05
Postage	710

**B** 35634498

<b>DESTINATION:</b>	
Date of Delivery:	5/12
Time of Delivery:	3:25
Initials of Delivering Employee:	JA
Signature of Addressee or Agent: <i>[Signature]</i>	
<b>DELIVERY WAS ATTEMPTED</b>	
Date	Time:
Notice Left By:	

TO REMOVE PEEL BACK HERE

**EXPRESS MAIL SERVICE**

LABEL 11B JUNE 79 U.S.G.P.O. 1979-300-285

all 79

Date

Initials

Date

Prepared By

Approved By

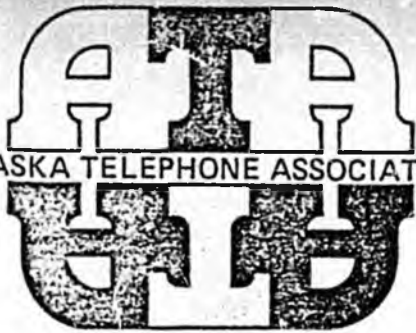
12% Loan

	CUMULATIVE Balance	PAYMENT Amounts
1	60000.00	-
2	11916727	803273
3	17740189	1606546
4	23459194	2409819
5	29061207	3213092
6	34532189	4016365
7	39856416	4819638
8	45016278	5622911
9	49992051	6426184
10	54761644	7229457
11	53300315	8032730
12	51663627	8032730
13	49830536	8032730
14	47777474	8032730
15	45478044	8032730
16	42902682	8032730
17	40018277	8032730
18	36787743	8032730
19	33169544	8032730
20	29117161	8032730
21	24578492	8032730
22	20298455	7229457
23	16308086	6426184
24	12642145	5622911
25	9339564	4819638
26	6443946	4016365
27	4009126	3213092
28	274800	2409819
29	717228	1606546
30	-0-	803273
31		
32		
33		
34		160654600
35		
36		
37		
38		
39		
40		
41		
42		
43		
44		
45		
46		
47		

160654600

MTA  
 Loan Repayment Schedules  
 Years as shown

End of year	5% Loan	
	Amounts Borrowed ANNUALLY	CUMULATIVE Balance PAYMENT Amounts
# 1	6000000	6000000
2	6000000	11 818 544
3	6000000	17 446 560
4	6000000	22 874 522
5	6000000	28 092 427
6	6000000	33 089 772
7	6000000	37 855 529
8	6000000	42 378 118
9	6000000	46 635 381
10	6000000	50 644 552
11	- 0 -	48 362 226
12		45 965 784
13		43 449 520
14		40 807 442
15		38 037 260
16		35 120 369
17		32 061 833
18		28 850 370
19		25 478 334
20		21 937 676
21		18 220 026
22		14 797 928
23		11 686 180
24		8 900 300
25		6 456 581
26		4 372 131
27		2 664 914
28		1 353 792
29		458 569
30		- 0 -
31		- 0 -
Totals		96291200



ALASKA TELEPHONE ASSOCIATION 3400 LaTouche • Suite 201 • Anchorage, Alaska 99504 (907) 276-3293

Gordon Parker  
Executive Director

March 25, 1981

Honorable Vern Hurlbert  
Alaska State House  
Pouch V  
Juneau, Alaska 99811

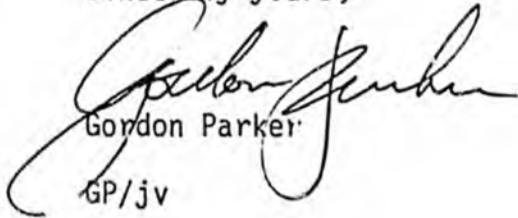
Dear Representative Hurlbert:

At the request of Ken Spray, I have compiled a set of figures to demonstrate the possible loss of revenue caused by cuts in REA funding. It is still unclear how deep the cuts will go, therefore these figures represent the worst possible damage. They consist of dollars applied for but not yet approved and approved but not received. In other words, the figures include all money which could be lost.

United Utilities, Inc.	26.4 million
Cordova Telephone Cooperative	3.45
OTZ Telephone Cooperative, Inc.	3.74
Interior Telephone Company, Inc.	2.2
Matanuska Telephone Association	16.0
Nushagak Telephone Cooperative, Inc.	.3
Bush-Tell, Inc.	5.0

We appreciate your assistance with this problem. I plan to be in Juneau on April 7 and hope to discuss it further with you. If you need any assistance before then, I am available at any time.

Sincerely yours,

  
Gordon Parker

GP/jv



Official Business

# Alaska State Legislature

## House of Representatives

Pouch V  
State Capitol  
Juneau, Alaska 99811

### LETTER OF INTENT

CSHB 165 (Labor & Commerce)

Dear Mr. Speaker:

Your committee on Labor and Commerce has had under consideration HB 165, " An act creating the public utility revolving loan fund; and providing for an effective date."

We have approved a committee substitute that still addresses the intention of the original legislation: that is, to create a revolving loan fund for public telecommunications.

During public testimony the committee was convinced that administration of the fund should be on a priority basis so those public telecommunications utilities desiring to expand services to unserved areas would be given a priority.

The committee believes such priority would best serve the rural areas of the state that are in desperate need of a communications system and this in turn would best serve the state as a whole.

Respectively submitted

A handwritten signature in cursive script, reading "Vern Hurlbert".

Rep. Vern Hurlbert  
Chairman

MSG 81-00015965 PRTY 1 05/08/81 16:12:03 ORIG: LM00 IN= 0005  
FROM: MARTIE/MATSU TO: JUNEAU INFORMATION  
TARGET: LJ08 SUBJ:

PAGE 0001

TO: REP. HURLBURT FOR KEN SPRAY  
FROM: JACKIE DUKES, MATANUSKA TELEPHONE, BOX 1389, PALMER  
745 3211  
RE: HB506

PER YOUR REQUEST, THE IMPACT OF INCREASING THE ANNUAL PERCENTAGE RATE FROM 5% TO 12% UPON THE SUBSCRIBERS OF MTA, ASSUMING \$5,000,000 LOAN WOULD BE APPROXIMATELY \$322,000. THIS EQUATES TO ABOUT \$30 PER CUSTOMER PER YEAR. TO OFFSET THIS WOULD REQUIRE AN INCREASE IN RATES OF 15% TO 20% EACH YEAR THAT MTA WOULD BE REQUIRED TO BORROW AT THE HIGHER RATE WOULD REQUIRE ANOTHER INCREASE OF THE SAME MAGNITUDE. IF I CAN PROVIDE ADDITIONAL DATA, PLEASE CALL.

NXT MSG U/R/S \_ PREV MSG U/R/S \_ RESEND \_ CANCEL

Eagle River  
Current:  
Business Residential  
\$29.10 per month \$16.85 per month

Outside Eagle River  
Business Residential  
\$19.10 per month 11.65 per month

3823

MSG 81-00016174 PRTY 1 05/11/81 18:19:23 ORIG: LA00 IN= 0011 OUT= 0072  
FROM: MARCIE, AHC INFO TO: JUNEAU INFORMATION  
TARGET: LJH2 SUBJ: IMPORTANT MESSAGE FOR REP HURLBERT PAGE 0001

JUNEAU INFO. PLEASE CALL AND HAVE KEN SPRAY PICK THIS UP AS SOON AS POSSIBLE. REPRESENTATIVE HURLBERT IS EXPECTING. THANKS. MS (PLEASE ACKNOWLEDGE RECEIPT INDICATING # OF PAGES)

TO: REPRESENTATIVE HURLBERT  
ATTENTION: KEN SPRAY  
  
FROM: BILL ECHOLS, ACCOUNTANT, R.A.I. FOR BUSH-TELL, INC.,  
3201 C STREET, SUITE 601, ANCHORAGE 99503 (WK 276-5208)  
  
RE: HOUSE BILL 165

THE ANALYSIS OF BUSH-TELL, INC. 1981 CONSTRUCTION BUDGET WITH A PROJECTED COST OF \$ 2,244,365.00 WOULD ADD AN ESTIMATED 458 TELEPHONE SUBSCRIBERS TO SERVICE.

MSG 81-00016174 PRTY 1 05/11/81 18:19:23 ORIG: LA00 IN= 0011 OUT= 0072  
FROM: MARCIE, AHC INFO TO: JUNEAU INFORMATION  
TARGET: LJH2 SUBJ: IMPORTANT MESSAGE FOR REP HURLBERT PAGE 0002

A COMPARATIVE PRINCIPLE AND INTEREST CALCULATION:

AT 5% WOULD BE \$ 100,064.00 ANNUAL PAYMENTS AND A TOTAL PAYBACK OF \$ 3,401,287 IN 20 YEARS.

AT 12% WOULD BE \$ 300,424 ANNUAL PAYMENTS AND TOTAL PAYBACK OF \$ 6,008,480 IN 20 YEARS.

THE DIFFERENCE TO THE SUBSCRIBER WOULD BE AN ADDITIONAL \$ 17.40 PER MONTH FOR THE COST OF MONEY AT 5% VERSUS 12%.

AN INCREASE IN BUSINESS SERVICE RATES FOR:

*Current phone lost  
# Bus. \$ 20 p/mth  
# Residential \$ 13.00 p-mth.*

ONE PARTY	OF	87%
TWO PARTY	OF	97%
FOUR PARTY	OF	1.09%
FIVE PARTY	OF	1.16%

MSG 81-00016174 PRTY 1 05/11/81 18:19:23 ORIG: LA00 IN= 0011 OUT= 0072  
FROM: MARCIE, AHC INFO TO: JUNEAU INFORMATION  
TARGET: LJH2 SUBJ: IMPORTANT MESSAGE FOR REP HURLBERT PAGE 0003

AN INCREASE IN RESIDENCE SERVICE RATE FOR:

ONE PARTY	OF	1.34%
TWO PARTY	OF	1.50%
FOUR PARTY	OF	1.74%
FIVE PARTY	OF	1.84%

BUSH-TELL, INC. HAS A TELEPHONE PRODUCT SERVICE MIX OF 68% RESIDENCE AND 32% BUSINESS. THEREFORE, THE CONSUMERS WOULD BE PAYING AS MUCH AS 1.94% MORE OVER THE PRESENT RATES CHARGED.



# INTERIOR TELEPHONE COMPANY

204 West 6th Avenue Anchorage, Alaska 99501 Main Office 372-2576, Warehouse 333-4333

May 11, 1981

The Honorable Vernon Hurthert  
Attn: Mr. Kent Spray  
Alaska State Legislature  
Pouch "Y"  
Juneau, AK 99811

Re: Proposed House Bill 165

Dear Mr. Spray:

Interior Telephone Company, Inc., currently provides telecommunications services to nine rural Alaskan communities, serving approximately 1,725 customers.

Our 1981 capital expansion budget has been drastically reduced from \$680,000 to \$210,000 because of the non-availability of low interest Rural Electrification Administration (REA) loan funds. We project that approximately 88 new customers will be served during 1981 after our construction efforts connect them to the telephone network.

Interest rates on loan funds for construction have a direct effect on rates we charge our customers. Should HB 165 incorporate a 12% interest rate instead of 5% we would have to pass on to our customers a \$.66 per month increase in basic telephone rates. This increase assumes a 20 year pay back on a \$210,000 loan, spread over 1,413 customers.

We respectfully request your thoughtful consideration to the sensitivity of interest rates as they relate to the bills our customers pay each month. We feel that basic telephone rates paid by rural Alaskans should be kept as low as possible to insure the continuing development of the State and its resources.

Sincerely yours,

INTERIOR TELEPHONE COMPANY, INC.

*Earl H. Land*  
Earl H. Land  
Executive Vice President  
General Manager

EHL/sar

cc: Matanuska Telephone Association

*Current*

<i>Business</i>	<i>Residential</i>
<i>King Cove</i>	<i>King Cove</i>
<i>Galena</i>	<i>Galena</i>
<i>Coopers Landing</i>	<i>Coopers Landing</i>
<i>Unalaska</i>	<i>Unalaska</i>
<i>Ellamini</i>	<i>Ellamini</i>
<i>\$36.26 per month</i>	<i>\$24.42 per month</i>
<i>Ft. Yukon - Cold Bay</i>	<i>Ft. Yukon - Cold Bay</i>
<i>\$31.82 per month</i>	<i>Residential</i>
<i>PT. Lioup/Sand Point</i>	<i>\$21.42</i>
<i>Res. \$21.46</i>	<i>Res. \$13.32</i>

STATE  
of ALASKA

# MEMORANDUM

TO: Representative Vernon L. Hurlbert DATE: May 11, 1981  
Attn: Kent Spray

TELEPHONE NO.:

FILE NO.:

FROM: John B. Farleigh B JBF SUBJECT:  
Executive Director  
Alaska Public Utilities Commission

In response to the request from your office we have compiled the following information from our files and those of the Alaska Telephone Association.

Gross revenue data reflects year end 1979 for regulated utilities. The utilities certificated but not regulated are identified by an asterisk. 1980 gross revenue information will not be available until after June 30, 1980. However, station and employee information is year end 1980 as reported by the ATA:

<u>Utility</u>	<u>Gross Revenues</u>	<u>Station</u>	<u>Employees</u>
Alascom, Inc.	\$150,797,429		1385
Anchorage Telephone Utility	47,444,697	142,161	672
Bristol Bay Telephone Communications	510,742	331	5
Copper Valley Telephone Cooperative, Inc.	2,218,988	3,817	22
*Cordova Telephone Coop., Inc.		1,121	9
*FMUS		37,371	120
General Telephone Company of Alaska	4,432,128	12,517	59
Glacier State Telephone Company	16,125,746	24,151	140
Interior Telephone Company	1,737,336	2,027	20

Juneau & Douglas Telephone Company	8,095,895	16,259	82
*Ketchikan Public Utilities		7,521	39
Matanuska Telephone Association, Inc.	7,260,999	17,078	127
Mukluk Telephone, Inc.		167	1
National Utilities, Inc.	516,974	1,185	23
Nushagak Telephone Cooperative, Inc.	619,632	755	6
OTZ Telephone Cooperative, Inc.	764,235	919	7
Sitka Telephone Company	2,243,832	7,188	38
Telephone Utilities, Inc.		2,990	15
Bush-Tel, Inc.	147,748	100	4
United Utilities, Inc.	222,266	824	30
Yukon Telephone Company	111,884	163	3
Whittier Telephone Company	71,303	98	1
Bettles Telephone, Inc.	38,437	50	1

3873

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AN INCREASE IN BUSINESS SERVICE RATES FOR:

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AN INCREASE IN RESIDENCE SERVICE RATE FOR:

ONE PARTY	OF	1.34%
TWO PARTY	OF	1.59%
FOUR PARTY	OF	1.74%
FIVE PARTY	OF	1.94%

BUSH-TELL, INC. HAS A TELEPHONE PRODUCT SERVICE MIX OF 95% RESIDENCE AND 5% BUSINESS. THEREFORE, THE CONSUMERS WOULD BE PAYING AS MUCH AS 1.94% MORE OVER THE PRESENT RATES CHARGED.

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745 3211

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NXT MSG U/R/S PREV MSG U/R/S RESEN / CANCEL

*APUC*  
*Gross Receipts*  
*Number of Phones*  
*Number of Employees*

Before the  
Federal Communications Commission  
Washington, D. C. 20554

FCC 81-18  
28753

In the Matter of )  
 )  
Amendment of Parts 2, 21, 87, and )  
90 of the Commission's Rules to ) General Docket No. 79-188  
Allocate Spectrum for, and to )  
Establish Other Rules and Policies )  
Pertaining to, the Use of Radio in )  
Digital Termination Systems )  
for the Provision of digital )  
communications services. )

FIRST REPORT AND ORDER

Adopted: January 14, 1981

Released: April 17, 1981

By the Commission: Commissioner Fogarty issuing a separate statement.

I. INTRODUCTION

1. On November 16, 1978, the Xerox Corporation (hereinafter "Xerox") filed a Petition for Rulemaking ("Petition") requesting the reallocation of the 130 MHz of radio frequency spectrum between 10.55 and 10.68 GHz and the adoption of the necessary rules and policies to permit the establishment of nationwide common carrier digital telecommunications networks that would provide for the high-speed, end-to-end, two-way transmission of digitally encoded information. As proposed by Xerox, these networks would consist of intercity facilities employing satellites and terrestrial point-to-point microwave and intracity facilities which would include Digital Termination Systems (DTS) <sup>1/</sup> and internodal links. Xerox proposed that these facilities be employed to provide a new end-to-end common carrier radio service (which we call Digital Electronic Message Service or DEMS) which would meet the needs of widely dispersed business and governmental organizations for document distribution, data communications, and teleconferencing within and among the major U.S. cities.

2. In response to the Petition and the comments filed regarding it, the Commission, on August 29, 1979, issued a Notice of Proposed Rulemaking and Inquiry (hereinafter "Notice"). <sup>2/</sup> In that

<sup>1/</sup> The term Digital Termination System (DTS) refers to two-way point-to-multipoint microwave radio facilities made up of local collection and distribution stations, each providing two-way transmission links to multiple outlying stations located at user premises.

<sup>2/</sup> FCC 79-464, released August 29, 1979, 44 Fed. Reg. 51257 (1979).

To: Al Adams

From: Ken Spay AH

Subj: CSFB/65

As you are aware CSFB/65 is  
in the House Finance Committee, &  
there is apparently a problem with  
the Finance Chair on the Bill.

I am Supply you with Our Justification  
for the successful passage of the  
Bill.

RSA Fund is apparently going to be  
eliminated by the Reagan Admin -  
& by doing so severely jeopardizes  
continuation of well as up and phone  
service to the state particularly  
Buck Communities.

A letter of intent was approved by the LCC committee to hope that those companies & mainly services to under-served areas would receive priority.

on April 25, 1981  
We teleconference this Bill to all stations & to Testing from companies as well as the public was supportive of the Bill. There was no testing that opposed the legislation.

The legislation allows for 5% loans of up to 5 million per loan, with terms of 30 years.

The perception of Rep cottons objections are as follows.

1. Revolving loan fund - (another special fund)
2. AFPA
3. ~~Act restriction~~ Limit on loans is not restricted enough.

I would hope that we could fashion a Bill that would eliminate the objections & hopefully have the Bill moved from Finance.

I am not sure how to get around a 'Revolving Loan Fund', but there must be ways in which to do it.

The T.C.'s do not object to who  
administers the fund but it was  
believed that AFDIA could use, its  
~~The except~~ Body Body capability to  
the success of an established long term  
Program. AFDIA has an advantage  
to leverage money.

I have ~~attached~~ <sup>attached</sup> 2 copies of a letter  
from AFDIA which shows what companies  
were anticipated fully free - REA, The  
proposed legislation does not ~~entirely~~  
completely resolve the fully but it is  
sufficient to at least keep these  
companies off-balance.

I have also mailed the letter of  
light.

How  
Rep. Al Adams

CS/AB 165-

Dear Rep Adams,

As you are aware CS/AB 165-

of DTS facilities and the services provided thereby, since, even if DTS facilities may have some voice capacity, it will not be "telephone exchange service" within the meaning of that section. The purpose of Section 221(b) was to reserve to the states jurisdiction over local telephone exchanges which serve single multi-state areas. North Carolina Utilities Commission v. FCC, 552 F. 2d 1036,1045 (4th Cir.), cert. denied, 434 U.S. 874 (1977).

## VI. MISCELLANEOUS ISSUES

81. A few commenters asserted that there has not been sufficient notice of the actions contemplated to develop a factual basis for the adoption of rules at this time. We believe, however, that our Notice of Proposed Rulemaking was sufficient to allow us to adopt rules without any further notice. Section 553(b) of the Administrative Procedure Act, 5 U.S.C. § 553(b), provides in pertinent part that a notice of rulemaking must include "the terms or substance of the proposed rule or a description of the subjects and issues involved." The D.C. Circuit has interpreted this to mean that the notice need only be "sufficiently descriptive of the 'subjects and issues involved' so that interested parties may offer informed criticism and comments." Ethyl Corp. v. EPA, 541 F.2d 1, 48 (D.C. Cir.), cert. denied, 425 U.S. 941 (1976). See also Buckeye Cablevision, Inc. v. FCC, 387 F.2d 220 (D.C. Cir. 1967). In this proceeding, notice was given of at least the subject matter of all the rules that we adopt today. Furthermore, evidence of the sufficiency of the notice is shown by the fact that so many parties commented at length on the issues.

82. Finally, with respect to Alascom's request that Alaska be excluded from this proceeding, we note that with the possible exception of MTS and WATS, for which the question is still open, see MTS and WATS Market Structure Inquiry, 81 F.C.C. 2d 177 (1980), we generally believe that Alaska should be treated no differently than the contiguous 48 states. See DHL Communications, Inc., File No. W-P-C 2000 (released Dec. 30, 1980); See also Integration of Rates and Services, 61 F.C.C. 2d 380 (1976), reconsideration, 65 F.C.C. 2d 324 (1977). We see no reason for establishing a different policy here.

lottery proceeding would hinder long-range planning, especially if applied to contested renewals.

#### G. Miscellaneous Issues

The comments generally agreed that DTS would create minimal environmental impact. Some commenters stated that no environmental impact statements should be required. Others commented that existing rules adequately covered the issue.

TDS worried in its comments about possible adverse affects of DEMS on rural areas. First, service might not be available in rural areas. Second, if it were available, it might result in loss of revenues to rural telephone companies.

Alascom commented that, in its view, the market for telecommunications services in Alaska was too thin to support yet another service. It requested that Alaska be excluded from this proceeding.

NASA commented on its concern that DTS be compatible with its remote sensing programs. Those remote sensing programs are located in the 10.6 GHz band where DTS is also proposed to be located.

### III. LEGAL ISSUES

#### A. Necessity for a Further Notice of Proposed Rulemaking

A few of the comments were directed to the legality of adopting specific rules without a further Notice of Proposed Rulemaking proposing specific rules for comment. FTE Service stated that unless the comments were uniformly favorable, a two-step Notice of Inquiry-Notice of Proposed Rulemaking process would be necessary. AT&T was of the opinion that it would be improper to make rules on the basis of the record in this proceeding. There was, in AT&T's view, inadequate time and notice of specific actions contemplated to permit the development of the necessary facts addressing these issues.

Xerox, on the other hand, stated that the Commission should adopt final rules for DTS without a further Notice of Proposed Rulemaking. In support of this position, Xerox cited the Administrative Procedure Act, 5 U.S.C. §§ 511-599, 701-706. In particular, Section 553(b) of that Act states that it is not necessary to propose specific rules. Either the terms and substance of the proposed rules or a description of the subjects and issues involved would be sufficient. The Notice, in Xerox's opinion, meets this standard. Furthermore, the Commission's statement of intent to adopt rules without further comment gives notice to all parties, and the record in this proceeding is sufficient to support final action.

1. Orig - Intern financing  $\frac{20}{1+3}$  prime
2. Reagan cuts
3. must now replace -
4. 5% - 10% -

5. AIDA - Leverage  
TAX exempt municipal

1. Original Bill - was to provide Intern financing - someone must interim \$ is prime + 3

2. Reagan cuts. (Pending 57 mill)

which changed the complexion of the bill - it is now going to fail the void of REA Funds Lessor

3. AIDA - TAX exempt <sup>Bonds</sup> munic - and, Frank, Kit, to consider leverage the money -

4. Interest at 5% - is what the phone companies are use to - However if REA <sup>Fails</sup> for phones was going to continue it would be at 10.5% -

26.40  
3.40  
3.74  
2.20  
16.00  
3.30  
5.00  

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57.09

CS HB 165 (L&C) -

Letter of Intent.

The necessity for Telephone Service for  
Alaska serves ~~well~~ the public needs.

~~It is the intent that the loans  
granted under this ~~act~~ legislation be prioritized.~~

Cook ✓

Original sponsors: Hurlbert, Vaska,  
Chuckwuk and Moss

BY THE LABOR AND  
COMMERCE COMMITTEE

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 165 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act creating the telecommunications revolving loan  
7 fund; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. DECLARATION OF POLICY AND PURPOSE. The legislature finds  
10 that

11 (1) the availability of adequate public telecommunications ser-  
12 vices and facilities at reasonable rates in the state is a proper matter of  
13 public concern;

14 (2) the ability of privately, municipally and cooperatively owned  
15 public telecommunications utilities in the state to finance service to the  
16 public and to finance capital improvements required to extend and improve  
17 service on terms that will enable service rates to remain at reasonable  
18 levels in the foreseeable future is seriously impaired by the unavailability  
19 of low-cost federal loans;

20 (3) as a matter of public policy, to ensure the sound development  
21 of the state and its resources and to provide an acceptable level of tele-  
22 communications services to its residents at reasonable rates, the state  
23 should assist telecommunications utilities in acquiring the money that is  
24 essential to operate, maintain and expand facilities and services.

25 \* Sec. 2. AS 44.83 is amended by adding new sections to read:

26 ARTICLE 08. TELECOMMUNICATIONS REVOLVING LOAN FUND.

27 Sec. 44.83.400. REVOLVING LOAN FUND CREATED. The telecommunica-  
28 tions revolving loan fund is created in the Alaska Power Authority.

29 Sec. 44.83.410. POWERS AND DUTIES OF THE AUTHORITY. (a) The

1 authority shall formulate procedures and adopt regulations to implement  
2 AS 44.83.400 - 44.83.490 in consultation with the Alaska Public Utili-  
3 ties Commission. ~~The procedures and regulations, including economic~~  
4 ~~and financial requirements for loans, will conform, to the extent~~  
5 ~~possible, to procedures and regulations adopted by or applicable to the~~  
6 ~~federal Rural Electrification Agency in accordance with the Rural~~  
7 ~~Electrification Act of 1936, as amended (7 U.S.C. sec. 921 et seq.).~~

8 (b) The authority may

9 (1) subject to approval by the Alaska Public Utilities  
10 Commission, make loans from the telecommunications revolving loan fund  
11 to a public telecommunications utility to finance or refinance capital  
12 improvements, plant and facilities, and to improve and expand services,  
13 if other credit is not readily available from private or federal lending  
14 institutions;

15 (2) make loans, subject to approval by the Alaska Public  
16 Utilities Commission, from the telecommunications revolving loan fund  
17 to a public telecommunications utility to meet short-term or interim  
18 capital needs before receipt by the utility of long-term loans;

19 (3) consult with appropriate federal agencies and other  
20 lending institutions which make loans to public utilities in the state  
21 concerning policies, regulations and procedures to carry out the pro-  
22 visions of AS 44.83.400 - 44.83.490;

23 (4) designate agents and delegate powers to them as is  
24 necessary;

25 (5) require bonds and undertakings from persons employed by  
26 the authority as necessary, and pay the premiums on the bonds and  
27 undertakings;

28 (6) establish amortization plans as provided in AS 44.83.-  
29 440(c).

1           Sec. 44.83.420. ELIGIBILITY FOR LOANS. A public telecommunica-  
2 tions utility is eligible for a loan under AS 44.83.410 if

3           (1) it is a public utility for furnishing telecommunications  
4 service under AS 42.05.701(2)(B);

5           (2) at the time of application for a loan it is serving the  
6 public under a certificate of public convenience and necessity issued  
7 by the Alaska Public Utilities Commission;

8           (3) in the judgment of the authority

9           (A) the public telecommunications utility shows a  
10 definite potential for providing improved or expanded service in  
11 the community or service area it serves, or otherwise requires the  
12 financing to maintain adequate, efficient and safe service;

13           (B) the utility will be able to repay the loan;

14           (C) the utility has satisfied requirements imposed by  
15 regulation of the authority.

16           Sec. 44.83.430. APPROVAL OF LOANS. (a) A loan may not be made  
17 by the authority under AS 44.83.410 until the loan has been approved by  
18 the Alaska Public Utilities Commission upon findings that

19           (1) the applicant is willing and able to provide the services  
20 for which the facility to be financed by the loan is needed;

21           (2) the facility to be financed by the loan and the services  
22 to be provided are required for the convenience and necessity of the  
23 public and will result in an improvement of service; and

24           (3) granting the loan will not result in an unreasonably  
25 adverse impact on a rate or rate structure regulated by the Alaska  
26 Public Utilities Commission.

27           (b) Findings under this section shall be made in accordance with  
28 regulations adopted under AS 42.05.151. The Alaska Public Utilities  
29 Commission shall approve or deny a loan application within 90 days

1 after it is submitted.

2 Sec. 44.83.440. CONDITIONS AND LIMITATIONS ON LOANS. (a) A loan  
3 to a public telecommunications utility under AS 44.83.410 may not  
4 exceed \$5,000,000.

5 (b) A loan made under AS 44.83.410 shall be on terms and condi-  
6 tions established by regulation of the authority and shall be secured  
7 by collateral equal in fair market value to at least ~~75~~ percent of the  
8 loan. *Should be TEST EXCEPT TIEA*

*General  
Lyn  
Lynn*

*- Original -*

*may be  
or cost up to 100%  
even is 65%*

9 (c) Amortization plans for the repayment of a loan made under  
10 AS 44.83.410 may not exceed 30 years. The rate of interest charged on  
11 the unpaid balance may not exceed the rate of interest which the state  
12 agreed to pay on the most recent general obligation bonds issued before  
13 the application for the loan.

14 (d) A loan may not be made until an investigation and an economic  
15 feasibility study are conducted and, as a result of the investigation  
16 and study, the authority determines that the loan is economically  
17 sound, that the utility will be financially self-sustaining, and the  
18 loan will be fully amortized in accordance with the terms and conditions  
19 of the loan. The economic feasibility study shall be conducted by the  
20 authority staff or by consultants, engineers or other technical experts  
21 approved by the authority.

22 (e) To facilitate its determination under (d) of this section the  
23 authority may by regulation require an applicant for a loan to furnish  
24 systems studies, long-range economic forecasts, financial data, and  
25 technical information, and, if a loan is participated in by a financial  
26 institution in an amount not less than ~~20~~ percent of the total amount  
27 of the loan, the authority may consider the investigation and economic  
28 feasibility study made or accepted by the financial institution as a  
29 basis for its participation.

*OK*

*10%*

1 (f) If a financial institution participates in a loan made under  
 2 AS 44.83.410, it may elect to administer and service the loan for a  
 3 reasonable fee not exceeding one-half of one percent *of the total loan amount*

4 (g) The state and the participating financial institution shall  
 5 each have a <sup>1st</sup> lien on the collateral or share the collateral to the  
 6 extent of their respective parts of the total loan. The authority may  
 7 subordinate a <sup>1st</sup> lien on collateral securing a loan under this chapter to  
 8 a lien of the federal Rural Electrification Administration.

9 *X \** (h) Notwithstanding (d) of this section, if an application for a  
 10 loan to a public telecommunications utility has been approved by the  
 11 federal Rural Electrification Administration and, due to lack of money,  
 12 the loan will not be made as approved, the authority may accept approval  
 13 of the loan by the federal Rural Electrification Administration as  
 14 evidence of economic feasibility and as a basis for awarding a loan  
 15 under AS 44.83.410. A loan awarded under this section may not be for  
 16 an amount greater than the amount of the loan which was approved by the  
 17 Rural Electrification Administration.

18 Sec. 44.83.450. ADMINISTRATION. Money loaned under AS 44.83.410  
 19 shall be delivered to the borrower in the form of a warrant drawn on  
 20 the treasury, and charged against the telecommunications revolving loan  
 21 fund. Upon repayment of a loan in accordance with the prescribed  
 22 terms, or upon liquidation by foreclosure or other process, or upon  
 23 receipt of interest or other revenue, the money received shall be  
 24 turned over to the authority for deposit in the telecommunications  
 25 revolving loan fund.

26 Sec. 44.83.460. SALE OR TRANSFER OF NOTES, MORTGAGES AND OTHER  
 27 COLLATERAL. (a) The authority may sell or transfer at par value or at  
 28 a premium or discount to a bank or private purchaser for cash or other  
 29 consideration the notes, mortgages and collateral held by the authority

1 as security for loans made under AS 44.83.400 - 44.83.490.

2 (b) The authority may sell or transfer at par value to the Depart-  
3 ment of Revenue the notes, mortgages and other collateral held by the  
4 authority as security for loans made under AS 44.83.400 - 44.83.490.  
5 The Department of Revenue may purchase the notes, mortgages and other  
6 collateral so offered, allowing the authority a one-half of one percent  
7 service fee.

*check out*

8 (c) The authority shall proceed to recover its interests in a  
9 loan which is in default in accordance with regulations adopted by the  
10 authority. The authority shall sell or transfer all physical collateral  
11 obtained through default to a nongovernmental entity within <sup>a reasonable</sup> 45 days <sup>time</sup>  
12 after receiving title. During the pendency of a default proceeding,  
13 the authority, another public corporation, a state agency, or a poli-  
14 tical subdivision of the state may not operate facilities which are  
15 held as collateral, but a private entity may be designated by the  
16 authority upon approval of the Alaska Public Utilities Commission to  
17 operate facilities held as collateral during the pendency of a default  
18 proceeding. *State may operate for some time periods*

*for public Enterprise*

*except to manage services*

19 Sec. 44.83.470. GUARANTEES OF LOANS. (a) The authority may  
20 enter into agreements with state departments and agencies, private  
21 banks, other lending institutions, and individuals for the purpose of  
22 guaranteeing loans made to qualified public telecommunications utili-  
23 ties. The guarantees may not exceed 90 percent of the amount loaned  
24 and the loans shall be secured in the same manner as provided for  
25 direct loans under AS 44.83.400 - 44.83.490.

26 (b) A loan made under AS 44.83.410 and guaranteed by the state  
27 shall bear an interest rate on the unpaid balance not exceeding the  
28 rate of interest which the state agreed to pay on the most recent  
29 general obligation bonds issued before the application for the loan.

1           Sec. 44.83.480. PROCEEDINGS AND REGULATIONS. The Administrative  
2 Procedure Act (AS 44.62) governs all proceedings, and the adoption of  
3 regulations, under AS 44.83.400 - 44.83.490.

4           Sec. 44.83.490. DEFINITION. In AS 44.83.400 - 44.83.490 "author-  
5 ity" means the Alaska Power Authority.

6 \* Sec. 3. This Act takes effect July 1, 1981.

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ECONOMIC AND SOCIAL BENEFITS OF THE REA  
TELEPHONE LOAN PROGRAM

By

EDWIN B. PARKER, Ph.D.

(Former Professor of Communication,  
Stanford University)

March 24, 1981

ECONOMIC AND SOCIAL BENEFITS OF THE REA  
TELEPHONE LOAN PROGRAMS

By

EDWIN B. PARKER, Ph.D.

FORMER PROFESSOR OF COMMUNICATION, STANFORD UNIVERSITY

March 24, 1981

I. QUALIFICATIONS OF THE AUTHOR

Since receiving my Ph.D. in 1960, I have been on the faculty at the University of Illinois and at Stanford University, where I was Professor of Communication until 1979. I am now vice-president of Equatorial Communications Company, a company committed to the development and implementation of satellite and computer technologies in ways that should lower the cost of rural and other "thin route" data communications.

During the last ten years of my academic career I specialized in measuring the social and economic benefits of rural telecommunications, including a major program in the 1970s that led to 100 rural Alaska communities receiving telephone service for the first time. I authored or edited

three books, including Handbook of Communication, and over fifty articles and am on the editorial board of Telecommunications Policy. I have served as a consultant on communications policy to national and state governments, including the U.S. delegation to the World Administrative Radio Conference, and international bodies, including the International Telecommunication Union.

## II. INTRODUCTION

My research and the research of my colleagues on the role of telecommunications services in economic and social development have provided certain findings which may assist you in your analysis of the Rural Electrification Administration's Telephone Loan Programs. I will briefly summarize these findings under three points. First, there are demonstrable benefits for regional and national economies from investments in rural telecommunications facilities in terms of increased efficiency in the organization of economic activity leading to increased productivity. I have estimated that the benefits of these programs to the United States economy are between six and seven times their costs. Next, there are demonstrable benefits for the quality of life in regions and nations from investments in rural telecommunications facilities in terms of increased availability and cost-effectiveness in the delivery of social services such as health and education. Finally, because these benefits are, to a considerable extent, what economists call external

(as opposed to internal or private) benefits, government intervention, such as in the form of the REA Telephone Loan Programs, is required for the optimal amount of investment in rural telecommunications facilities to be made.

### III. CONTRIBUTIONS OF RURAL TELECOMMUNICATIONS TO ECONOMIC EFFICIENCY AND PRODUCTIVITY

Rural telecommunications systems increase economic efficiency and productivity. Telephones improve the organization of economic activity.<sup>1/</sup> Efficient production and marketing requires the coordination of economic units, which depends on the availability of effective, fast, and reliable communications systems at low prices. A subscriber increases his efficiency and productivity through telephone services; these gains are his private benefits from subscribing. Also, subscribers throughout a nation increase their productivity from their ability to communicate with one subscriber through telephone services; these gains are the external benefits from that subscriber's decision to

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<sup>1/</sup> See, e.g., F. Parker, An Information-Based Hypothesis, 28 J. Communication 81 (1978); A. Hardy, The Role of the Telephone in Economic Development, 4 Telecommunications Policy 278 (1980); B. Wellenius, Telecommunications in Developing Countries, 1 Telecommunications Policy 289 (1977); H. Hudson, D. Goldschmidt, E. Parker, and A. Hardy, The Role of Telecommunications in Socio-Economic Development: A Review of the Literature with Guidelines for Further Investigation (1979).

join the network. Numerous case studies have shown that telephones contribute to regional and national economic development. Both developing and developed countries have realized economic benefits from investments in telephone facilities.

I recently supervised the Ph.D. dissertation of Andrew Hardy. Hardy's analysis of the economic benefits of telephone services focused on their impacts on gross domestic product, which captures both private and external benefits. His work went beyond the previously established correlation between the number of telephones per capita and the size of the gross domestic product. He was able to demonstrate the causal sequence of that relationship, establishing that an increase in the amount of telephone service at one point in time leads to an increase in the size of the economy at a later time.<sup>2/</sup> He found that a one percent increase in the number of telephones per capita in the United States and Western Europe in the period 1950-1955 accounted for a three percent increase in per capita income in the period 1955-1962.

Improvements in telecommunications services are likely to yield greater economic benefits in rural than in urban areas. Transportation and other communications media are better substitutes for telecommunications in higher density

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2/ A. Hardy, The Role of the Telephone in Economic Development Appendix C (Ph.D Dissertation, Stanford University, 1979).

areas. Increases in the cost of energy have heightened the economic benefits of substituting telecommunications for costly travel and thereby conserving energy resources.<sup>3/</sup> Furthermore, the information flows facilitated by telecommunications services can make other uses of energy more efficient.

Hardy showed that the impact of telephone service on gross domestic product increases as density declines.<sup>4/</sup> Using World Bank and other statistical data from sixty countries over the period from 1960 through 1973, Hardy established that an increase of one telephone per hundred people in locations already having eighty telephones per one hundred people led to a .01% increase in gross domestic product (GDP) the following year. The same increase of one telephone per hundred people in areas with twenty telephones per hundred led to a much larger .09% increase in gross domestic product in the following year.

A somewhat rough, but suggestive application of Hardy's analysis to the U.S. suggests that the benefits of the REA program are substantial. REA Telephone Loan Programs have advanced about \$3.9 billion in funds at reduced interest

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<sup>3/</sup> See, e.g., National Transportation Policy Study Commission, The Impact of Telecommunications on Transportation Through The Year 2000 45 (1978); Hudson, supra, 25.

<sup>4/</sup> Hardy, supra, Appendix C. Note that the statistical analysis reported here was on data for a different set of countries and years than the analysis reported on page 4, supra.

rates toward initial telephone service for 2,882,568 subscribers and improved service for 1,657,622 subscribers.<sup>5/</sup>

REA borrowers served 6,335,312 telephones; 3.6 percent of the telephones in the United States in 1979.<sup>6/</sup> If one assumes that, but for the REA Telephone Loan Programs, the initial subscribers served by REA borrowers would not now be receiving service and if one assumes, quite conservatively, that each of these subscribers accounts for only one telephone, the stock of telephones in the U.S. would be reduced by 1.1 per one hundred people.<sup>7/</sup>

Hardy's analysis shows that a penetration level of 80%-- close to the U.S. national ratio of telephones to population-- implies that such a reduction in the stock of telephones would reduce the GDP growth by approximately 0.011 percentage points. That is, if the 1979 stock of telephones in the U.S. had been lower by 1.1 per one hundred people, 1980 GDP would have been about \$283 million less than the actual

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<sup>5/</sup> REA, 1979 Annual Statistical Report: Rural Telephone Borrowers xxiv, xxiii, xxiv. The number of subscribers who actually received initial telephone service as a result of the REA Telephone Loan Programs at the end of 1979 is estimated for purposes of the following analysis at 2.4 million, due to the time required to complete construction.

<sup>6/</sup> Ibid, xv; Federal Communications Commission, Statistics of Communications Common Carriers: 1979 7.

<sup>7/</sup> The U.S. population in 1979 was 221 million and the national ratio of telephones to population was 79%. FCC, supra, 7. The estimate of 1.1 telephones per 100 people in 1979 was based on the assumption of 2.4 million initial subscribers. See note 5, supra.

level of \$2,576.5 billion.<sup>8/</sup> This loss of GDP would increase each year. The increments in GDP attributable to the REA Telephone Loan Programs mean more jobs and higher productivity for Americans.

Since the penetration of telephones is lower in rural areas than in the nation as a whole,<sup>9/</sup> the 80% penetration estimate may be inappropriate for evaluating the value of telephone service provided by REA borrowers. I have not found data on the population of areas served by telephone companies borrowing from the REA; but, available data show that the ratio of telephones to main stations in the REA areas is 23% lower than the national average.<sup>10/</sup> Suppose that the ratio of telephones

8/ U.S. Department of Commerce, Fourth Quarter 1980 Gross National Product (Revised) (March 18, 1981). The calculation of GDP gain in 1980 attributable to the REA Telephone Loan Programs may understate their economic benefits in three ways. First, in contrast to the one telephone per new subscriber assumed by this calculation, the average number of telephones per subscriber served by telephone companies borrowing from REA in 1979 was 1.56. REA, supra, xv. Second, in contrast to the assumption that the REA programs have only had an impact on the number of telephones for subscribers receiving initial service, clearly the loans for improved telephone service have also affected the number of telephones in rural areas. Third, Hardy's analysis shows that the increment in telephones attributable to the REA programs prior to 1979 would affect 1980 GDP directly as well as through their effects on 1979 GDP and on GDP in earlier years; only the former effect was accounted for in this calculation.

9/ L. Perl, Economic and Demographic Determinants of Residential Demand for Basic Telephone Service Table 4 (1978).

10/ REA, supra, xv; FCC, supra, 32.

to population in areas served by REA borrowers is 60% rather than the national average of 79%. Then, using Hardy's results, the GDP gain attributable to the REA Telephone Loan Programs would be about \$850 million in 1980 and growing each year.

Moreover, the benefits of the Telephone Loan Programs are substantial even if attention is restricted to recently approved REA telephone financing. In 1978, the REA approved financing of \$311 million toward initial service for 180,518 subscribers and improved service for 71,199 subscribers.<sup>11/</sup> Supposing that 180,518 new telephones in 1979 are attributable to these loans, the resulting 1980 GDP gains are estimated by \$20 million at 80% penetration and \$60 million at 60% penetration.

Analyses such as Hardy's have led me to write that telecommunications may be the most important component of regional economic infrastructure, possibly more so than transportation or electrification, for rural economic growth.<sup>12/</sup> The benefits to rural economic growth are of two forms. First, new activities and enterprises are made possible in rural areas by investments in telecommunications facilities. Second, improved telecommunications services increase the efficiency of existing agricultural and non-farm rural enterprises.

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<sup>11/</sup> REA, supra, vii.

<sup>12/</sup> Parker, supra, 83.

The economic benefits from telephone services require, as a necessary condition, connection to the telephone network. However, access alone does not exhaust the economic benefits that can be derived from telephone services. Increased economic efficiency can be gained by: (1) improving the reliability of telephone services, such as by installing buried cable; (2) improving the availability and confidentiality of telephone services, such as by providing single-party services; and (3) improving the capabilities of telephone services, such as by providing broadband (cable) and digital services.

Clearly, the ability of rural telephone companies to borrow from the REA at reduced interest rates for financing investments to provide service to new subscribers and to improve the quality and range of services to others has had important benefits to the nation's economy. As noted above, the REA Telephone Loan Programs may have raised 1980 GDP by as much as \$850 million. This sum far exceeds any estimate of the cost of the program. Suppose that the cost to the Federal Government in interest support for the REA Telephone Insured Loans was 5.6% and for the Rural Telephone Bank Loans

was 1.2% for outstanding loans at the end of 1979.<sup>13/</sup> The outstanding principal balances at the end of 1979 of REA Telephone Insured Loans and RTB Loans were \$2.16 billion and \$0.77 billion, respectively.<sup>14/</sup> From these data, the cost to the federal government in interest support for the Telephone Loan Programs can be estimated at \$130 million in 1979. The possible benefits in expanded gross domestic product from the Telephone Loan Programs are between six and seven times as large as the cost to the federal government in interest support.

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<sup>13/</sup> The 5.6% interest support for the REA Telephone Insured Loans was estimated by the difference between the 2.5% weighted average for total funds advanced through this program at the end of 1979 and the 8.1% interest charged on total interest bearing public debt in 1979. REA, supra, vii; U.S. Treasury Department, Treasury Bulletin Table F D-2 (Feb. 1981). The 1.2% interest support for the Rural Telephone Bank Loans was estimated by the difference between the 7.3% average interest rate for RTB funds advanced from January 1, 1975 to January 1, 1980 and the 8.5% average interest charge paid by the RTB for funds obtained from January 1, 1975 to January 1, 1980. (Data supplied by REA.) Funds advanced through the REA Telephone Guaranteed Loan Program are charged a rate of interest slightly greater than the Federal Financing Bank's cost of capital and there have been no defaults, resulting in no costs to the federal government for this program.

<sup>14/</sup> REA, supra, xxv, xxvi.

As impressive as this result is, the costs of the programs to the federal government were overstated in this calculation. The REA Telephone borrowers paid \$196 million<sup>15/</sup> in taxes in 1979 to local, state and federal governments. The REA Telephone Loan Programs have increased the taxable income of rural telephone companies by expanding the number of subscribers served, raising the quality and utilization of their services, and lowering their capital costs. Consequently, a substantial portion of the annual interest cost to the federal government is returned through higher income tax payments by the borrowers. Furthermore, the stimulus of the loans to economic activity results in additional tax revenues to the federal government, possibly making the REA Telephone Loan Programs net contributors to the federal treasury.

As the United States attempts to increase its economic efficiency and productivity or "re-industrialize," full advantage should be taken of the ability of improved rural telephone services to contribute to economic development and energy conservation.

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<sup>15</sup> REA, supra, xxiv.

IV. CONTRIBUTIONS OF RURAL TELECOMMUNICATIONS TO EFFICIENT DELIVERY OF SOCIAL SERVICES

Telecommunications services can increase the social benefits from resources devoted to such activities as health care and education.<sup>16/</sup> Social service delivery can be increased and made more cost-effective with telephone and cable services by extending the geographic range of institutions such as hospitals and colleges, providing training and consultative support for field personnel, and enhancing the coordination of community and regional activities. With telecommunications services, scarce resources can be utilized more efficiently and by more people with reduced travel expenses and time requirements.

My studies in Alaska found a significant increase in the quality of health care resulted from the addition of reliable voice communications linking village paraprofessional health aides with distant supervising physicians of the U.S. Public Health Service.<sup>17/</sup> These considerations favor investments in rural telecommunications facilities especially because rural areas are characterized by a

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<sup>16/</sup> See, e.g., Hudson, supra, 8-10; The Cabinet Committee on Cable Communications, Cable: Report to the President 46-47 (1974).

<sup>17/</sup> H. Hudson and E. Parker, Medical Communication in Alaska by Satellite, 289 New England J. Medicine 1351 (1973).

deficiency in the supply of social services and great distances for people to obtain the services that are supplied.

The Reagan Administration has proposed substantial cutbacks in the federal government's social expenditures. Improvements in telecommunications facilities increase the benefits from social service expenditures and should be considered in the search for ways to derive the maximum social benefit from resources devoted to social services. Improved telecommunications services can lead to productivity gains in public sector services as well as private sector enterprises.

V. REQUIREMENT OF GOVERNMENT INTERVENTION TO OBTAIN THE OPTIMAL INVESTMENT IN RURAL TELECOMMUNICATIONS FACILITIES

The economic and social benefits of investment in telecommunications facilities are not confined to individual subscribers or users of telecommunications services. Entire regions and nations derive benefits from the investments.<sup>18/</sup> The contributions of these investments to improved productivity for geographically widespread existing and future enterprises, health, and education result in what economists refer to as external benefits.

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<sup>18/</sup> See, e.g., Hudson, supra, 39-42; Hardy, supra.

The commercial marketplace responds to private, rather than public (private plus external), benefits. In the absence of government intervention, the telecommunications industry makes investment decisions by considering only what potential subscribers or users would be willing to pay for a service. The commercial marketplace will make investments when the private benefits exceed the facilities' costs, but not when the public benefits exceed the costs and the private benefits are less than the costs. This calculation can lead to underinvestment in terms of social welfare since the public benefits from additional investments in telecommunications facilities far exceed the private benefits.

Despite the efforts of the REA Telephone Loan Programs, underinvestment in telecommunications facilities is suggested by the state of telecommunications facilities and services in rural areas in the United States. Some rural areas have no telephone service or provide services at rates not affordable to rural citizens.<sup>19/</sup> Some subscribers are limited to multiparty service provided by unreliable, inefficient facilities. The quality of telephone services in

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<sup>19/</sup> A recent study by REA showed that monthly single-party residence telephone rates in areas served by telephone companies borrowing from REA are 23% higher on average than rates for comparable service in rural areas served by the Bell System and various independent telephone companies not borrowing from REA. See Background Paper of National REA Telephone Association (March 13, 1981).

rural areas generally lags behind the services received by urban residents and businesses. Technological innovations often are adopted by urban telephone systems long before they spread to rural areas.<sup>20/</sup>

While the per subscriber cost of providing telephone service is usually higher in rural areas, the public benefits of rural services are also higher. Certain economic and social benefits to the nation could not be realized if the nation relied solely on the commercial marketplace to supply capital for investments in rural telecommunications facilities.

The conclusion that economists reach in this situation is that government intervention is required to obtain the optimal amount of investment. It is widely recognized that, because of the economic and social external benefits of telecommunications, there is a strong case for public investment in rural telecommunications facilities.<sup>21/</sup> The REA Telephone Loan Programs have been designed to correct a failure of the commercial marketplace to serve the public interest. Low-

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<sup>20/</sup> See, e.g., W. Laer, Telecommunications Technology in the 1980s, in G. Robinson (ed.), Communications for Tomorrow: Policy Perspectives for the 1980s 61, 105 (1978).

<sup>21/</sup> See, e.g., G. Robinson, Communications for the Future: An Overview of the Policy Agenda, in Robinson, supra, 467, 482-83; Hudson, supra, 40.

interest REA loans decrease the cost of investments and increase the likelihood that investments which are desirable from the perspective of the nation will be made. REA loans enable rural telephone companies to make economically and socially desirable investments.

Capital is needed to expand and improve rural telecommunications services currently and in the future. The existing knowledge on the role of telecommunications services in economic and social development indicates that curtailment of low-interest loans from the REA Telephone Loan Programs would be against the public interest.

HB 165-

Bethel - need A Phone Service Very Very BAD!

Will Tom Jr. <sup>Wukode</sup> want phones for convenience - Bureau  
to re one is slow & always behind - 1 phone -  
Yes we need individual phones. We could pay 17 p/m x 1  
For phone service.

Andy

Bob Blodgett <sup>Multitask TELC -</sup> Service - - we recently  
received funding from ISEA - 4 yrs to get. However  
new Admin. Annual Areas (by Tom low interest  
loans - provides 30% funding - 5% - Funding  
District - Step is the right direction - not working  
for us - (Alascom) Suggestion - Power Authority -  
Don't like <sup>Alaska</sup> Power Authority - Admin. or program - Dept  
of Commerce - not by APA <sup>maybe</sup> swept under rug -  
AIDA -

Dilligham David Boarder - Mustac - in Dilligham  
RCA financial. A long way to solving Alaska  
TELC needs - Areas - 1. Elig - At this is  
semi public - APAC permission to serve  
- Preserve Territorial Areas -  
X presently unused comment 15T - applicable -  
- AIDA - expand APAC. APA with direct  
of all areas with expenses in TELC.

Myron  
H. H. H. H.

General rep's - commission on utilities Valuable Input  
A letter of intent on priorities -

Fubaks

Ralph Hoar Tawamchies -

Fubaks - Municipality - Supports Bill -

T-chiefs Supports Bill - 1 phone in village  
smaller village not getting attention - BRA not to Agency -  
Large comp - will get great share - cost can  
possibly be lower because of new switches - people would  
pay for services

Haines - Leo LAND - I am all for it -

1. Pg 3 - line 17 thru 17 - may not be  
OK to -

2. Pg 4 line 7 thru 11.

Auch Alice daufile - Calista cap - more  
message - HTR 165 is needed since Fed program  
cut back - Commercial firm not avail for  
commercial - only 4 villages will pay for  
for Utilities Utilities - more goal I'd -  
We strongly support CS HTR 165 - will be some  
to 33 other villages -

Bertel myron Nannig - supports 165 - would  
enable United to be able to plan House to have  
poor system as it is now - with one phone.  
would enable to us to communicate - 1 phone system  
only ops 8 hrs a day.

~~Ketch~~ Glenn

Such email last interview - TEL - supports  
Substitute Fee it's necessary to growth  
we saw Ft Yukon - Outel Hub -  
Having problems with RIA Fundy - because we  
cuts - APA is very good nothing,  
Adonis - AIDA -

Ketch Glenn Mool - TEL System - KIP4  
Clear we are in favor of R.I.I. - APA is  
not the Agency - Separate Commission  
Fundy <sup>Alaska</sup> 1st source of funds.

Such Nicklas United Utilities -  
Alascom is good -

Dillingham - good Bill - reasons - non Teds  
1981 - we need residential phones - system will  
improve - free access to information.

Steve Hamlin

United Utilities -

MAX Clements

90 Day is to shout  
to approve loans or disapprove loans -



Official Business

# Alaska State Legislature

## House of Representatives

Pouch V  
State Capitol  
Juneau, Alaska 99811

April 15, 1981

### PUBLIC SERVICE ANNOUNCEMENT FOR IMMEDIATE RELEASE

The House Labor and Commerce Committee will be holding a public hearing, that will be teleconferenced statewide as well, on Friday, April 24, 1981. It will begin at 1:00 p.m.; ending at 3 p.m. Pacific Standard Time.

Testimony will be received on HB 165, "An act creating the telecommunications revolving loan fund." This bill provides telephone companies a source of funding in anticipation of the possibility that federal REA funding will either be eliminated or severely reduced; it also provides for long-term, low interest loans.

Persons wishing to provide public testimony on the subject matter are invited to attend in Juneau, Behrends Bldg. conference room, or at the local Legislative Information Office or Teleconference Center in their community.

For more information, contact the House Labor and Commerce Committee, 465-3873, Representative Vern Hurlbert, Chairman.

Lit. 4/8  
APR 20 1981

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Carolyn S. Guess, Chairman  
Gordon J. Zerbetz  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall

In the Matter of the Application )  
of UNITED UTILITIES, INC., for a ) U-77-28  
Certificate of Public Convenience )  
and Necessity To Furnish Tele- ) ORDER NO. 9  
communications Services in the )  
Calista Region )

In the Matter of the Investigation )  
into the Financial Viability of ) U-81-22  
Phase III Village Construction in )  
the Calista Region by UNITED ) ORDER NO. 1  
UTILITIES, INC. )

ORDER DENYING WITHOUT PREJUDICE PERMANENT  
CERTIFICATION AND INSTITUTING INVESTIGATION INTO  
THE FINANCIAL VIABILITY OF PHASE III VILLAGE CONSTRUCTION

On January 2, 1981, the Commission received a filing from UNITED UTILITIES, INC. (United), requesting that the temporary conditional certificate for Phase III granted in Order No. 7 of this proceeding be changed to permanent certification. The United filing set forth seven points which it believes justifies permanent certification. It requested that the Commission grant permanent certification by January 31, 1981. On January 30, 1981, United filed additional documentation in support of its request.

On February 4, 1981, the Commission received a memorandum, a copy of which is attached hereto as Appendix A, from the Commission Staff (Staff) setting forth a review and analysis of the United request.

U-77-28(9), U-81-22(1)(4/9/81)  
Page 1 of 9

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ALASKA PUBLIC UTILITIES COMMISSION  
1100 MACKAY BUILDING  
338 DENALI STREET  
ANCHORAGE, ALASKA 99501  
PHONE 276-6222

DISCUSSION

1  
2 In support of its request, United alleges that its  
3 uncollectibles are reasonable; that its financial condition  
4 is sound; that most of its current financing needs are met  
5 through low-interest Rural Electrification Administration  
6 (REA) loans; and that inadequate toll connect facilities  
7 resulted in service not being extended to four villages. On  
8 its face, these appear to be assertions of management rather  
9 than documented facts.

10 In addition, United avers that Phase III certifica-  
11 tion is a requirement in order to allow United to secure REA  
12 financing for these communities. This has not been the  
13 Commission's experience. The REA has proceeded with requests  
14 of Alaskan telephone utilities that have received temporary  
15 or conditional certification. Only toward the end of the  
16 processing time of a loan application is the requirement for  
17 permanent certification a necessity. The Commission acknowl-  
18 edges the long leadtime required for construction in rural  
19 Alaska as documented in United's January 2, 1981, request.  
20 However, the utility is aware that the Commission has artic-  
21 ulated its concern regarding the viability of Phase II and  
22 Phase III construction in Order Nos. 7 and 8 in this Docket.  
23 The Commission in Order No. 8 in this matter denied permanent  
24 certification of Phase III villages and stated:

25 The financial sensitivity of United's  
26 operation requires a longer and more  
27 stable track record before the Commis-  
28 sion can determine when the Phase III  
29 construction program should commence.

30 To date, the utility has been and is involved in  
31 an ambitious construction operation in twenty-four villages.

1 Six village exchanges have been operational for less than  
2 two years; six village exchanges have been in service for  
3 approximately six months; construction in four villages is  
4 partially complete; and eight villages are scheduled for  
5 construction in 1981. This does not provide evidence that a  
6 "more stable track record" has been established.

7 On the contrary, the United filings of January 2  
8 and 30, 1981, provide information that reinforces the Commis-  
9 sion's concern expressed in Order No. 8, supra, that the  
10 financial sensitivity of the utility's Phase II operation is  
11 dependent on a number of factors that are not in evidence:  
12 (1) the availability of long-term financing for Phase II at  
13 a 5 percent or lower interest rate; and (2) the use of  
14 interim financing for Phase II villages at a higher rate  
15 only if there is assurance that low-interest financing can  
16 be secured within a year.

17 The Commission is concerned about the financial  
18 viability of United's Phase II operation as it affects the  
19 utility's entire undertaking. A loan characteristic letter  
20 was submitted by United in its January 30, 1981, filing.  
21 The letter indicates that REA has made a determination of  
22 the loan required to finance United's Phase II village  
23 construction. It does not grant approval of the loan. In  
24 addition, the letter states that a composite interest rate  
25 of 5.4 percent will be required for the "B" loan. The  
26 Commission is aware that United is currently financing its  
27 Phase II construction with interim debt in excess of the  
28 prime rate of interest. If its interim financing is in  
29

1 effect for more than a year, another concern, noted in the  
2 Staff analysis of the financial feasibility of Phase II, has  
3 surfaced.

4 The very real question before the Commission at  
5 this time is whether United can survive the impact of interim  
6 financing levels currently in effect for its Phase II villages  
7 and what effect the proposed REA budget reductions by the  
8 current Federal administration will have on proposed interest  
9 rates and the approval of its Phase II loan and whether or  
10 not the utility intends to finance its Phase III village  
11 construction with REA financing and at what interest rate.  
12 The Commission has received confirmation from REA of those  
13 loans approved and signed for Alaska telephone utilities.  
14 Only United's "A" loan appears on the list that is appended  
15 to this Order as Appendix B.

16 The events to date reemphasize the responsibilities  
17 of the utility and the Commission to determine that the  
18 Phase III villages are a financially feasible part of United's  
19 operation before permanent certification is awarded. There  
20 is no evidence on the record at this time to support such a  
21 finding.

22 In its February 4, 1981, memorandum, the Staff set  
23 forth its recommendation regarding United's request for  
24 permanent certification for Phase III villages. A copy of  
25 this report was sent to the utility's counsel by letter  
26 dated February 11, 1981. The suggested course of action  
27 recommended by Staff on page 2 of its report appears to be a  
28 reasonable approach to determine whether the utility has the  
29 resources necessary for the Commission to make a finding

1 that permanent certification should be granted for the Phase  
2 III villages. The Staff review should not be limited to  
3 Phase III but should include a review of the total company  
4 including Phases I and II. United will be required to  
5 provide to the Commission the documentation required in  
6 recommendation Nos. 1, 3 and 4 of Staff's memorandum. In  
7 addition, the Commission will require United to provide  
8 proof of its debt financing for all three construction  
9 phases; the anticipated interim and long-term interest rates  
10 and source of debt for each phase along with documentation  
11 that its interest estimates, where applicable, are valid.  
12 Therefore, an order instituting an investigation into the  
13 request of United for permanent certification of its Phase  
14 III villages should be established. Because of the reconsti-  
15 tution of the Commission, Docket U-77-28 will be closed; all  
16 outstanding issues in that Docket will be subsumed in U-81-22,  
17 and official notice will be taken of the applicable record  
18 in U-77-28, under 3 AAC 48.150(g):

19 The Commission concurs with Staff that a financial  
20 and operational audit of the utility should be made and that  
21 Staff should review the quality of service presently being  
22 provided to United's consumers. The Commission assumes that  
23 the financial and operational audit of the utility will  
24 provide a composite proforma revenue requirement for Phase I  
25 (including Gambell and Savoonga) and Phase II as well as a  
26 stand-alone proforma revenue requirement.

27 The Commission agrees with United regarding the  
28 urgency to develop telecommunications to meet the needs in  
29  
30

31 U-77-28(9), U-81-22(1)  
32 Page 5 of 9

1 the rural areas of Alaska. To this end, the Commission  
2 believes it has extended every effort to United to assure  
3 its successful operation.

4 In Order No. 8 in this proceeding, the Commission  
5 offered the assistance of Staff to address the severe communi-  
6 cation problems that exist in the Phase III communities and  
7 encouraged United and ALASCOM, INC. (Alascom), to begin  
8 discussions and creatively explore more immediate viable  
9 alternatives that could be provided on an interim basis to  
10 partially alleviate the telecommunications difficulties in  
11 those villages. Order No. 8, pp. 5 and 6. The Commission  
12 is not aware that United has requested Staff's assistance in  
13 this regard nor has it, either together with or separate  
14 from Alascom, explored the possibility of interim telecom-  
15 munications alternatives in the Phase III area.

16 The Commission is aware of the successful efforts  
17 of Alascom in developing the toll concentrator in St. Paul  
18 and believes that this is an alternative that should be  
19 explored by United in the Phase III villages. The Commission  
20 agrees with United that there is an urgent need for expanded  
21 communications in these villages and, therefore, will require  
22 United to identify those villages in Phase III which have an  
23 urgent telecommunications need that could be satisfied  
24 possibly on an interim basis by the installation of toll  
25 concentrators under the Alascom tariff. United should send  
26 this list of villages to the Commission and Alascom.

27 The Commission observes that the foundation of the  
28 proper development of telecommunications within the State of  
29 Alaska is based on a spirit of trust and cooperation. This  
30

31 U-77-28(9), U-81-22(1)  
32 Page 6 of 9

1 ensures that the public interest, the responsibility of the  
2 Commission, will be served. To this end the Commission will  
3 once again urge United and Alascom to work together to find  
4 solutions to the demanding telecommunication needs in rural  
5 Alaska.

6 THE COMMISSION FURTHER FINDS AND CONCLUDES:

7 1. United is a public utility as defined by AS  
8 42.05.701 and is subject to the Commission's regulatory  
9 jurisdiction.

10 2. The United request for permanent certification  
11 for Phase III is lacking in necessary detail or documentation  
12 to meet concerns previously expressed by the Commission.  
13 Therefore, the request of United to receive permanent certifica-  
14 tion for the Phase III villages is denied without prejudice  
15 to refiling in Docket U-81-22.

16 3. An order instituting an investigation into the  
17 request of United for permanent certification of its Phase III  
18 villages should be established. Because of the reconstitution  
19 of the Commission, Docket U-77-28 will be closed; all outstand-  
20 ing issues in that Docket will be subsumed in U-81-22 and  
21 official notice will be taken of the applicable record in  
22 U-77-28.

23  
24 The Staff should pursue the elements of its recommen-  
25 dation in the Staff memorandum of February 4, 1981, entitled  
26 "Staff views regarding United Utilities' request for permanent  
27 certification for Phase III villages. (U-77-28)." The  
28 Staff monitoring or review should not be limited to Phase III  
29 but should include a review of the total company including  
30 Phases I and II as outlined in the body of this Order.

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32 Page 7 of 9



1 6. Alascom, Inc., shall be granted intervenor  
2 status in U-81-22 limited to the quality and level of service  
3 in Phase III villages. Upon receipt of the above list,  
4 Alascom shall conduct a survey of those villages to determine  
5 the economic feasibility of providing expanded telecommunica-  
6 tions to those villages, on an interim basis pending final  
7 determination of Phase III certification, through the use of  
8 a toll-concentrator and notify the Commission of its results  
9 at the earliest possible date.

10 7. Docket U-77-28 is closed. Any outstanding  
11 issues in this Docket shall be subsumed in the investigation  
12 proceeding.

13 DATED AND EFFECTIVE at Anchorage, Alaska, this 9th day of  
14 April, 1981.

15 BY DIRECTION OF THE COMMISSION  
16 (Commissioner Gordon J. Zerbetz nunc pro tunc.  
17 Commissioners Susan M. Knowles and  
18 Stuart C. Hall, not participating.)  
19

20 ( S E A L )  
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31 U-77-28(9), U-81-22(1)  
32 Page 9 of 9

STATE  
of ALASKA

MEMORANDUM

*Dodd*  
*Ma...*

Gordon J. Zerbetz  
Marvin R. Weatherly  
TO: Carolyn S. Guess  
Susan M. Knowles  
Stuart C. Hall

DATE: February 4, 1981

TELEPHONE NO.:

thru: Jack Farleigh *Jack*  
Executive Director

FILE NO.:

from: Pete Sokolov *P*  
Chief Engineer

SUBJECT: Staff views regard-  
ing United Utilities'  
request for permanent  
certification for  
Phase III villages.  
(U-77-28)

United Utilities letter of December 26, 1980 requested that the Commission change the temporary certification to provide local exchange telecommunication service for Phase III villages to permanent certification before January 31, 1981. It concluded: "United feels certain that with the Commission's blessing, it can perform the goal it set for itself in having adequate telephone service for all communities in United's certificated area before 1984."

The Staff has reviewed the 13 reasons United cites in support of its request and believes that considerable additional substantiation is needed before staff can make a responsible recommendation. Staff's concerns are as follows:

1. In its February 22, 1980 recommendation to grant permanent certification for Phase II villages, Staff concluded that United continued to be in a sensitive financial condition and that construction in Phase II villages should only proceed if long term debt at an interest rate below 5% could be obtained within a year. United proceeded to obtain high interest (above 20%) interim financing to construct facilities in Kipnuk, Kotlik, Mountain Village, Pilot Station, Tooksook Bay, and Tununak. According to its 1/12/81 report, United also partially constructed outside plant in Chevak, Goodnews Bay, and Qunihagak (The 12/26/80 letter adds Kwethluk to the list of locations with partially constructed facilities). United is still paying exorbitant interest rates for the funds used to construct Phase II and only at the end of January has obtained tentative approval of a 5.4% REA loan. The REA interest rate and the duration of the interim loan are both at the very limit where staff's studies have shown Phase II to be feasible.

2. United states in its letter that its financial condition is sound, yet Staff questions the basis for this conclusion. The utility is in a construction mode and operational costs have not yet stabilized. The utilities' financial soundness depends largely on toll settlements which have not yet been "trued up" for any year since the company's inception. Based on United's over-estimation of toll trunking it could have over-estimated its toll revenues. [Attached is toll usage data for 1980 which contradicts United's estimates of inadequate trunking].

3. United states that it found an alternate central office to the Stromberg ECDO 400 costing half the price and occupying one third the space. This new central office is to be field trialed this spring. If the switch indeed meets these expectations, it should be the one used for Phase III. New switches, even when well engineered, require a prolonged "shake down" period. A thorough field trial is therefore absolutely essential since United cannot afford to debug a plurality of such switches in remote villages.

#### Recommendation

United seems to misunderstand the basis of the Commission's statutory requirement for granting permanent certification. It is not a question of "blessing" United, rather it is a mandate to determine that the applicant is fit, willing and able to provide service of a reasonable level of quality. Before making this determination Commission Staff should determine to the best of its ability whether the utility has the necessary resources to expand to Phase III villages. Staff, therefore, should:

- 1) Obtain from the utility and analyze 1980 financial statements and the 1980 annual report to the Commission.
- 2) Conduct a financial and operational audit of United.
- 3) Review a completed cost study done for toll settlement purposes. To date no such study has been submitted to Alascom.
- 4) Obtain and analyze the ACD to be submitted to REA for Phase III financing.
- 5) Review the quality of service that United and Alascom provide to United's customers.
- 6) Monitor the field trial of the new switch as well as the progress made in constructing Phase II facilities including on-site visits to some villages.

Staff realizes that the public in the Phase III villages urgently requires telephone service. To provide such service,

the utility could now apply for an REA loan and aim at 1982 construction if the loan is approved. In the past, REA has reviewed, and is currently reviewing loan applications where utilities have been temporarily or conditionally certificated by this Commission (United Phase II, Bush Tell). A delay in permanent certification to the second half of 1981, should therefore cause no delay in obtaining the necessary financing. Meanwhile, in 1981, United should establish reliable service in the remaining Phase II villages (Akiachak, Chevak, Goodnews Bay, Kasigluk, Kwethluk, Napakiak, Nunapitchuk, Quinhagak) and staff should determine whether United is "fit, willing and able" to provide Phase III villages with reliable service.

TRIBUTARY TRUNK GROUP: ALAKANUK 1980

MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 TRUNKS TO BE ADDED	SVCE REMOVED	SURVEILLANCE LEVELS NOT MET
JUNE	6	30	26.67	P.0260	1	0	1
JULY	6	27	4.50	P.0001	0	1	1
AUGUST	6	28	4.00	P.0002	0	1	1
SEPTEMBER	6	33	2.54	P.0004	0	1	1
OCTOBER	6	45	7.50	P.0018	0	0	1
NOVEMBER	6	37	6.17	P.0007	0	1	1
DECEMBER	6	37	7.40	P.0007	0	1	1

Note: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 H - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

..PUC 01/12/81

ready

\*

TRIBUTARY TRUNK GROUP: EMNONAK 1980

MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 TRUNKS TO BE ADDED	SVCE REMOVED	SURVEILLANCE LEVELS NOT MET
JANUARY	3	81	6.75	P.3907	4	0	#
FEBRUARY	5	28	5.60	P.0012	0	0	
MARCH	6	70	10.00	P.0146	0	0	
APRIL	6	48	8.00	P.0025	0	0	
MAY	6	59	6.56	P.0068	0	0	
JUNE	6	61	5.55	P.0079	0	0	
JULY	6	84	5.25	P.0318	2	0	
AUGUST	6	84	4.94	P.0313	2	0	
SEPTEMBER	6	67	6.70	P.0121	0	0	
OCTOBER	6	24	.00	P.0001	0	2	
NOVEMBER	6	36	3.60	P.0006	0	1	
DECEMBER	6	54	3.00	P.0045	0	0	

- Note: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 # - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

AFUC 01/12/81

ready  
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TRIBUTARY TRUNK GROUP: GAMBELL 1980

MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 SVCE	TRUNKS TO BE ADDED	TRUNKS TO BE REMOVED	SURVEILLANCE LEVELS NOT MET
MARCH	3	34	.00	P.0704	2	0		
APRIL	3	55	6.68	P.1982	3	0		#
MAY	3	63	5.25	P.2560	3	0		#
JUNE	6	61	10.17	P.0079	0	0		
JULY	6	79	5.27	P.0246	1	0		
AUGUST	6	42	6.00	P.0013	0	0		
SEPTEMBER	6	59	5.36	P.0068	0	0		
OCTOBER	6	31	2.82	P.0003	0	1		
NOVEMBER	6	47	11.75	P.0023	0	0		
DECEMBER	6	60	7.50	P.0073	0	0		

Note: \* - exceeds F.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 # - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

APUC 01/12/81

eady

TRIBUTARY TRUNK GROUP: HOOPER BAY 1980

MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 SVCE	SURVEILLANCE LEVELS
					TRUNKS TO BE ADDED	REMOVED
						NOT MET
JANUARY	6	32	2.91	P.0003	0	1
FEBRUARY	6	55	1.31	P.0049	0	0
MARCH	6	47	.85	P.0023	0	0
APRIL	6	75	10.71	P.0198	0	0
MAY	6	88	6.29	P.0384	2	0
JUNE	6	69	8.63	P.0137	0	0
JULY	6	126	3.50	P.1424	3	0
AUGUST	6	88	3.67	P.0384	2	0
SEPTEMBER	6	32	3.56	P.0003	0	1
OCTOBER	6	63	7.00	P.0091	0	0
NOVEMBER	6	37	4.11	P.0007	0	1
DECEMBER	6	45	9.00	P.0018	0	0

Notes: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 H - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

APUC 01/12/81

ready

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TRIBUTARY TRUNK GROUP: MOUNTAIN VILLAGE 1980

MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 SVCE	SURVEILLANCE LEVELS	NOT MET
SEPTEMBER	7	98	6.13	P.0214	1	0	
OCTOBER	7	91	10.11	P.0150	0	0	
NOVEMBER	7	83	7.55	P.0095	0	0	
DECEMBER	7	57	7.13	P.0013	0	0	

Note: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 # - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

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ready  
 \*

TRIBUTARY TRUNK GROUP: PILOT STATION 1980

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MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 TRUNKS TO BE ADDED	SVCE REMOVED	SURVEILLANCE LEVELS NOT MET
SEPTEMBER	4	69	7.67	P.1282	3	0	H
OCTOBER	4	24	3.71	P.0064	0	0	
NOVEMBER	4	31	10.33	P.0116	0	0	
DECEMBER	4	26	2.60	P.0064	0	0	

Note: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 H - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

APUC 01/12/81

ready  
 \*

TRIBUARY TRUNK GROUP: SAVONGNA 1980

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MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 TRUNKS TO BE ADDED	SURVEILLANCE LEVELS NOT MET
MAY	3	48	5.33	P.1506	3	0 #
JUNE	5	68	6.18	P.0432	2	0
AUGUST	5	35	8.75	P.0033	0	0
SEPTEMBER	6	25	4.17	P.0001	0	2
OCTOBER	6	47	5.22	P.0023	0	0
NOVEMBER	6	60	10.00	P.0073	0	0
DECEMBER	10	45	6.43	P.0000	0	4

Note: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 # - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

APUC 01/12/81

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TRIBUTARY TRUNK GROUP: ST. MARY'S 1980

MONTH	NO. OF TRUNKS	CCS CARRIED	CCS PER CALL	GRADE OF SERVICE	FOR P.01 TRUNKS TO BE ADDED	SVCE REMOVED	SURVEILLANCE LEVELS NOT MET
JANUARY	8	28	2.33	P.0000	0	3	
FEBRUARY	10	72	3.13	P.0000	0	2	
MARCH	10	82	3.57	P.0001	0	2	
APRIL	10	46	5.11	P.0000	0	4	
MAY	10	76	3.80	P.0001	0	2	
JUNE	10	80	3.20	P.0001	0	2	
JULY	10	91	4.14	P.0003	0	1	
AUGUST	10	106	3.66	P.0010	0	1	
SEPTEMBER	10	112	3.73	P.0014	0	0	
OCTOBER	10	113	4.91	P.0015	0	0	
NOVEMBER	10	106	4.42	P.0010	0	1	
DECEMBER	10	92	4.18	P.0003	0	1	

Note: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 H - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

APUC 01/12/81

ready

TRIBUTARY TRUNK GROUP: SAVOONGA 1980

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MONTH	NO. OF TRUNKS CARRIED	CCS	CCS PER CALL	GRADE OF SERVICE	FOR P.01 SVCE	SURVEILLANCE TRUNKS TO BE ADDED	REMOVED	LEVELS NOT MET
MAY	3	48	5.33	P.1506	3	0		H
JUNE	5	68	6.18	P.0432	2	0		
AUGUST	5	35	8.75	P.0033	0	0		
SEPTEMBER	6	25	4.17	P.0001	0	2		
OCTOBER	6	47	5.22	P.0023	0	0		
NOVEMBER	6	60	10.00	P.0073	0	0		
DECEMBER	10	45	6.43	P.0000	0	4		

Note: \* - exceeds P.05  
 \*\* - exceeds P.10  
 \*\*\* - exceeds P.20  
 H - exceeds 12 ccs per trunk in trunk group of less than 4 trunks

APUC 01/12/81

ready  
 \*

LOANS APPROVED - ALASKA

<u>PROJECT</u>	<u>SIGNED</u>	<u>AMOUNT</u>
<u>Alaska 512-B5</u>		
Glacier State Telephone Company Bakersfield, California	1-26-78 (FY 1978) (6.5%)	\$ 4,630,500
<u>Alaska 514-B &amp; C5</u>		
Interior Telephone Company, Inc. Anchorage, Alaska	10-25-77 (FY 1978) (6.5%)	4,439,400
<u>Alaska 521-A</u>		
United Utilities, Inc. Anchorage, Alaska	6-21-79 (FY 1979) (2.0%)	3,000,000
<u>Alaska 513-C5</u>		
Nushagak Telephone Cooperative, Inc. Dillingham, Alaska	7-2-79 (FY 1979) (8.0%)	1,233,750
<u>Alaska 504-M4 &amp; M7</u>		
Matanuska Telephone Association, Inc. Palmer, Alaska	9-24-79 (FY 1979) (5.0% & 8.0%)	25,597,500
<u>Alaska 520-A</u>		
Arctic Slope Telephone Association Cooperative, Inc. Anchorage, Alaska	3-17-80 (FY 1980) (2.0%)	5,000,000
<u>Alaska 512-C</u>		
Glacier State Telephone Company Bakersfield, California	9-26-80 (FY 1980) (Guaranteed)	27,353,000

LOANS APPROVED - ALASKA

PAGE 2

<u>PROJECT</u>	<u>SIGNED</u>	<u>AMOUNT</u>
<u>Alaska 518-A</u> Mukluk Telephone Company Teller, Alaska	12-17-80 (FY 1981) (5.0%)	\$ 3,065,000
<u>Alaska 523-A</u> Bristol Bay Telephone Cooperative, Inc. Naknek, Alaska	12-24-80 (FY 1981) (5.0% & 10.25%)	3,235,850
<u>Alaska 522-A</u> Cordova Telephone Cooperative, Incorporated Cordova, Alaska	2-2-81 (FY 1981) (5.0%)	<u>3,040,000</u>
TOTAL		\$80,595,000

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Carolyn S. Guess, Chairman  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall

In the Matter of the Application )  
of UNITED UTILITIES, INC. for a ) U-77-28  
Certificate of Public Convenience )  
and Necessity to Furnish Tele- )  
communications services in the )  
Calista Region )  
\_\_\_\_\_)  
In the Matter of the Investigation )  
into the Financial Viability of ) U-81-22  
Phase III Village Construction in )  
the Calista Region by UNITED )  
UTILITIES, INC. )  
\_\_\_\_\_)

CERTIFICATION OF MAILING

Roselie K. Bynum certifies as follows:

That I am a Clerk Typist III in the offices of the Alaska Public Utilities Commission, 1100 MacKay Building, 338 Denali Street, Anchorage, Alaska 99501.

That on the 8th day of April, 1981, I mailed true and accurate copies with postage thereon to the parties indicated on the attached service list of

ORDER NO. 9

ORDER NO. 1

ORDER DENYING WITHOUT PREJUDICE PERMANENT

CERTIFICATION AND INSTITUTING INVESTIGATION INTO

THE FINANCIAL VIABILITY OF PHASE III VILLAGE CONSTRUCTION

in the above entitled cause.

DATED at Anchorage, Alaska, this 8th day of April, 1981.

Roselie K. Bynum

SERVICE LIST

U-77-28  
U-81-22

Vice President & General Counsel  
Alascom  
949 E. 36th Avenue  
Anchorage, Alaska 99502

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Elisabeth H. Ross, Esq.  
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COURTESY LIST

Richard R. Rhyner, President  
Interior Telephone Company  
5106 E. 26th Avenue  
Anchorage, Alaska 99504

Mr. Vinod K. Batra  
United Utilities, Inc.  
P.O. Box 4-2730  
Anchorage, Alaska 99509

President  
Sea Lion Corporation  
General Delivery  
Hooper Bay, Alaska 99604

Don Harris, General Manager  
Coastal Management Corporation  
Nelson Island  
Toksook Bay, Alaska 99637

The Alaska Native Foundation  
515 "D" Street  
Anchorage, Alaska 99501

Sec. 42.08.020. Subsection (a) is amended to read as follows:

"Sec. 42.08.020. POWERS AND DUTIES OF THE DEPARTMENT.

(a) The Department shall formulate procedures and adopt regulations to implement this chapter.

(b) No loan shall be made under this chapter until the Alaska Public Utilities Commission finds that the applicant is fit, willing and able to provide the utility services applicable to the facility for which the loan is applied for and that the facilities for which the loan is applied for shall result in improvement of service and shall be in the financial interests of the ratepayer of the state of Alaska. The application for loan shall be forwarded to the Alaska Public Utilities Commission for such finding and shall be in the form and contain the information required by the Alaska Public Utilities Commission by regulation sufficient to make its finding. For purposes of the finding of the Commission procedures and regulations adopted under A.S. 42.05.151 shall be applicable.

(c) The Department may

(1) make a loan from the public utility revolving loan fund to a public utility to finance or refinance capital improvements, plant and facilities, and to improve and expand services, if other credit is not readily available from private lending institutions at a rate of interest less than the rate of interest which the state agreed to pay on the most recent general obligation bonds issued before the application for the loan under this chapter;

# United Utilities, Inc.

← NATIVE OWNED CORPORATION →

5400 A STREET ANCHORAGE, AK 99503

PHONE: (907) 276-1959

March 5, 1981

The Honorable Vernon Hurlbert  
Chairman  
House Labor and Commerce Committee  
Pouch V  
Juneau, AK 99811

Reference: Proposed Amendment to House Bill 165, Utility Revolving Loan Fund, for a \$20 Million 1981 Appropriation for Utilities Affected by Federal Budget Cuts.

Dear Mr. Hurlbert:

In reference to the subject amendment United Utilities (U.U.I.) is furnishing herein additional information on the impact of the recent 1981 Reagan Administration's budget cuts. These budget cuts have prevented the release of a \$10.4 million Rural Electrification Administration (REA) loan to U.U.I. which the REA had tentatively approved at a composi interest rate of 5.4% for a period of 35 years. The items funded in this REA loan application include local telephone exchange and toll interconnect facilities at Akiachak, Chevak, Gambell, Goodnews Bay, Kasigluk, Kizruk, Kotlik, Kwethluk, Mountain Village, Napakaik, Nunapitchuk, Pilot Station, Quinhagak, Savoonga, Toksook Bay, and Tununak. A copy of the REA's Tentative Budget and Telephone Loan Feasibility Study is attached.

For the facilities included in the \$10.4 million loan request we have borrowed on an interim basis \$1.5 million, at an interest rate of prime plus 3½%, and we also have an outstanding order for \$560,000 of electronic switching equipment which will take approximately \$440,000 to place into operation in eight locations. If U.U.I. were able to secure a low cost long term loan for \$2.5 million we would be able to retire the outstanding interim debt and install these new exchanges. Should the \$2.5 million not be available we will need to cancel these equipment orders and incur costly penalties from the manufacturer. In addition we will continue to incur exorbitant interest expenses that could place the cost of telephone service out of the reach of most of our subscribers.

The remaining balance of the REA loan application of \$7.9 million (\$10.4 million less \$2.5 million) is for telephone system improvements including toll interconnect facilities. Our analysis of the \$7.9 million indicates that the most critical of these requirements is \$2.1 million for toll interconnect facilities at Akiachak, Napakiak, Chevak, Goodnews Bay, Kwethluk, Nunapitchuk and Quinhagak. These locations now have only a single toll circuit to interface with the telephone exchanges installed with the \$2.5 million mentioned previously.

In summary, the proposed federal budget cuts have resulted in the withholding of United Utilities \$10.4 million REA loan which was tentatively approved and scheduled for 1981. Within this loan request there's an immediate need for \$2.5 million to retire the interim debt and to purchase and install equipment that is now on order. In addition, to provide toll interconnect facilities required for the new locations receiving the switching equipment another \$2.5 million will be required. A total of \$4.6 million is the amount United Utilities would propose to fund from the \$20 million appropriation included in the amendment to HB 165. The remaining \$5.8 million could potentially be deferred until 1982 and be funded from the permanent Utility Revolving Loan Fund.

Regarding the interest rate, collateral and term of the loans I believe that all loans made from the \$20 million appropriation should be made under the same terms and conditions as those previously provided for by REA. All loans made from the Revolving Loan Fund's \$40 million appropriation should be made under the provisions of HB 165, including those amendments submitted in our February 18, 1981 correspondence (copy attached).

Respectfully submitted,

  
Steve Hamlen  
Controller

SH/rs

U. S. DEPARTMENT OF AGRICULTURE  
RURAL ELECTRIFICATION ADMINISTRATION

TELEPHONE LOAN BUDGET

NAME OF BORROWER

United Utilities, Inc.

BORROWER AND LOAN DESIGNATION

Alaska 521-B4 & B7 United

PRIOR LOAN RESERVES AS OF 6/10/80

BUDGET ITEM	RESERVE BALANCES		NEW PROJECT BUDGET C.
	A.	AVAILABLE FOR NEW PROJECTS B.	
1. CONSTRUCTION			
a. CENTRAL OFFICE .....	140,002		6,694,000
b. OUTSIDE PLANT AND STATION EQUIPMENT .....	134,205		1,205,000
c. R/W PROCUREMENT .....			
d. LAND .....	9,611		48,000
e. BUILDINGS .....	185,998		480,000
f. REMOVAL COSTS .....			
g. SPECIAL PROJECTS .....			
2. ENGINEERING .....	338,000		700,000
3. OPERATING EQUIPMENT			
a. OFFICE EQUIPMENT .....			77,000
b. VEHICLES AND WORK EQUIPMENT .....	45,462		280,000
4. a. OVERHEAD EXPENDITURES .....			
b. CLASS B STOCK - TELEPHONE BANK .....			36,500
5. OPERATING FUNDS .....			
6. REFINANCING AND DEBT RETIREMENT			
a. REFINANCING WITH LOAN FUNDS .....			
b. DEBT RETIREMENT WITH NON-LOAN FUNDS .....			
7. ACQUISITIONS .....			640,000
8. CONTINGENCIES .....	43,337		284,000
9. TOTALS .....	896,615		10,444,500
10. LESS AVAILABLE FROM PRIOR LOANS (Col. B, Item 9) .....			
11. LESS NON-LOAN FUNDS .....			
12. TOTAL NEW LOAN FUNDS .....			10,444,500
13. REA LOAN .....			9,678,000
14. TELEPHONE BANK LOAN .....			766,500

ADDITIONAL BUDGET DATA

PRIOR LOAN TOTALS \$ 3,000,000	NON-LOAN FUNDS, PRIOR LOANS, AS ADJUSTED \$ 80,000	TOTAL CUMULATIVE ADVANCES	PRELOAN ENGINEERING, THIS LOAN
REA LOANS \$ 3,000,000		FRS #5 5/22/80	
TEL. BANK LOANS \$		\$ 1,308,000	\$ 124,000

ESTIMATED ORIGINAL COST OF EXISTING PLANT RETAINED (this loan) \$ (includes \$ land)	ESTIMATED ORIGINAL COST OF RETIRED PLANT (this loan) \$	ESTIMATED SALVAGE VALUE RETIRED PLANT (this loan) \$
---	--	---

COST OF HEADQUARTERS FACILITIES, GARAGE AND WAREHOUSE (this loan) \$	COST OF MOBILE RADIO TELEPHONE (this loan) \$
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REMARKS

The "total reserves" do not include \$400,000 for acquisition and \$839,000 (COE) for earth station improvements. These funds have not been released yet.

**TENTATIVE**

U. S. DEPARTMENT OF AGRICULTURE  
RURAL ELECTRIFICATION ADMINISTRATION  
**TELEPHONE LOAN FEASIBILITY STUDY**

CORPORATE NAME  
**United Utilities, Inc.**  
LOAN DESIGNATION  
**Alaska 521-B4 and B7 United**

**PART F. SCHEDULED DEBT SERVICE PAYMENTS**

	AMOUNT OF LOAN	RATE (%)	DEBT SERVICE	TOTAL
1. MAXIMUM ANNUAL DEBT SERVICE .....	\$ 2,600,000	4.240	\$ 110,240	
	400,000	4.020	16,080	
	766,500	11.124	85,265	
	640,000	6.100	39,040	
	9,038,000	6.280	567,586	
				\$ 618,211
2. TOTAL LOANS .....	\$ 13,444,500			
3. LESS PRINCIPAL REPAYD .....	-0-			
4. UNPAID PRINCIPAL .....	13,444,500			
5. MAXIMUM ANNUAL INTERESTS PAYMENTS .....				\$ 626,299

**PART G. ESTIMATED ANNUAL REVENUE**

CLASS OF SERVICE	EXISTING AUTHORIZED MONTHLY RATES	SUGGESTED MONTHLY RATES	NUMBER OF STATIONS	MONTHLY RECEIPTS
1. EXCHANGE REVENUE Alakanuk, Emmonak, St. Mary's and Hooper Bay				
a. BUSINESS				
1 - PARTY .....	\$ 27.50	\$ 27.50	128	\$ 3,520.00
2 - PARTY .....				
4 - PARTY .....				
5 - PARTY .....				
8 - PARTY .....				
_____ PARTY .....				
PAYSTATIONS .....	35.00	35.00	32	1,120.00
PBX OR PABX SYSTEMS .....				
PRX OR PABX TRUNKS .....				
KEY SYSTEMS .....			10) Lot 27)	8,472.25*
b. RESIDENCE				
1 - PARTY .....	16.00	16.00	521	8,336.00
2 - PARTY .....				
4 - PARTY .....				
5 - PARTY .....				
8 - PARTY .....				
_____ PARTY .....				
c. SUBSCRIBER RADIO TELEPHONE .....				
d. EXTENSIONS:				
BUSINESS .....	5.00	5.00	91	455.00
RESIDENCE .....	2.50	2.50	97	242.50
PBX OR PABX .....				
KEY .....			50	*
e. MILEAGE AND ZONE CHARGES:				
CLASS NO. SUBS. AVE. MI. ZONES SUBS. ZONES				
1-PARTY				
2-PARTY				
4-PARTY				
f. SERVICE STATIONS .....				
g. TOTALS .....				\$22,145.75
h. ANNUAL EXCHANGE REVENUE (Line g x 12) ...				\$ 265,749

2. NET TOLL REVENUE	
SUBS. X \$	\$
3. OTHER REVENUE (Explain) .....	\$

**TENTATIVE**

U. S. DEPARTMENT OF AGRICULTURE  
RURAL ELECTRIFICATION ADMINISTRATION  
**TELEPHONE LOAN FEASIBILITY STUDY**

CORPORATE NAME  
**United Utilities, Inc.**  
LOAN DESIGNATION  
**Alaska 521-84 and B7 United**

**PART F. SCHEDULED DEBT SERVICE PAYMENTS**

	AMOUNT OF LOAN	RATE (%)	DEBT SERVICE	TOTAL
1. MAXIMUM ANNUAL DEBT SERVICE .....	\$		\$	
2. TOTAL LOANS .....	\$			
3. LESS PRINCIPAL REPAYED .....				
4. UNPAID PRINCIPAL .....				
5. MAXIMUM ANNUAL INTERESTS PAYMENTS .....				\$

**PART G. ESTIMATED ANNUAL REVENUE**

CLASS OF SERVICE	PRESENT MONTHLY RATES	SUGGESTED MONTHLY RATES	NUMBER OF STATIONS	MONTHLY RECEIPTS
1. EXCHANGE REVENUE All Other Exchanges				
a. BUSINESS				
1 - PARTY .....	\$	\$ 27.50	137	\$ 3,767.50
2 - PARTY .....				
4 - PARTY .....				
8 - PARTY .....				
8 - PARTY .....				
_____ PARTY .....				
PA SYSTEMS .....	N/A	35.00	51	1,785.00
PBX OR PABX SYSTEMS .....				
PBX OR PABX TRUNKS .....				
KEY SYSTEMS .....			35) Lot see pg. 1 64)	*
b. RESIDENCE				
1 - PARTY .....		16.00	1,469	23,504.00
2 - PARTY .....				
4 - PARTY .....				
8 - PARTY .....				
8 - PARTY .....				
_____ PARTY .....				
c. SUBSCRIBER RADIO TELEPHONE .....				
d. EXTENSIONS:				
BUSINESS .....		5.00	197	985.00
RESIDENCE .....		2.50	196	490.00
PBX OR PABX .....				
KEY .....			160	*
e. MILEAGE AND ZONE CHARGES:				
CLASS NO. SUBS. AVE. _____ SUBS. _____				
MI. ZONES ZONES				
1-PARTY .....				
2-PARTY .....				
4-PARTY .....				
f. SERVICE STATIONS .....				
g. TOTALS .....				\$ 30,531.50
h. ANNUAL EXCHANGE REVENUE (Line g x 12) ...				\$ 366,378

2. NET TOLL REVENUE	
SUBS. R R .....	\$
3. OTHER REVENUE (Explain) .....	\$

**TENTATIVE**

FORECAST OF REVENUES AND EXPENSES	CORPORATE NAME AND ADDRESS	
	United Utilities, Inc. Anchorage, Alaska	
	LOAN DESIGNATION	FORECAST FOR (No. of subs.)
	Alaska 521-B4 & B7	2,383
ITEM	TOTAL	
1. LOCAL SERVICE REVENUES*	\$	632,127
2. TOLL SERVICE REVENUES		2,505,827
3. MISC. OPERATING REVENUE		29,263
4.		
5. LESS UNCOLLECTIBLE OPERATING REVENUE	\$	8,865
6. TOTAL OPERATING REVENUES	\$	3,158,352
7. MAINTENANCE	\$	602,492
8. TRAFFIC		6,625
9. COMMERCIAL, GENERAL & OTHER		657,874
10. TAXES EXCLUDING FEDERAL INCOME TAX		32,524
11. DEPRECIATION		676,225
12. AMORTIZATION		19,356
13. FIXED CHARGES (interest)		626,299
14.		
15. OTHER INCOME AND DEDUCTIONS NET		(7,407)
16. TOTAL EXPENSES EXCLUSIVE FEDERAL INCOME TAX	\$	2,613,988
17. NET INCOME (margin) BEFORE FEDERAL INCOME TAX	\$	544,364
18. FEDERAL INCOME TAX		231,157
19. NET INCOME (margin) AFTER FEDERAL INCOME TAX	\$	313,207
20. ADD: INTEREST		626,299
21. NET OPERATING INCOME OR MARGIN	\$	939,506
22. ADD: DEPRECIATION AND AMORTIZATION		695,581
23. AVAILABLE FOR INTEREST AND PRINCIPAL PAYMENTS	\$	1,635,087
24. SCHEDULED INTEREST AND PRINCIPAL PAYMENTS		818,211
25. AVAILABLE FOR PLANT ADDITIONS, REPLACEMENTS, ETC.	\$	816,876
26. TIMES INTEREST EARNED RATIO (Item 21 ÷ Item 20)		150.0
ITEM 13 (interest)		
OUTSTANDING LOAN BALANCE(S)	\$ 3,000,000 @ 2% =	\$ 60,000
CURRENT LOAN	\$ 766,500 @ 10.75% =	\$ 82,399
CURRENT LOAN	\$ 9,670,000 @ 5% =	\$ 483,900
TOTAL INTEREST		\$ 626,299

\*LOCAL SERVICE REVENUES BASED ON THE attached schedules.

Composite interest rate for \$10,444,500 loan is 5.4%.  
The loan will provide for three 35-year notes.

TENTATIVE

BERNARD KOTEN  
WILLIAM C BURT  
ALAN Y NAFTALIN  
JOHN W SYMPSON  
RAINER K PAUS  
ARTHUR B GOODKIND  
GEORGE Y WHEELER  
HERBERT D MILLER, JR  
MARGOT SMILEY HUMPHREY  
DAVID L VAUGHAN  
LISA J STEVENSON  
WILLIAM D MITCHELL  
GREGORY C STAPLE

LAW OFFICES  
**KOTEN & BURT**  
THE CONNECTICUT BUILDING  
1150 CONNECTICUT AVENUE  
WASHINGTON, D.C. 20036

96-1  
1210

TELEPHONE  
(202) 467-5700  
TELECOPY  
(202) 467-5915  
CABLE ADDRESS  
"KOBURT"

March 6, 1981

MEMORANDUM

TO: James C. Miller, Administrator for the Office  
of Information and Regulatory Affairs  
  
Jim Tozzi, Deputy Administrator for the Office  
of Information and Regulatory Affairs

FROM: Alan Y. Naftalin \* (Counsel for Alascom, Inc.)

RE: Proposed Uses of Low Interest REA Telephone Loan  
Funding to Replace Available Commercial Financing  
of Toll Telephone Facilities

Frank P. ...  
447-25  
Am ...  
= 11315  
447-2917  
Am ...  
447-43  
Am ...  
447-74

This memorandum is intended to outline an existing area of REA policy promoting use of low interest REA loan funding in a manner contrary to the initiatives of the President's "Program for Economic Recovery" promoting reliance upon commercial financing of telephone construction projects (pp. 4-5 through 4-7).

As described hereafter in detail existing REA policy is to promote the use of low interest REA loan funding for its borrowers in Alaska to acquire earth station facilities which are already funded from commercial financing sources and, in some instances, to construct new or replacement earth station facilities for which commercial financing is either already in place or otherwise committed which would make use of REA loan funding unnecessary. On a fully developed basis, this REA policy could involve as much as \$80 million of low interest REA loan financing being committed in Alaska in circumstances where commercial financing sources can be reasonably relied upon.

We request that steps be taken promptly to prevent the REA from making further unnecessary loan commitments and that the REA announce as a matter of policy before the Federal Communications Commission in CC Docket No. 80-584 that it

\*Counsel for Alascom, Inc.

does not intend to make loan funding available to borrowers in circumstances where it is clear that commercial financing sources can reasonably be relied upon.

The REA policy addressed here developed as an REA staff initiative during the Carter Administration to address a special situation existing in Alaska. Alascom, Inc., the long lines carrier in the state, had constructed and was operating in excess of 100 domestic satellite earth stations to furnish message telephone communications in the Alaskan bush. Although it had been operating these earth station facilities in some cases for many years (relying upon commercial financing), Alascom had not obtained permanent operating authority from the FCC. When approached by an REA borrower interested in contesting Alascom's continued right to own and operate those earth station facilities, REA decided as a matter of policy that it would commit low interest loan funding to support the financial qualifications of REA borrowers in competitive proceedings before the FCC contesting Alascom's continuing authority to construct and operate such facilities.

In recent years the REA has actively supported a number of borrowers in Alaska who have proposed to use low interest REA loan funding to acquire Alascom's earth station facilities in specific areas and to finance construction of new facilities which would bypass or replace Alascom's existing toll network facilities.

Because this is a relatively new REA policy few loan commitments for REA loan funding of earth station facilities in Alaska have been made. United Utilities, Inc. obtained conditional approval of \$1.2 million of 2% loan funding for earth station facilities on June 21, 1979. Recently the Mukluk Telephone Company obtained a similar REA commitment for 5% loan funding covering approximately \$650,000 on December 22, 1980. Other loan requests remain pending including an additional request for loan funding by United Utilities, Inc. covering approximately \$4.8 million for earth station facilities which are in the final stages of review by the Acting Administrator of the REA.

We raise these matters regarding REA existing commitments and pending loan requests because they have direct impact in the fiscal 1981 REA telephone budget. We understand that as much as \$108 million of the \$125 million revised REA low interest telephone budget has been committed. Clearly the public interest would not be served by permitting the REA to continue making commitments of the loan funds remaining in its revised

*None of Ar*  
*Alascom*  
*legally*  
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*until*  
*7cc*  
*rule*  
*is*  
*proceeding*

1981 budget for earth station facilities which Alascom is providing with the use of commercial financing. Unnecessary commitments of this kind obviously preclude availability of REA loan funding in areas where commercial financing is not readily available, a clearly unjustifiable result.

The second part of our request arises because of formal comments dated January 28, 1981 filed by the Administrator of the REA supporting adoption of a Notice of Proposed Rulemaking in CC Docket No. 80-584 which would limit the eligibility for the licensing of earth station facilities to certificated local exchange carriers in the Alaskan bush, effectively disenfranchising Alascom. The effect of the REA position in CC Docket No. 80-584, if adopted, would be to restrict the ownership of these facilities to the REA borrower group operating telephone exchanges in these bush areas so that Alascom which relies upon commercial financing would be barred even from competing for the right to own and operate these facilities. This position is firmly opposed in the formal comments of the Alaska Public Utilities Commission and the Federal Aviation Administration in CC Docket No. 80-584.

*Callahan  
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wa*

The REA policy which is at the heart of the position taken in its formal comments before the FCC is clearly contrary to the President's Economic Recovery Program. This is particularly true when it is considered that the REA is proposing to finance the acquisition of earth station facilities which are already in place, operational and financed from commercial financing sources.

Finally we should add that the period for formal comments before the Federal Communications Commission in CC Docket No. 80-584 will remain open until April 2, 1981. The filing of comments by the REA in that proceeding reversing its previous position regarding the availability of low interest loan funding would be a timely and effective demonstration of the President's budget initiatives and the underlying policies supporting those initiatives.

Attachments: FCC Notice of Proposed Rulemaking in  
CC Docket No. 80-584

Comments of REA in CC Docket No. 80-584

cc(w/att): Chuck Ellett

MAR 1 1981

Mr. Charles Ellett, Desk Officer  
Regulatory Analysis Program  
Office of Management and Budget  
New Executive Office Building  
Washington, D. C. 20503

Dear Mr. Ellett:

This is in response to your request for information regarding the memorandum of March 6, 1981, submitted by Alan Y. Naftalin, Counsel for Alascom, Inc., concerning Rural Electrification Administration (REA) financing of telephone systems in Alaska. The memorandum incorrectly alleges that REA policy promotes the use of REA loan funding in place of available commercial financing contrary to the initiatives of the President's "Program for Economic Recovery."

The second paragraph on page one of the memorandum contains several inaccuracies. First, it states that ". . . existing REA policy is to promote the use of low interest REA loan funding for its borrowers in Alaska to acquire earth station facilities . . ." The Federal Communications Commission (FCC) in CC Docket No. 80-584, Notice of Proposed Rulemaking (released October 29, 1981) is the Federal agency which has the sole responsibility for deciding policies governing ownership and operation of Alaskan earth stations. The FCC expects eligible applicants for licenses to own and operate earth stations to demonstrate their technical and financial qualifications. If a rural telephone system has regulatory authority to own and operate toll facilities, REA has the authority to provide funding for such facilities.

The second inaccuracy in the second paragraph is the statement that REA would commit loan funds "to construct new or replacement earth station facilities for which commercial financing is either already in place or otherwise committed..." The Rural Electrification Act (RE Act) of 1936, as amended, states that "When it is determined by the Administrator to be necessary in order to furnish or improve telephone service in rural areas, such loans may be made for the improvement, expansion, construction, acquisition and operation of telephone lines, facilities, or systems without regard to their geographical location." The RE Act also states that "Loans under this section shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate nor shall such loans be made in any state which now has or may hereafter have a state regulatory body having authority to regulate telephone service and to require certificates of convenience and necessity to the applicant unless such certificate from such agency is first obtained."

Paragraph six of the aforementioned FCC Notice states that of the 160 Bush communities served by Alascom, approximately 100 receive only "lifeline service." This service consists of two channels, one of which provides interstate and intrastate long distance telephone service and the other which is a private line connected to the Alaska Native Health Service, a provider of emergency and health assistance to the villages. In many cases, there is only one telephone which accesses message toll service and it is semi-public and may be inaccessible outside of business hours. As the FCC Notice states, "Thus, the residents sometimes do not have ready access to the phone, must be summoned by a messenger for an incoming call, and due to the public location of the phone, enjoy minimal privacy during their conversations."

Finally, the second paragraph of the memorandum states that "this REA policy could involve as much as \$80 million of low interest REA loan financing being committed in Alaska in circumstances where commercial financing sources can be reasonably relied upon." The \$80 million figure is highly questionable. Alascom never breaks it down into its component parts - the price per earth station multiplied by the total number of earth stations. In 1975, an earth station cost \$105,000. Currently, 100 stations are in operation. Even assuming a doubling in price per station and a doubling in the number of earth stations to 200, the total cost would be \$42 million, about half of Alascom's projection. Earth station technology is much improved since 1975, however, and we have no reason to believe costs would have escalated so tremendously.

The other questions about the \$80 million figure involves Alascom's assurance that it has commercial financing available in that amount. That is an exceptionally large amount of capital to invest and thus far Alascom has not backed up its assertion that such financing is available with hard figures and proposed sources of funds.

The third paragraph on page one requests that REA be prevented from making "further unnecessary loan commitments . . ." No unnecessary loan commitments have been made and none will be made. REA routinely funds toll terminating facilities in borrowers' exchanges, whether they be carrier, microwave, cable or earth stations. Such a policy provides better security for REA loans, improves feasibility and in many instances allows provision of better service. Loan commitments are not "unnecessary" when they fulfill REA's goal of providing quality telephone service to rural areas at reasonable rates.

The first full paragraph on page two alleges, again incorrectly, that "The REA policy addressed here developed as an REA staff initiative during the Carter administration to address a special situation existing in Alaska." REA's policy of financing all of the telephone facilities within a borrower's service area has been

in existence for almost 30 years. As such, it cannot be considered a new or recent policy and was not developed to specifically address the situation existing in Alaska. To the contrary, long standing REA policy has been applied to Alaska just as it has been applied to the lower 48 states. The first REA loan which included funds for toll facilities was made during the Eisenhower administration in 1952.

The first paragraph on page two of the memorandum contains contradictory statements as to Alascom's "right" to own and operate the earth station facilities in question. The memorandum itself states, "Although it had been operating these earth station facilities in some cases for many years . . . Alascom had not obtained permanent operating authority from the FCC." That statement is absolutely correct. The purpose of FCC Common Carrier Docket No. 80-584 is to decide the question of ownership and to possibly allow small independent telephone companies in Alaska to own and operate all of the facilities within their franchised service areas, just as is done in the rest of the United States. Further, in the same paragraph of the memorandum, Alascom alleges a "continued right to own and operate those earth station facilities." As Alascom itself admits, no such "continued right" exists. Alascom was permitted to operate the earth stations on an interim basis until the FCC decided the issue of ownership. The only earth stations which Alascom has a "continued right" to operate are those located in the 32 largest cities where Alascom now operates "mid-route" stations. The FCC has excluded these from its rulemaking procedure and REA has not committed nor does it intend to commit financing for earth stations in these cities.

Again in the same paragraph the issue is further confused by the statement ". . . REA decided as a matter of policy that it would commit low interest loan funding to support the financial qualifications of REA borrowers in competitive proceedings before the FCC . . ." The proceedings before the FCC are of a rulemaking, not "competitive" nature. Local telephone companies in Alaska and Alascom are not competitors but instead are providers of a joint service. The question is not competition at all but rather which entities will be involved in the ownership of facilities.

The second full paragraph on page two of the memorandum states that REA funding is being proposed "to finance construction of new facilities which would bypass or replace Alascom's existing toll network facilities." The nonduplication provision of the RE Act, referred to earlier, prevents loan funds from being used to "bypass" the existing network. One of REA's concerns has always been preserving the integrity of the network. REA may commit loan funds to replace facilities but only when those facilities are inadequate and are an obstacle to the provision of quality telephone service.

Mr. Charles Ellett

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The third paragraph on page two again states that funding entire systems is a "new REA policy." It must be reiterated that this is a policy which has been in existence for almost three decades. REA loans are made to borrowers to provide telephone service in the rural areas of America. The loans are made only after extensive studies have been completed. The existing need for quality telephone service in the rural areas of Alaska, as stated by the Governor of Alaska, the Alaska Public Service Commission and residents of Alaska shows that these loans have been necessary.

The final paragraph on page two shows Alascom's concern about REA's budget and alleges that "unnecessary commitments of this kind obviously preclude availability of REA loan funding in areas where commercial financing is not readily available, a clearly unjustifiable result." REA is well aware of the overall budget constraints imposed by the President's "Program for Economic Recovery," and is even more familiar with the limitations placed on the availability of REA loan funds. REA is capable of establishing priorities for the use of its own limited resources to make quality telephone service available to rural Americans. It should be understood that the small independent telephone operating companies in Alaska may be capable of obtaining financing for these facilities from commercial lenders.

The first full paragraph on page three alleges that the Administrator of REA filed formal comments ". . . supporting adoption of a Notice of Proposed Rulemaking in CC Docket No. 80-584 which would limit the eligibility for the licensing of earth station facilities to certificated local exchange carriers in the Alaska Bush, effectively disfranchising Alascom." The Assistant Administrator - Telephone actually filed comments concurring in the FCC's stated aim of allowing telephone companies in Alaska the same treatment that those in the lower 48 states receive - the opportunity to own and operate all the facilities within their franchised area. Secondly, there is no way that Alascom could be "effectively disfranchised" since they were never franchised in the first place. The "continued right" which Alascom repeatedly refers to, never existed.

Further in the same paragraph, the Alascom memorandum stated "Alascom . . . would be barred even from competing for the right to own and operate these facilities." As previously stated, Alascom is being awarded ownership of others via a waiver procedure if local telephone companies are unable or unwilling to provide the facilities.

Finally, REA stands by its concurrence in CC Docket No. 80-584. We agree with the following excerpt from the FCC's Notice:

". . . the public interest will be best served by adopting rules which require local exchange certification as a qualification to own and operate earth station facilities in rural Alaska communities

to provide MTS service. As a practical matter, this means that native Alaskans will play a larger role in network planning in Bush areas and will exercise more effective control over the operation and maintenance of satellite earth stations serving their communities. We expect this will increase the availability of satellite services to those areas, and therefore promote safety of life, efficient service, more adequate facilities and other objectives of Section I of the Communications Act. Apart from these substantive benefits, we believe that this rulemaking proceeding provides the most effective procedural tool for deciding the ownership policy question which has plagued the Bush applications for more than 5 years. We expect its resolution will permit expeditious action on the applications currently pending as well as those that will be filed in the future."

The FCC goes on to say:

"By virtue of their actual presence in the Bush communities, the local exchange carriers would appear to be better equipped to remedy the problems. This on-site availability would likely reduce or eliminate the service outages due to the recurring minor repair problems which now require Alascom to dispatch a maintenance staff from a centralized metropolitan location."

Finally, and most importantly, the FCC states:

"Moreover, local ownership is likely to produce a more effective means of predicting and satisfying growing communications requirements. It would appear that local ownership represents the more efficient and economic alternative for meeting the unusual service needs of the Bush earth stations."

The attitude expressed in Mr. Naftalin's letter is somewhat strange because it contradicts the views of management officials of an affiliated corporation of Alascom. Alascom is owned by a corporation which in turn is owned by Pacific Power and Light Company. This latter corporation owns through another intermediate subsidiary, an operating independent telephone company named Eastern Oregon Telephone Company (EOTC). EOTC applied for and received a low interest (2 percent) REA loan last year in the amount of \$9,500,000 which included funding of \$876,000 for the ownership of toll facilities which perform the same function as the earth stations in Alaska cited by Mr. Naftalin. Feasibility studies prepared by REA indicated that the company could afford financing from the Rural Telephone Bank which, at the time, had an interest rate of 9.0 percent. Management officials for EOTC were asked to "volunteer" for a loan from the Bank but they refused and insisted on financing from the Rural Electrification and Telephone Revolving Fund, at 2 percent, because the company had an existing and proposed density of less than three subscribers —

Mr. Charles Ellett

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per mile of line. Under the RE Act, telephone systems with three subscribers per mile of line or fewer are eligible for financing from REA at the special interest rate of 2 percent. In the past, some other companies in this situation have volunteered to take a loan from the Rural Telephone Bank.

EOIC presently has on file with REA a loan application in the amount of \$7,000,000, which includes a request for funding of toll facilities in the approximate amount of \$1.2 million. While officials of one subsidiary of Pacific Power and Light Company are criticizing REA funding for toll facilities in Alaska, officials of another subsidiary of Pacific Power and Light Company are repeatedly asking REA to expedite the processing of an REA loan for toll facilities in Oregon at an interest rate of 2 percent.

It should be noted that the Administration has already submitted proposed legislation to the Congress which would eliminate the availability of 2 percent financing under the RE Act.

Sincerely,

John H. Arnesen

JOHN H. ARNESEN  
Assistant Administrator - Telephone

cc:

Frank Warner, OMB

WAT

WATO

AAT

TMD

Official File-TMD

Reading File

TMD:DBCohen:cdc 3/18/81

Rewritten:DBCohen:vll 3/19/81

Introduced: 2/17/81  
Referred: Labor & Commerce  
and Finance

1 IN THE HOUSE

BY HURLBERT, VASKA, AND CHUCKWUK

2

HOUSE BILL NO. 165

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TWELFTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act creating the <sup>public communication</sup> ~~public utility~~ revolving loan  
7 fund; and providing for an effective date."

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

\* Section 1. DECLARATION OF POLICY AND PURPOSE. The legislature finds  
10 that

11

(1) the availability of adequate public utility services and  
12 facilities at reasonable rates in the state is a proper matter of public  
13 concern;

14

(2) the ability of privately, municipally and cooperatively owned  
15 public utilities in the state to finance service to the public and to finance  
16 capital improvements required to extend and improve those services on terms  
17 that will enable utility service rates to remain at reasonable levels in the  
18 foreseeable future is seriously impaired by the unavailability of low-cost  
19 private financing and by the delays experienced in obtaining low-cost federal  
20 loans;

21

(3) as a matter of public policy, to ensure the sound development  
22 of the state and its resources and to provide an acceptable level of utility  
23 services to its residents at reasonable rates, the state should assist these  
24 public utilities in acquiring the money that is essential to operate, main-  
25 tain and expand utility facilities and services.

26

\* Sec. 2. AS 42 is amended by adding a new chapter to read:

27

CHAPTER 08. PUBLIC UTILITY REVOLVING LOAN FUND.

28

Sec. 42.08.010. REVOLVING LOAN FUND CREATED. The public utility  
29 revolving loan fund is created in the Department of Commerce and Eco-

1 nomic Development.

2 Sec. 42.08.020. POWERS AND DUTIES OF THE DEPARTMENT. (a) The  
3 department shall formulate procedures and adopt regulations to implement  
4 this chapter in consultation with the Alaska Public Utilities Commis-  
5 sion.

6 (b) The department may

7 (1) make a loan from the public utility revolving loan fund  
8 to a public utility to finance or refinance capital improvements, plant  
9 and facilities, and to improve and expand services, if other credit is  
10 not readily available from private lending institutions at a rate of  
11 interest less than the rate of interest which the state agreed to pay  
12 on the most recent general obligation bonds issued before the applica-  
13 tion for the loan under this chapter;

14 (2) make loans from the public utility revolving loan fund  
15 to a public utility to meet short-term or interim capital needs before  
16 receipt by the public utility of long-term loans;

17 (3) consult with appropriate federal agencies and other  
18 lending institutions which make loans to public utilities in the state  
19 concerning policies, regulations and procedures to carry out the pro-  
20 visions of this chapter;

21 (4) designate agents and delegate powers to them as is  
22 necessary;

23 (5) require bonds and undertakings from persons employed by  
24 the department as in the commissioner's judgment are necessary, and pay  
25 the premiums on the bonds and undertakings;

26 (6) establish amortization plans as provided in AS 42.08.-  
27 040(c).

28 Sec. 42.08.030. ELIGIBILITY FOR LOANS. A public utility is eli-  
29 gible for a loan under this chapter if

1 (1) it is a public utility as defined in AS 42.05.701(2)-  
2 (A) - (E);

3 (2) at the time of application for a loan it is serving the  
4 public under a certificate of public convenience and necessity issued  
5 by the Alaska Public Utilities Commission;

6 (3) in the judgment of the department

7 (A) the public utility shows a definite potential for  
8 providing improved or expanded service in the community or service  
9 area it serves, or otherwise requires the financing to maintain  
10 adequate, efficient and safe service; and

11 (B) the utility will be able to repay the loan.

12 Sec. 42.08.040. CONDITIONS AND LIMITATIONS ON LOANS. (a) A loan  
13 to a public utility under this chapter may not exceed \$1,000,000.

14 (b) A loan made under this chapter shall be on terms and condi-  
15 tions the department determines appropriate and, if secured by collat-  
16 eral, may not exceed 75 percent of the value of the collateral offered.

17 (c) Amortization plans for the repayment of a loan made under  
18 this chapter may not exceed 30 years. The rate of interest charged on  
19 the unpaid balance may not exceed the rate of interest which the state  
20 agreed to pay on the most recent general obligation bonds issued before  
21 the application for the loan under this chapter.

22 (d) Unless a loan made under this chapter is participated in by a  
23 financial institution as provided in (e) of this section, the loan may  
24 not be made until an investigation and an economic feasibility study is  
25 conducted and, as a result of the investigation and study, the depart-  
26 ment determines that the loan is economically sound, that the utility  
27 will be financially self-sustaining, and the loan will be fully amor-  
28 tized in accordance with the terms and conditions of the loan. The  
29 economic feasibility study shall be conducted by the department staff

*Under Accepted  
Standards of  
RCA*

*Handle  
APA  
Similar  
Program  
Must Expertise*

1 or by consultants, engineers or other technical experts approved by the  
2 department. To facilitate its determination of economic feasibility,  
3 and its determination of the ability of the utility to be fully self-  
4 sustaining and to amortize the loan, the department shall require the  
5 applicant for a loan under this chapter to furnish the systems studies,  
6 long-range economic forecasts, financial data, and technical information  
7 that the department considers necessary.

8 (e) If a loan under this chapter is participated in by a financial  
9 institution in an amount not less than 20 percent of the total amount  
10 of the loan, the department may accept the investigation and economic  
11 feasibility study made or accepted by the financial institution as a  
12 basis for its participation.

13 (f) If a financial institution participates in a loan made under  
14 this chapter, it may elect to administer and service the loan for a  
15 reasonable fee not exceeding one-half of one percent

16 (g) The state and the participating financial institution shall  
17 each have a lien on the collateral or share the collateral to the  
18 extent of their respective parts of the total loan to a public utility.

19 Sec. 42.08.050. ADMINISTRATION. Money loaned under this chapter  
20 shall be delivered to the borrower in the form of a warrant drawn on  
21 the treasury, and charged against the public utility revolving loan  
22 fund. Upon repayment of loans in accordance with the prescribed terms,  
23 or upon liquidation by foreclosure or other process, or upon receipt of  
24 interest or other revenue, the money received shall be turned over to  
25 the commissioner of revenue for deposit in the public utility revolving  
26 loan fund.

27 Sec. 42.08.060. SALE OR TRANSFER OF NOTES, MORTGAGES AND OTHER  
28 COLLATERAL. (a) The commissioner may sell or transfer at par value or  
29 at a premium or discount to a bank or private purchaser for cash or

1 other consideration the notes, mortgages and collateral held by the  
2 department as security for loans made under this chapter.

3 (b) The commissioner may sell or transfer at par value to the  
4 Department of Revenue the notes, mortgages and other collateral held by  
5 the Department of Commerce and Economic Development as security for  
6 loans made under this chapter. The Department of Revenue may purchase  
7 the notes, mortgages and other collateral so offered, allowing the  
8 Department of Commerce and Economic Development a one-half of one  
9 percent service fee.

10 Sec. 42.08.070. GUARANTEES OF LOANS. (a) The commissioner may  
11 enter into agreements with other state departments and agencies, private  
12 banks, other lending institutions, and individuals for the purpose of  
13 guaranteeing loans made to qualified public utilities. The guarantees  
14 may not exceed 90 percent of the amount loaned and the loans shall be  
15 secured in the same manner as provided for direct loans under this  
16 chapter.

17 (b) A loan made under this chapter and guaranteed by the state  
18 shall bear an interest rate on the unpaid balance not exceeding the  
19 rate of interest which the state agreed to pay on the most recent  
20 general obligation bonds issued before the application for the loan.

21 Sec. 42.08.080. PROCEEDINGS AND REGULATIONS. The Administrative  
22 Procedure Act (AS 44.62) governs all proceedings, and the adoption of  
23 regulations, under this chapter.

24 Sec. 42.08.090. DEFINITIONS. In this chapter

25 (1) "commissioner" means the commissioner of commerce and  
26 economic development;

27 (2) "department" means the Department of Commerce and Econo-  
28 mic Development.

29 \* Sec. 3. This Act takes effect July 1, 1981.

MAX to get Primary  
Source Long Term

REGA for 25 yrs

2 to 1% loan 35

Telephone Board  
8 - 10.75 - 20  
you age - 35

Guaranteed loan pay 35 mon.

capital 32 million 2 year

REGA holds 1st mortgage on

an TOLs - plus 1 mort - a

monthly base owned -

needs - long term notice -

plan 34-1 about 10 lines

5 to 6 lines for each new

subscriber.

8% to longer

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

**DEPARTMENT OF COMMERCE &  
ECONOMIC DEVELOPMENT**  
ALASKA PUBLIC UTILITIES COMMISSION

March 3, 1981

The Honorable Vernon Hurlbert  
Chairman  
House Labor and Commerce Committee  
Pouch V  
Juneau, Alaska 99811

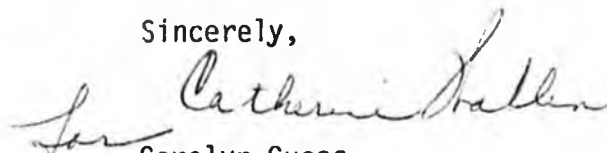
Dear Mr. Hurlbert:

Re: HB 165

HB 165 addresses the short term, interim financing needs of certificated public utilities. Currently the cost of interim debt is above the prime rate of interest. Since that expense is passed through to the rate payers, a decrease in interim interest expense should benefit the utility's customers.

This legislation does not address the realistic long-term capital needs of larger public utilities because of the ceiling on the loan amount. The public interest would be served if long-term capital, not available from private lending institutions, were available to public utilities. Based on the experience of the APUC, one of the most graphic examples is the unavailability of long-term debt to private water and sewer utilities. Assets, whose life exceed 20 years, must be purchased with debt that must be repaid in a maximum of eight years. The benefits of both short and long-term interest rates should inure to the consumers of public utilities. The magnitude of those benefits depends on the capital intensiveness of the utility.

Sincerely,

  
Carolyn Guess  
Commissioner

CG/shB/31

# United Utilities, Inc.

5400 A STREET ANCHORAGE AK 99503

NATIVE OWNED CORPORATION

PHONE: (907) 276-1959

February 18, 1981

Senator Frank R. Ferguson  
Pouch V  
Juneau, Alaska 99811

Dear Senator Ferguson:

We're most appreciative of your efforts to establish a Public Utility Revolving Loan Fund. Your Senate Bill No. 107 provides a very viable framework within which to create and administer this fund. While we're generally very pleased with this bill we have two items that we feel are very important to small utilities serving bush communities. These items are shown below:

## Sec. 42.08.040. CONDITIONS AND LIMITATIONS ON LOANS

(d) Add the following:

Should the utility desire to obtain short term financing pending the receipt of a long term loan from the Rural Electrification Administration (REA) the Department may accept the REA's approval of the interim loan as evidence sufficient enough to establish the economic feasibility of the short term loan.

(g) Add the following:

A lien or collateral for short term loans to REA borrowers may be subordinated to any existing REA mortgage agreements that the utility may have that requires REA to have a first mortgage on all of the utilities existing and future properties.

A major problem that United Utilities, as well as other bush utilities has faced, is the lengthy period of time it takes REA to approve and release long term financing. We believe that by adding the above to

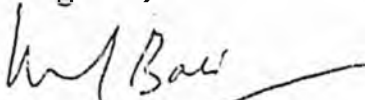
Senator Frank G. Ferguson  
February 18, 1981

Page 2.

Senate Bill No. 107 that it will strengthen the ability of bush utilities to secure interim financing from the revolving loan fund on a timely basis.

Please let me know if we can assist you any further and, again, thank you for your support.

Regards,



Vinod Batra  
President

VB:pa

cc: Representative Vernon L. Hurlbert

# UNITED UTILITIES, INC. SERVICE AREA MAP

**▲**  
PHASE I SITES  
with Population

1. ALAKANUK - 526
2. EMMONAK - 524
3. GAMBELL - 447
4. HOOPER BAY - 590
5. SAVOONGA - 409
6. ST. MARY'S - 415  
(COMPLETED 1980)

**■**  
PHASE II & III SITES  
with Population

7. AKIACHAK - 371
8. CHEVAK - 447
9. GOODNEW BAY - 248
10. KASIGLUK - 280
11. KIPNUK - 579 \*
12. KOTLIK - 305 \*
13. KWETHLUK - 444
14. MTN. VILLAGE - 573 \*
15. NAKAKIAK - 307
16. NUNAPITCHUK - 312
17. PILOT STATION - 301 \*
18. QUINHAGAK - 395
19. TUNUNAK - 291 \*
20. TOKSOOK BAY - 317 \*

\* COMPLETED 1980

OTHER LOCATIONS  
SCHEDULED FOR 1981  
IF FINANCING CAN  
BE SECURED.

**●**  
PHASE IV SITES  
with Population

21. AKIAK - 186
22. ATMAUTLUAK - 186
23. CHUATHBALUK - 119
24. CHEFORNAK - 182
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United States  
Department  
of Agriculture

Rural  
Electrification  
Administration

Washington  
D.C.  
20250

February 17, 1981

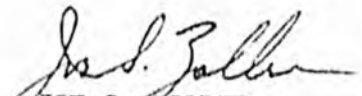
SUBJECT: Inquiries about the President's Budget

TO: REA Staff

Recent news stories about possible changes in the REA programs for 1981 and 1982 have prompted a number of requests for information about REA.

All inquiries from the press, Congress, borrowers and others concerning the President's budget should be referred to the Office of Information and Public Affairs or the Assistant Administrators.

OIPA may, from time to time, refer some calls or written requests from the press or members of Congress for basic data or general information about the REA programs to other staff personnel. In these instances, a brief memo summarizing the telephone call or a copy of any written material shall be provided both my office and OIPA.

  
JOE S. ZOLLER  
Acting Administrator

REDUCTION IN FEDERAL FINANCIAL ASSISTANCE TO COOPERATIVES  
AND PRIVATE COMPANIES ASSISTED BY THE  
RURAL ELECTRIFICATION ADMINISTRATION (REA)

As part of a general effort to reduce the share of Federal lending in U.S. credit markets, and to reduce Federal costs, the President proposes the following changes in the REA program:

- Beginning in 1982, discontinue Federal Financing Bank direct lending to electric generation and transmission cooperatives and to telephone companies and cooperatives. Provide Federal guarantees of loans from private sources instead. This action will reduce Treasury borrowing by \$5,145 million in 1982.
- Reduce REA direct lending \$187 million in 1981 and \$350 million in 1982 by eliminating loans to telephone companies and cooperatives and reducing loans to electric cooperatives.
- Discontinue 2% direct loans; substitute an equivalent amount of 5% loans.
- Discontinue 5% direct loans for generation and transmission facilities; substitute an equivalent amount of guaranteed private loans.

These changes will be achieved by:

- directing the Secretary of the Treasury to discontinue Federal Financing Bank direct lending to REA borrowers; 1/
- seeking legislation to permit charging higher interest rates for REA direct loans;
- instructing the Secretary of Agriculture to target REA direct loans to those most in need (more remote areas) and encouraging other borrowers to seek credit from private lenders; and
- proposing budget rescissions and amendments to bring REA direct lending into line with these proposed changes.

---

1/ The Administration is proposing a broad reform of Federal Financing Bank operations that will affect other agencies as well, including the Farmers Home Administration and the Tennessee Valley Authority.

These proposed actions are based on the fact that the REA has largely accomplished its purpose -- to provide the basic investment capital necessary to provide electric and telephone service in rural areas. More than 99% of all farms now have electric service. The bulk of borrowing is now for power generation and system improvements, costs that should be borne by system users.

In the absence of restraint, REA would continue to expand the reliance of rural utility companies on federally-provided and sponsored credit. It has been estimated that the REA would be underwriting nearly 15% of total U.S. investment in electrical generation by 1995, if left unchecked.

The major reason that these systems have not converted to using the private sector as a major capital source is the highly favorable term structure -- for both the direct and guaranteed lending -- offered by REA. As a consequence, the availability of these subsidies reduces the necessity for recipients to improve their financial positions in order to attract private capital. Customers of REA-financed utilities receive power and telephone services at rates that average 8-12% below customers of non-REA-financed utilities.

Taking these actions will result in a dramatic reduction in direct Federal lending -- \$5.5 billion in 1982, and over \$32 billion between 1982 and 1986. In addition, Federal interest subsidy costs would be reduced by about \$27 million in 1982 and by about \$400 million over 1982-86. At the same time, rural electric and telephone consumers served by these systems should continue to receive adequate service at rates comparable to those charged to customers of non-REA-financed utilities.

The changes are expected to result in the following changes in funding 1/:

	(in millions of dollars)					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Current base:						
Loan guarantee commitments.....	6,245	6,245	6,745	7,280	7,870	8,500
Budget authority and outlays.....	4,774	5,752	7,387	7,571	7,520	7,800
Policy reduction:						
Loan guarantee commitments.....	-187	-5,495	-5,935	-6,405	-6,925	-7,480
Budget authority and outlays.....	-38	-1,142	-2,328	-3,603	-4,975	-6,450
Proposed budget:						
Loan guarantee commitments.....	6,058	750	810	875	945	1,020
Budget authority and outlays.....	4,736	4,610	5,059	3,968	2,545	1,350

1/ The loan guarantees of the REA are converted to direct loans when they are purchased by the Federal Financing Bank. These outlays are excluded from the budget totals by law. Although these reductions are not included in the budget totals, they represent significant savings in Federal borrowing costs.

PROPOSED AMMENDMENT TO HOUSE BILL #165

IMMEDIATE APPROPRIATIONS OF \$20M FOR UTILITIES  
AFFECTED BY 1981 FEDERAL BUDGET CUTS

Utilities who are REA borrowers and have pending loan applications to the REA that may be subject to Federal Budget cuts, will be able to apply to the state for refinancing their current debt obligations. Loans made under this section will be for an amount not to exceed the amount requested in the REA application.

# United Utilities, Inc.

5400 A STREET ANCHORAGE AK 99503

NATIVE OWNED CORPORATION

PHONE: (907) 276-1959

February 18, 1981

Senator Frank R. Ferguson  
Pouch V  
Juneau, Alaska 99811

Dear Senator Ferguson:

We're most appreciative of your efforts to establish a Public Utility Revolving Loan Fund. Your Senate Bill No. 107 provides a very viable framework within which to create and administer this fund. While we're generally very pleased with this bill we have two items that we feel are very important to small utilities serving bush communities. These items are shown below:

## Sec. 42.08.040. CONDITIONS AND LIMITATIONS ON LOANS

(d) Add the following:

Should the utility desire to obtain short term financing pending the receipt of a long term loan from the Rural Electrification Administration (REA) the Department may accept the REA's approval of the interim loan as evidence sufficient enough to establish the economic feasibility of the short term loan.

(g) Add the following:

A lien or collateral for short term loans to REA borrowers may be subordinated to any existing REA mortgage agreements that the utility may have that requires REA to have a first mortgage on all of the utilities existing and future properties.

A major problem that United Utilities, as well as other bush utilities has faced, is the lengthy period of time it takes REA to approve and release long term financing. We believe that by adding the above to

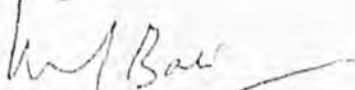
Senator Frank G. Ferguson  
February 18, 1981

Page 2.

Senate Bill No. 107 that it will strengthen the ability of bush utilities to secure interim financing from the revolving loan fund on a timely basis.

Please let me know if we can assist you any further and, again, thank you for your support.

Regards,



Vinod Batra  
President

VB:pa

cc: Representative Vernon L. Hurlbert

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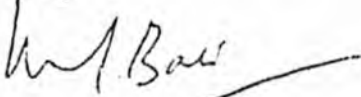
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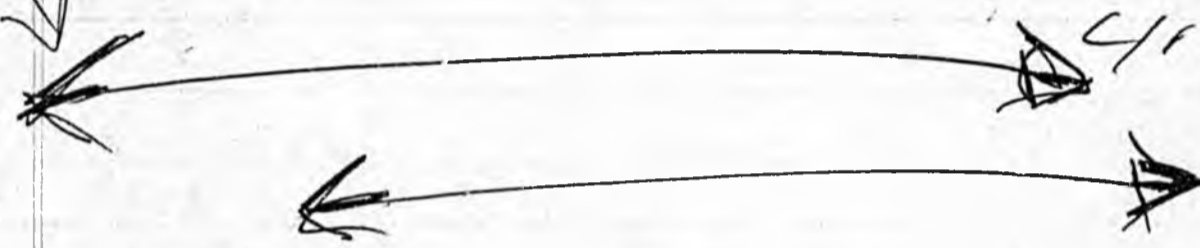
Gordon Porter  
276-3293

- HB 165 -

- Industry - qualification for loans -  
Certificate By PSC

40 mill - short term

20 mill - long term



P.U.

Gordon Parker - 165 Home 279 -

REA's list

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# United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, D.C. 20510

J. KEITH KENNEDY, STAFF DIRECTOR  
THOMAS L. VAN DER VOORT, MINORITY STAFF DIRECTOR

June 4, 1981

Honorable Vernon L. Hurlbert  
House of Representatives  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Vern:

I understand you called my Washington office and spoke with Mark Schneider and Joe Darnell. As they told you, the Conference Committee on the Supplemental-Rescission bill for the 1981 fiscal year budget adopted the Senate position on the Rural Electrification Administration (REA) insured loan program.

This means that the insured loan program for telephone and electric cooperatives is authorized at its full 1981 level as set by the Appropriations Act for agriculture, P.L. 96-528.

If we can be of further assistance, please let us know.

With best wishes,

Cordially,



TED STEVENS

*Approt  
200 million*

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