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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

JAN 15 '93

In the Matter of)
)
Integration of Rates and)
Services for the Provision of)
Communications by Authorized)
Common Carriers between the)
Contiguous States and Alaska,)
Hawaii, Puerto Rico and the)
Virgin Islands)
_____)

CC Docket No. 83-1376
RM 4436

REPLY COMMENTS OF
THE STATE OF ALASKA

THE STATE OF ALASKA

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Robert M. Halperin
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Its Attorneys

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January 15, 1993

SUMMARY

The State of Alaska believes the resolution of this docket can and should be precipitated by action of the Joint Board. To this end, the State believes that the Joint Board should enunciate principles for the resolution of this docket and provide all interested parties an opportunity to determine whether, in light of those principles, they can agree on the details of a market structure for Alaskan interstate telecommunications. If the parties cannot agree within a reasonable and predetermined period of time (perhaps, 60 days), the Joint Board would then proceed to issue a recommended decision based on the principles previously enunciated.

The principles to guide the negotiations should be taken from the Memorandum of Principles, the State's November 13, 1992 comments, and the Joint Board's 1989 Supplemental Order Inviting Comments. They include the following:

- Rejection of the Master Agreement as it presently exists, though, as the State has previously recognized, certain parts of it may be acceptable.
- No jurisdictional cost shifts.
- Carrier of last resort designations.
- Rate integrated interstate rates.
- Termination of the Joint Services Arrangement after a reasonable transition period.
- No merger of TUA and Alascom.

- Current law does not allow participation by Alascom in NECA cost pools; at most, participation should be allowed only during a transition period.
- A write-down of Alascom's interstate rate base to a competitive benchmark level, accomplished through accelerated depreciation, appears necessary.
- Matters within the jurisdiction of the Alaska Public Utilities Commission relating to a new market structure should be presented to it at the same time matters within the jurisdiction of federal regulatory authorities are presented to those authorities.

The new market structure should, of course, also be consistent with all of the Joint Board's stated policy objectives.

TABLE OF CONTENTS

SUMMARY.....i

TABLE OF CONTENTS.....iii

THE JOINT BOARD SHOULD ENUNCIATE PRINCIPLES
FOR THE RESOLUTION OF THIS DOCKET AND PROVIDE
ALL INTERESTED PARTIES AN OPPORTUNITY TO
NEGOTIATE A NEW MARKET STRUCTURE CONSISTENT
WITH THOSE PRINCIPLES2

CONCLUSION8

Before the
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_____)

**REPLY COMMENTS OF
THE STATE OF ALASKA**

On December 18, 1992, various parties submitted comments on the Memorandum of Principles, Alaska Market Structure: The State Members' Plan, released November 5, 1992 ("Memorandum of Principles"). Pursuant to the Federal-State Joint Board Public Notice of December 2, 1992, the State of Alaska ("the State" or "Alaska") hereby submits these reply comments.

**THE JOINT BOARD SHOULD ENUNCIATE PRINCIPLES
FOR THE RESOLUTION OF THIS DOCKET AND PROVIDE
ALL INTERESTED PARTIES AN OPPORTUNITY TO NEGOTIATE
A NEW MARKET STRUCTURE CONSISTENT WITH THOSE PRINCIPLES**

Resolution to the issues in this nine-year-old docket is long overdue. For the reasons set forth in its prior pleadings, the State believes that the Master Agreement, taken as a whole, is not in the public interest and should not be approved by the Joint Board or the Commission.¹ Yet, merely refusing to approve the

¹ See Comments of the State of Alaska on Various Proposals to Modify the Master Agreement (November 13, 1992); Reply Comments of the State of Alaska (May 20, 1992); Comments of
(footnote continued next page)

Master Agreement will not by itself result in a resolution of this docket.

For this reason, the State urges the Joint Board to enunciate principles for the resolution of this docket and provide all parties an opportunity to determine whether, in light of those principles, they can agree on the details of a market structure for Alaskan interstate communications. Alascom's and AT&T's comments concerning the Memorandum of Principles confirm that the market structure issues are complex; there are numerous questions that the State Members' Plan (and the State's November 13, 1992 comments) leave unanswered.² These negotiations would be aimed at resolving those questions.

The parties should be given a finite period of time established by the Joint Board (perhaps, 60 days) in which to seek to agree on the details of a market structure. If agreement can be reached in that timeframe, the agreed-upon market structure would then, of course, be presented to all relevant regulatory bodies, including the Joint Board and the Commission, for approval or revision as those bodies determine in the exercise of their jurisdiction and responsibility. If no such agreement can be reached, then the Joint Board would proceed to issue a recommended

(footnote continued from previous page)
the State of Alaska (April 20, 1992). See also State Members of the Joint Board, Memorandum of Understanding (August 4, 1992); Overland Consulting, Inc., Study of the Alascom/AT&T Master Agreement -- Briefing Paper (July 21, 1992).

² See Comments of Alascom, Inc. on the Memorandum of Principles Alaska Market Structure: The State Members' Plan at 2 (December 18, 1992).

decision in this docket based on the principles it had previously enunciated.

Negotiations including all interested parties could result in an agreement on a market structure that will maximize the public interest, be widely acceptable, put an end to this docket, and minimize the likelihood of appeals and further litigation. The State notes that this approach is consistent with steps the Commission has recently taken to broaden its use of alternative dispute resolution procedures.³

The State believes that the principles which should guide these negotiations should be taken from the Memorandum of Principles, the State's November 13, 1992 comments, and the policy objectives set forth in the Joint Board's Supplemental Order Inviting Comments.⁴

Specifically, the State believes that the Joint Board should enunciate the following as the principles to guide the resolution of this docket.⁵

1. The Master Agreement in its entirety is not in the public interest and cannot be adopted either in its present form or with the enhancements already submitted in this docket. Certain aspects of the Master Agreement, including AT&T's acquisition of

³ See 47 C.F.R. § 1.18(b), added July 21, 1992.

⁴ Supplemental Order Inviting Comments, 4 FCC Rcd. 395 (Jt. Bd., January 4, 1989) ("Supplemental Order").

⁵ The State will not reiterate here the public interest justifications for these principles and refers the reader to the Memorandum of Principles, the State's April 20, 1992 comments, its May 20, 1992 reply comments, its November 13, 1992 comments, and the authorities cited therein.

portions of the Alaska Spur and its assumption of Alascom's interstate MTS/WATS business, may be in the public interest, as the State has previously recognized.

2. Any new market structure must not create jurisdictional cost shifts. As this Joint Board has already determined, intrastate cost allocations are not inordinately low and should not be increased.⁶ Moreover, the appropriateness of existing separations procedures for Alascom's assets was recently affirmed by a sister Joint Board and the full Commission.⁷ This proceeding should focus on other aspects of the market structure issue.⁸

3. No Alaskan should be denied interexchange service. A carrier of last resort for both interstate and intrastate interexchange services must be designated. Although, to date, the

⁶ Supplemental Order at ¶ 31.

⁷ MTS and WATS Market Structure and Amendment of Part 67 (New Part 36) of the Commission's Rules, 2 FCC Rcd. 2639 (1987).

⁸ Alascom's comments that the frozen allocator used to separate the costs of Alascom's interexchange circuit equipment is no longer viable are premised on Alascom's assertion that, under either the Master Agreement or the State Members' Plan, the interstate service Alascom would be providing would be access service and not an interexchange service. Thus, Alascom reasons, it should be treated as an exchange carrier and not an interexchange carrier for separations purposes. (The frozen allocator applies only to interexchange carriers, not to exchange carriers.)

The service offered by Alascom in a post-JSA market structure, however, cannot be characterized as "access" under existing statutes and regulations. See, e.g., 47 U.S.C. § 153(r) (defining "telephone exchange service"). See also 47 C.F.R. §§ 69.2(b), (s), (bb)(2), (hh) (definitions relating to access service, interexchange service, and exchange carrier status), 69.601 (NECA membership). Local exchange boundaries are established by state regulation; in no sense is the entire state of Alaska a single local exchange.

same carrier has performed that function for both interstate and intrastate interexchange services, it may be possible that in the new market structure different carriers may perform this function.

4. Interstate service rates must be rate-integrated. As the Joint Board has recognized, rate integration is mandated by the public interest and Commission policy.⁹ It is also, in the State's view, mandated by the Communications Act.¹⁰

5. The Joint Services Arrangement may be terminated after a reasonable transition period necessary to allow a new market structure to be established without unduly disrupting the reasonable expectations of the parties and the public. The length of the transition period cannot be arbitrarily established in advance, without reference to the details of the market structure that would result at the end of the transition period.

6. TUA and Alascom should not be permitted to merge as merger might lead to jurisdictional cost shifts and could interfere with competition in interstate communications markets.

7. Participation by Alascom in the National Exchange Carrier Association ("NECA") cost pools cannot be permitted under current law as Alascom is, and will remain, an interexchange carrier.¹¹ Even if Alascom were considered an exchange carrier, participation by Alascom in NECA cost pools in the long term is reasonably

⁹ Id. at ¶ 25.

¹⁰ E.g., MTS and WATS Market Structure, 81 FCC 2d 177, 192 (1980).

¹¹ See n.8, above.

likely to have undesirable effects on competition and efficiency and thus should be limited to a transition period.

8. Steps must be taken to assure that Alascom's costs for providing interstate and intrastate services in the new market structure are at levels that allow it to charge reasonable and competitive rates. A write-down of its interstate rate base to a reasonable competitive benchmark level, compensated through accelerated depreciation expenses recovered through rates charged during a transition period, appears necessary. This approach is not unprecedented, either in telecommunications industries or others.¹²

9. Matters within the jurisdiction of the Alaska Public Utilities Commission relating to a new market structure should be presented to it at the same time matters within the jurisdiction of federal regulatory authorities are presented to those authorities.

The State continues to believe that the other aspects of its recommendations contained in its November 13, 1992 comments are in the public interest. Other aspects of the State Members' Plan may

¹² AT&T objects to the proposed write-down of Alascom's MTS/WATS rate base through accelerated depreciation on the basis that Alascom's plant to be written down "has already been paid for by AT&T's owners and customers" AT&T's Comments on the Proposal of the State Members of the Federal-State Joint Board at 6 (December 19, 1992) (emphasis in original). This statement is not accurate. The plant that remains on Alascom's books, and which would be written down under the State Members' Plan, remains on Alascom's books because it has not yet been paid for by Alascom's customers. AT&T may well have "already paid for" portions of Alascom's plant that have previously been depreciated; it has not paid for the portions of Alascom's plant that have not yet been depreciated.

also be in the public interest. Certainly, the new market structure must be consistent with all of the Joint Board's policy objectives set forth in its Supplemental Order. The State does not believe at this point, however, that these additional items need to be enunciated as principles to underlie the negotiations of interested parties.

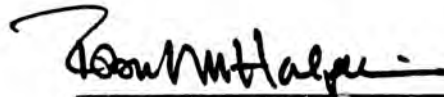
CONCLUSION

The State urges the Joint Board to begin a final resolution of this docket in the manner proposed in these reply comments.

Dated: January 15, 1993

Respectfully submitted,

THE STATE OF ALASKA



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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing "Reply Comments of The State of Alaska" was served by first-class, U.S. mail, postage prepaid, this 15th day of January, 1993 upon the parties listed on the attached Service List.

A handwritten signature in cursive script, appearing to read "Robbin R. McKeever", written over a horizontal line.

Robbin R. McKeever

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February 26, 1993

BY HAND DELIVERY

EX PARTE LETTER

Ms. Donna R. Searcy
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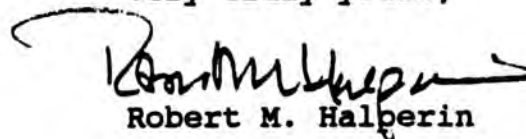
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on February 25, 1993 Robert M. Halperin, Counsel for the State of Alaska, had a telephone conversation with Commissioner Dean Joe Miller of the Idaho Public Utilities Commission. The conversation related to the State of Alaska's position as set forth in its most recent pleadings with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376.

In the event there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,


Robert M. Halperin

cc: Commissioner Dean J. Miller

bcc: Linda K. Smith
John W. Katz

3-1-93

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March 1, 1993

BY HAND DELIVERY

EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
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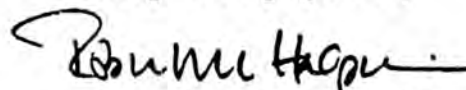
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on February 26, 1993 Robert M. Halperin, Counsel for the State of Alaska, had telephone conversations with Kathleen Abernathy of Chairman James Quello's office and Linda Oliver of Commissioner Ervin S. Duggan's office. The conversations related to the State of Alaska's position as set forth in its most recent pleadings with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376.

In the event there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,



Robert M. Halperin

cc: Kathleen Abernathy
Linda Oliver

bcc: Linda K. Smith
John W. Katz

3-5-93

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March 5, 1993

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OFFICE OF THE SECRETARY

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EX PARTE LETTER

Ms. Donna R. Searcy
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Washington, D.C. 20554

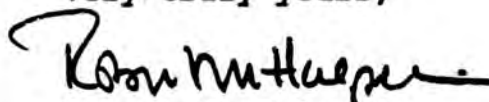
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that John W. Katz, Director, State/Federal Relations and Special Counsel to the Governor of the State of Alaska had telephone conversations on March 1 and 2, 1993 with Commissioner Susan M. Knowles of the Alaska Public Utilities Commission. The conversations related to the State of Alaska's position as set forth in its pleadings with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376.

In the event there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,


Robert M. Halperin

cc: Susan M. Knowles

bcc: Linda K. Smith
John W. Katz

6-28-93

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To the Federal-State Joint Board

COMMENTS OF
THE STATE OF ALASKA

RECEIVED
JUN 28 1993
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

THE STATE OF ALASKA

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(202) 624-2500

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June 28, 1993

TABLE OF CONTENTS

Summary.....	i
Overview.....	1
The Joint Board's Tentative Recommendation.....	3
AT&T's Consumer Benefit Plan.....	8
Conclusion.....	11

SUMMARY

The time to resolve the issues presented in this nine-year old docket is long overdue. There are now two proposals in the record: the Joint Board's Tentative Recommendation and AT&T's Consumer Benefit Plan. Both proposals would result in termination of the joint services arrangement between AT&T and Alascom. The challenge now, as in the past, is to do so without imperiling achievement and maintenance of primary public interest goals of universal service and rate integration or creating upward pressures on intrastate rates (which, as the Joint Board has previously noted, are not unduly low) through jurisdictional cost shifts. Only then could it be said that Alaskans would benefit from the transition of the Alaska interstate telecommunications market to a new era of increased competition and efficiency.

The State offers two adjustments to the Joint Board's proposal that it believes could further the public interest by minimizing jurisdictional cost shifts and by maximizing Alascom's ability to compete effectively in the future. The State also notes many of the questions it has concerning the practical impacts of the Joint Board's plan and AT&T's proposal.

The State has previously raised the questions it sets forth here with the relevant carriers and is hopeful that they will provide answers to them for the administrative record. Those answers will assist the State, the Joint Board and the Commission in determining what market structure solution will maximize the public interest.

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Washington, D.C. 20554

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COMMENTS OF
THE STATE OF ALASKA

To: The Federal-State Joint Board

The State of Alaska ("the State" or "Alaska") hereby submits these comments in response to the Tentative Recommendation and Order Inviting Comments adopted and released by the Federal-State Joint Board on May 17, 1993.

Overview

Resolution of the issues in this nine-year old docket is long overdue. The State commends the Joint Board for crafting a comprehensive solution to Alaska interstate telecommunications market structure issues.

There are two proposed solutions in the record: the Joint Board's Tentative Recommendation, and the proposal filed by the American Telephone and Telegraph Company ("AT&T") with the Federal

Communications Commission ("FCC" or "Commission") on March 31, 1993, which it calls the "Consumer Benefit Plan."

Both proposals would result in the termination of the joint services arrangement between AT&T and Alascom. The State does not object to termination of the joint services arrangement as long as the primary public interest objectives the Joint Board has previously identified -- promotion of universal service, rate integration, and the avoidance of jurisdictional cost shifts -- are advanced. Advancement of these objectives is particularly crucial for residents of rural Alaska, for whom telephone service is a vital resource. The challenge now, as in the past, is to implement a new market structure without imperiling those primary public interest objectives or otherwise creating upward pressures on intrastate rates (which, as the Joint Board has previously noted, are not unduly low). Only then could it be said that Alaskans would benefit from a new era of increased competition and efficiency.

The State has met recently with the various interexchange and local exchange carriers who have been most active in this proceeding. The State has sought input from these carriers regarding the two proposals currently before the Joint Board, has asked questions regarding how the solutions they favor would work in practice, and has probed why they believe other solutions are less desirable.

In light of these discussions, the State will raise certain questions and concerns that it has with these proposals. The State has already raised these and other questions with the

relevant carriers and is hopeful that they will provide responses in their comments. The State looks forward to receiving and analyzing those responses, and expects to be in a position to provide conclusions concerning the two proposals in its reply comments.

The Joint Board's Tentative Recommendation

The Tentative Recommendation provides a detailed resolution of the issues at hand. For example, the proposal includes a ten year transition which is offered to mitigate unanticipated service disruptions or cost or rate impacts. Termination of the joint services arrangement is intended to bring new competition and heightened efficiency to the marketplace. The new market structure created in the Tentative Recommendation would continue to require rate integrated interstate rates. Dominant carrier regulation would apply to Alascom's and AT&T's offerings of interstate MTS/WATS and Alascom's offerings of interstate private line service, and AT&T is required to provide interstate MTS/WATS on the same terms and conditions as elsewhere in the United States. These aspects of the Tentative Recommendation are intended to satisfy concerns about interstate service availability throughout Alaska. Alascom's rate base would be reduced through accelerated cost recovery, thus minimizing Alascom's ongoing capital recovery costs and allowing Alascom to be a more cost competitive carrier than it would otherwise be. In short, the detail in the Joint Board plan allows the State and others to analyze the plan and provide comments in a meaningful manner.

The State has questions concerning the Joint Board plan: (1) Is there a policy or economic need for applying the proposed accelerated cost recovery to Alascom's assets company-wide (rather than to just the interstate MTS/WATS rate base)? (2) How much of a jurisdictional cost shift is created by the Joint Board plan, particularly the change of the frozen allocator for interexchange circuit equipment found in Section 36.126(e)(3) of the Commission's rules? (3) Is the provision for geographic averaging of Alascom's rates for carrier services appropriate? (4) Is it necessary to prevent improper cost allocations to routes on which Alascom has a facilities monopoly? The concerns underlying these questions lead the State to suggest two adjustments to the Joint Board's plan.

1. **Retain the Frozen Allocator, Eliminate the Alaska Fund, and Apply Accelerated Cost Recovery Only to Alascom's Interstate MTS/WATS Assets.**

There are economic and legal implications of the proposals to increase intrastate cost allocations by changing the frozen interexchange circuit equipment allocator from approximately 86% to 75%. Alascom's implementation plan filing of June 7, 1993, presents a picture of significant increases in intrastate costs created by the change in the frozen allocator, notwithstanding the application of accelerated cost recovery to its company-wide rate base.¹ Looking at the size of the contemplated "Alaska Fund" in

¹ See Response to Request for Implementation Plan of Alascom, Inc., Exhibits E, F, G (June 7, 1993).

the years 1994 through 1996² and other forecasted increases in intrastate cost allocations, it appears that intrastate ratepayers would need to absorb over a \$10 million increase in intrastate costs. Given that there are approximately 270,000 access lines in Alaska,³ this cost shift could result in an increase of \$40 a year or more in intrastate rates.

The primary reason for changing the frozen allocator is to reduce Alascom's interstate costs. This reduction is designed to allow Alascom to compete more effectively in the interstate MTS/WATS market.⁴ That same purpose can be achieved, however, by applying the contemplated accelerated cost recovery only to Alascom's interstate MTS/WATS rate base rather than diluting its impact on Alascom's interstate rates by applying it to Alascom's company-wide rate base.

Moreover, this alternative approach would avoid potential litigation over whether the FCC (even when implementing a Joint Board Recommendation) has the authority to order accelerated cost recovery of the intrastate portion of a carrier's jointly used assets. See Louisiana Public Service Commission v. United States, 476 U.S. 355 (1976). At the least, it appears that the FCC should

² In these years, the Joint Board plan envisions that Alascom would allocate 75% of its interexchange circuit equipment costs to the interstate jurisdiction but would still continue to allocate 14% of those costs to the intrastate jurisdiction. The remaining 11% of costs would be allocated to the "Alaska Fund," a fund to be administered by the National Exchange Carrier Association and paid for by all interexchange carriers.

³ Tentative Recommendation and Order Inviting Comments at 7 (Federal-State Joint Board, May 17, 1993).

⁴ Id. at 15.

not order accelerated cost recovery of the intrastate portion of Alascom's rate base without approval of the Alaska Public Utilities Commission ("APUC").

This alternative would also avoid the necessity for the "Alaska Fund." No state-specific fund has been established to assure rate integration and universal service for other states. The creation of a state-specific fund might provide a focal point for attack by those who do not accept those fundamental policies. Such a fund should be established to further those policies in Alaska only if no other alternative exists. Here, those policies could be furthered simply by maintaining existing cost allocation rules. This solution is also more consistent with the mechanisms for achieving universal service and rate integration in the rest of the United States.

**2. Eliminate Geographic Cost Averaging
for Alascom's Interstate Carrier
Services**

The second adjustment the State suggests relates to the Joint Board's proposal that Alascom's interstate carrier services be subject to a rate averaging requirement. The Joint Board envisions Alascom providing switching and transport to other interstate carriers. Alascom would be the only carrier providing service to the most rural parts of Alaska and, therefore, all other interstate interexchange carriers would need to purchase transport and perhaps switching services from Alascom to serve those locations. Alascom would also provide transport and switching services to and from other locations in Alaska. The Joint Board, largely reflecting the concerns of General

Communication, Incorporated ("GCI"), has recommended that Alascom's transport and switching services be priced to carriers on a geographically averaged basis.

The State shares the concern that, in the absence of a geographic averaging requirement, Alascom would have the incentive to allocate more costs than are appropriate to the most rural service routes, where it has a facilities monopoly, and allocate fewer costs than are appropriate to the other service routes, where it faces competition. The problem with the geographic averaging requirement, however, is that the costs of serving the different areas of the State are not equal. Geographic averaging will force Alascom to charge other carriers more for transport and switching on higher volume routes than is required by the costs of providing those services on those routes. This pricing arrangement will likely decrease the total amount of traffic placed on Alascom's network, which would reduce its relative efficiency and place upward pressures on Alascom's rates.

AT&T, a potential carrier customer and competitor of Alascom, appears to agree with this position. In its Consumer Benefit Plan, AT&T requests only that "the rates for Alascom's services . . . be based upon the direct costs of providing them."⁵ In particular, AT&T seeks assurances that "Alascom's rates for service to the Alaska bush will be based solely upon the costs of the satellite and earth station network used to provide this

⁵ AT&T's Petition to Terminate the Joint Service Arrangement at 15 (March 21, 1993).

monopoly service";⁶ and that "the rates Alascom charges all carriers, including itself, should be the same."⁷ Concerns that Alascom's rates are too high can be addressed in the traditional and well accepted tariff review process.

The State's position that the rates Alascom charges other carriers should not be subject to a geographic averaging requirement in no way weakens or contradicts its belief that the Communications Act and fundamental national communications policy require continuation of rate integration and geographic averaging of rates charged by carriers to end users of telecommunications services.⁸

AT&T's Consumer Benefit Plan

AT&T's Consumer Benefit Plan also appears to be in the public interest, at least from a theoretical basis; however, a great deal is not known about the Consumer Benefit Plan and how it would work in practice.

⁶ Id. at 15-16.

⁷ Id. at 16.

⁸ See Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd 2873, 3133 (1989) (the Commission will suspend and investigate any tariff that deaverages rates for MTS, WATS, or 800 service); MTS and WATS Market Structure, 81 FCC 2d 177, 192 (1980); Integration of Rates and Services, Supplemental Order Inviting Comments, CC Docket 83-1376, 4 FCC Rcd 395, 398 ("[C]ontinued integration of interstate MTS and WATS rates is necessary to ensure that all Alaska residents are able to participate fully in the social, economic, and political life of our nation. . . . [A] rate structure which averages interstate toll rates for states other than Alaska, while imposing deaveraged rates for service to and from Alaska could raise questions concerning an unjust and unreasonable discrimination pursuant to Section 202 of the [Communications] Act."). See also Comments of the State of Hawaii at 6 & n. 10 (April 20, 1992).

The Consumer Benefit Plan offers the promise of both new investment and new competition in Alaska telecommunications markets with a minimum of regulatory oversight. AT&T would provide interstate MTS/WATS at rate integrated and geographically averaged rate levels and would apparently accept dominant carrier regulation of its offerings of those services to the same extent as in the rest of the nation.⁹ AT&T promises a new state-of-the-art fiber optic cable that offers the potential of new broadband services for Alaskans. AT&T also promises to enter the intrastate market, to price its intrastate services at the lower of Alascom's or GCI's current prices, and not to increase its intrastate rates except to pass through APUC-approved increases in local exchange carrier ("LEC") imposed intrastate access charges. AT&T's participation in both Alaska interstate and Alaska intrastate markets appears to eliminate, from AT&T's perspective, any need to change the frozen allocator applicable to interexchange circuit equipment. Because AT&T has been the only party challenging the existing frozen allocator, there would then be no reason to change the allocator, which was approved by a sister Joint Board and the FCC in 1986.

Significant unanswered questions concerning AT&T's plan, however, remain. The record does not contain sufficient information to determine whether AT&T's plan would result in a market structure that would make universal service achievable,

⁹ See AT&T Petition to Terminate Joint Service Arrangement at 11-12.

rate integration sustainable, and jurisdictional cost shifts avoidable in both the short and long terms.

More specifically, because Alascom is the only carrier with an obligation to bring interexchange services to any Alaskan community of 25 or more requesting service,¹⁰ any impact of AT&T's plan on Alascom's ability to satisfy that obligation must be measured. The State has asked AT&T what AT&T envisions the impact of its plan to be on Alascom's interstate and intrastate revenue requirements and Alascom's ability to satisfy those revenue requirements. (Are there, for example, hidden jurisdictional cost shifts?) The State has also asked AT&T if it would be willing to accept Alascom's service obligations, if necessary.

The State has specific concerns about service, under the AT&T plan, to those rural areas of Alaska where Alascom is now the exclusive facilities-based interexchange carrier. AT&T does not currently have a satellite that serves the northern reaches of Alaska. How would AT&T propose to serve those areas, if Alascom's existing satellite service were not available?

With respect to AT&T's proposed intrastate rate cap, does the caveat concerning flowing through APUC approved LEC access charge increases apply as well to any increases in Alascom's intrastate carrier services? It does not appear that the caveat would apply (nor should it) because Alascom is not an LEC, but AT&T's plan needs to be clarified in this respect.

¹⁰ See Tentative Recommendation and Order Inviting Comments at 10.

The State also wishes to understand what AT&T envisions its own intrastate revenue requirements to be after the expiration of its intrastate rate cap. In that regard, the State notes that significant new investment is planned in assets that would be used for both interstate and intrastate purposes. The capital and operating costs of that investment as they relate to intrastate services are subject to recovery through intrastate service rates. The State needs more information concerning what AT&T envisions those costs and rates to be.

The State is also interested in learning how AT&T would propose to interconnect with Alaskan LECs. Are there improved methods of interconnection that could maximize efficiency of telecommunications networks?

These are a few of the many questions that have already been raised by the State (and perhaps others) with AT&T. The State believes that responses to these questions should be part of the record in this proceeding. It hopes that AT&T will provide those responses in a manner that will permit the additional information to be considered both by the State in submitting reply comments and by the Joint Board and the Commission in their further deliberations. The answers to these questions may lead the State to recommend certain adjustments to the AT&T plan, just as it had suggested certain adjustments to the Joint Board proposal.

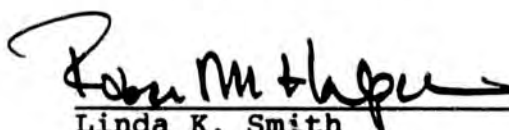
Conclusion

The State commends the Joint Board for its efforts in crafting a comprehensive response to the complex market structure issues that have, for years, defied resolution. The State has

assessed the Joint Board plan, and believes that two specific adjustments would improve that plan. The State believes that additional detail about the AT&T plan is necessary before a complete assessment of it can be made.

Respectfully submitted,

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June 28, 1993

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing "Reply Comments of The State of Alaska" was served by first-class, U.S. mail, postage prepaid, this 28th day of June, 1993 upon the parties listed on the attached Service List.

A handwritten signature in cursive script, appearing to read "Robbin R. McKeever", is written over a horizontal line.

Robbin R. McKeever

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
)
Integration of Rates and)
Services for the Provision of)
Communications by Authorized)
Common Carriers between the)
Contiguous States and Alaska,)
Hawaii, Puerto Rico and the)
Virgin Islands)
_____)

CC Docket No. 83-1376
RM 4436

To the Federal-State Joint Board

**REPLY COMMENTS OF
THE STATE OF ALASKA**

THE STATE OF ALASKA

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July 12, 1993

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

Integration of Rates and)
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Communications by Authorized)
Common Carriers between the)
Contiguous States and Alaska,)
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Virgin Islands)

CC Docket No. 83-1376
RM 4436

REPLY COMMENTS OF
THE STATE OF ALASKA

To: The Federal-State Joint Board

This proceeding has lasted over nine years. Tens of thousands of pages of comments and data have been presented and critically evaluated; meetings, presentations by parties, and inspection trips have occurred; expert consultants have been retained and their reports analyzed.

Disagreements may remain, but all agree that the issues in this docket are difficult. There is no perfect solution. If there were, it would have been found by now, given the hard work and critical analysis done by so many different people in industry and government. These issues are not likely to get any easier to resolve in the near future.

Regulatory uncertainty and delay are interfering with the orderly operation of the marketplace and delaying possible improvements in telecommunications services to Alaska. This docket should be resolved as soon as possible.

The Joint Board has requested comments on the two proposals presently before it: the Tentative Recommendation and the AT&T Consumer Benefit Plan. Both proposals have merit, but neither proposal should be recommended to the Federal Communications Commission without certain changes.

The Joint Board's Tentative Recommendation

The Joint Board's Tentative Recommendation has many attractive features. It provides for an orderly transition from the joint services arrangement to a new era of competition and efficiency. It seeks to recognize the investments Alascom has made in reliance of the joint services arrangement and provides for accelerated cost recovery of those investments in the remaining term of the joint services arrangement.

The Joint Board's proposal, however, creates jurisdictional cost shifts, placing significant upward pressures on intrastate rates. The State has long opposed such a development on behalf of its citizens. Also, the Joint Board's proposal does not seem likely to stimulate quickly the delivery of new and improved telecommunications services to Alaska.

In its June 28, 1993 comments, the State suggested that the Tentative Recommendation would be improved by two adjustments: (1) not changing the "frozen allocator" which applies to interexchange circuit equipment and applying accelerated cost recovery solely to Alascom's interstate MTS/WATS assets (thus reducing Alascom's interstate costs and removing the necessity for the Alaska Fund) and (2) removing the requirement that Alascom

geographically average rates for its carrier services.¹ The State continues to believe those adjustments would be in the public interest.

Based on its review of the other comments filed and discussions with Alaska carriers and others, the State believes that the Tentative Recommendation would be further improved if the transition period during which AT&T must place its traffic on Alascom's network were shortened. AT&T will not have the incentive to invest in new technology and deliver the new services it has offered in its proposal until it is free to handle its Alaska traffic in the manner it finds most efficient. Although a transition period regarding termination of the joint services arrangement is necessary, shortening that transition would appear useful.

The State suggests that the four year transition period following termination of the joint services arrangement (during which AT&T can decrease its placement of traffic on Alascom's network) be reduced to two years. AT&T would then be free to satisfy its requirements in Alaska through the most cost effective network arrangements possible in five years rather than seven years. Thus, Alascom would continue to carry all of AT&T's traffic for three years and a great deal of AT&T's traffic for an additional two years. Given the accelerated cost recovery, Alascom should have a cost structure that would allow it to

¹ AT&T's suggestion in this regard that a separate study area be established for Alascom's services to the Alaska Bush appears to have merit.

compete effectively to handle AT&T's traffic at that time.

AT&T's Consumer Benefit Plan

AT&T's Consumer Benefit Plan has several attractive features as well. It promises significant new investment in Alaskan telecommunications. It would not appear to create jurisdictional cost shifts to the same extent as the Joint Board's proposal. It promises reduced and capped intrastate rates. AT&T has also committed itself, on the record, to assume Alascom's rural service obligations, if necessary. AT&T's plan is far less complex than the Joint Board's proposal and involves less regulatory intervention.

The Consumer Benefit Plan, however, also has significant deficiencies. First, the AT&T plan does not provide for an orderly transition to a new market structure and it does not adequately recognize the investments Alascom has made in reliance of the joint services arrangement or provide for cost recovery of those investments.

Second, it is incomplete. AT&T has not submitted a complete and comprehensive Section 214 application to the FCC and it has not submitted any application to the Alaska Public Utilities Commission for approval of the intrastate aspects of its plan. The information AT&T has filed with the Joint Board is lacking in detail.

To cure these deficiencies, the State suggests that the Joint Board not recommend approval of AT&T's plan unless the following changes to that plan are made or conditions satisfied:

First, AT&T would have to agree to purchase transport services for its traffic from Alascom for three years. During that time, Alascom would be permitted to accelerate the cost recovery of its interstate MTS/WATS assets in an amount to be determined by the Joint Board.²

Second, AT&T would have to submit a complete Section 214 application to the FCC to supplement the application now on file no later than September 15, 1993.

Third, AT&T would have to submit a complete application to the Alaska Public Utilities Commission no later than September 15, 1993.

Fourth, approval of those applications would need to be obtained before the joint services arrangement would actually be terminated. (In this regard, it is expected that the Joint Board would recommend approval of those applications if they satisfy applicable statutory and regulatory requirements.)

Conclusion

The world in which we live is not perfect and there is no perfect solution to the issues facing the Joint Board. The difficulty of the issues presented, however, does not justify delay in resolving them. Although the State of Alaska sees merit in both proposals, it believes that the Joint Board's Tentative Recommendation and AT&T's Consumer Benefit Plan would be

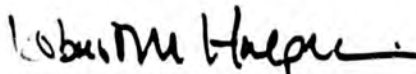
²

In this regard, the State notes that the State Members of the Joint Board have previously suggested accelerated cost recovery of \$150 million over a three year period and that Alascom has suggested that \$220 million over that period would be more appropriate. See Response to Request for Implementation Plan of Alascom, Inc. (June 7, 1993).

significantly improved by the changes and conditions suggested in
these comments.

Respectfully submitted,

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July 12, 1993

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I hereby certify that a true and correct copy of the foregoing "Reply Comments of The State of Alaska" was served by first-class, U.S. mail, postage prepaid, this 12th day of July, 1993 upon the parties listed on the attached Service List.


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(202) 624-2543

July 22, 1993

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EX PARTE LETTER

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

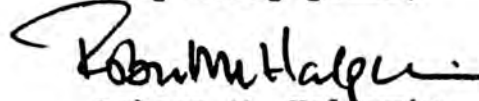
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Mr. Carton:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that Robert M. Halperin, Counsel for the State of Alaska had a telephone conversation on July 21, 1993 with Lorraine Kenyon of the Alaska Public Utilities Commission. The conversation related to the State of Alaska's position as set forth in its pleadings with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376.

In the event there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,


Robert M. Halperin

cc: Lorraine Kenyon

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ROBERT M. HALPERIN
(202) 624-2543

July 23, 1993

BY HAND DELIVERY

EX PARTE LETTER

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Mr. Carton:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that Robert M. Halperin, Counsel for the State of Alaska had a telephone conversation on July 23, 1993 with Commissioner Susan M. Knowles of the Alaska Public Utilities Commission and Commissioner Dean J. Miller of the Idaho Public Utilities Commission. The conversation related to the State of Alaska's position as set forth in its pleadings with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376.

In the event there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,


Robert M. Halperin

cc: Commissioner Susan M. Knowles
Commissioner Dean J. Miller

7-27-93

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ROBERT M. HALPERIN
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July 27, 1993

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EX PARTE LETTER

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
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Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

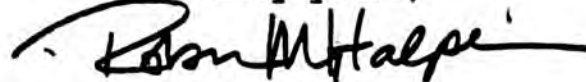
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Mr. Caton:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 26, 1993, John W. Katz, Director, State/Federal Relations and Special Counsel to the Governor of the State of Alaska had a telephone conversation with Commissioner Susan M. Knowles of the Alaska Public Utilities Commission. The conversation related to the State of Alaska's position as set forth in its pleadings with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376.

In the event there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,



Robert M. Halperin

cc: Commissioner Susan M. Knowles

bcc: Linda K. Smith
John W. Katz