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

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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	:	RM 4436
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

OPPOSITION OF THE STATE OF ALASKA TO THE PETITION FOR EXPEDITED RECONSIDERATION OF THE ALASCOM ORDER FILED BY THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY

The State of Alaska and the Alaska Public Utilities Commission (collectively referred to as Alaska or the State) hereby oppose the reconsideration request ("Petition for Expedited Reconsideration of the Alascom Order") filed by the American Telephone and Telegraph Company (AT&T) on December 21, 1984.*/

*/ 50 Fed. Reg. 2616 (January 17, 1985); Public Notice 1493 (January 11, 1985).

On December 11, 1984, the Commission released a Memorandum Opinion and Order, FCC 84-616 (Structural Order) deferring the final step of rate integration "pending resolution of the issues in this Docket" and directing AT&T to pay Alascom $1.25 million per month "until the Commission issues a final decision ..." Structural Order at ¶ 4. The Commission found that the public interest is best served at this time by a continuation of the supplemental payment together with deferral of the last step of rate integration pending resolution of the issues in this docket, that is, until after a Joint Board makes recommendations with regard to the Commission's rate integration and competition policies and a permanent support mechanism for Alaskan telecommunications, and these recommendations are considered by the Commission. AT&T has provided no persuasive reason why the Commission should change that decision. Accordingly, reconsideration is unnecessary and unwarranted and the State respectfully requests the Commission deny AT&T's reconsideration request.

The State requests that the Commission act promptly to implement the steps necessary to resolve the issues in this docket, and to eliminate uncertainty. To these ends, the State asks that the Commission:

(1) Expeditiously convene a Joint Board proceeding to consider the issues; and

(2) Make clear that the Commission intends promptly to implement the last step of rate integration at whatever time the supplemental payment is terminated.

Respectfully submitted,

STATE OF ALASKA
Norman C. Gorsuch
Attorney General

ALASKA PUBLIC UTILITIES COMMISSION
Carolyn S. Guess
Chair

By: ______________________
Victor E. Ferrall, Jr.

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February 1, 1985

CERTIFICATE OF SERVICE

I, Karen Blair, hereby certify that on this 1st day of February, 1985, I sent true copies of the attached Opposition of the State of Alaska to the Petition for Reconsideration of the Alascom Order filed by the American Telephone and Telegraph Company, by first-class mail, postage prepaid, to the following:

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Before the
FEDERAL COMMUNICATIONS COMMISSION
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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

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Office of the Secretary

COMMENTS OF THE STATE OF ALASKA
AND THE APUC ON THE "SUPPLEMENT TO MOTION
FOR A STAY OF THE ORDER GRANTING A TRANSITIONAL
SUPPLEMENT TO ALASCOM, INC., PENDING JUDICIAL REVIEW"
FILED BY THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY

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FEDERAL COMMUNICATIONS COMMISSION
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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

COMMENTS OF THE STATE OF ALASKA AND THE APUC ON THE "SUPPLEMENT TO MOTION FOR A STAY OF THE ORDER GRANTING A TRANSITIONAL SUPPLEMENT TO ALASCOM, INC., PENDING JUDICIAL REVIEW" FILED BY THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY

The State of Alaska and the Alaska Public Utilities Commission (collectively referred to as Alaska or the State), by their attorneys, hereby comment on the "Supplement to Motion for a Stay of the Order Granting a Transitional Supplement to Alascom, Inc., Pending Judicial Review" (Supplement) filed by the American Telephone and Telegraph Company (AT&T).[1] AT&T's Supplement, filed on

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[1] AT&T notes that its Supplement "is filed in further support of" its December 21, 1984 Motion for Stay of the Commission's December 11, 1984 Order (FCC 84-616) (the Structural Order) (Supplement at 1). In that Order, the Commission said (at ¶ 4) that "the public interest requires extension of a supplemental payment to Alascom and . . . the deferral of the final step of rate integration for Alaska until a Joint Board . . . issues a recommendation and the Commission issues a final decision." In light of the facts that AT&T is reargu-
(Footnote continued)

February 7, 1985, renews the attack on the Commission's Structural Order raised in AT&T's Motion for Stay and in its Petition for Expedited Reconsideration (Petition).[2]

In its Supplement, the "primary purpose" of which AT&T says is to bring to the Commission's attention an order of the Court of Appeals in a "companion case" (Supplement at 1), AT&T nonetheless renews and embellishes (Supplement at 4-5), its challenge to the Commission's Structural Order, in which the Commission ordered continuation of the supplemental payment and deferral of the last step of rate integration, to preserve the status quo pending final resolution of the issues in this Docket. Accordingly, the State believes that comments by it with regard to this requirement and AT&T's renewed challenge are appropriate and necessary.

AT&T's Supplement, its Motion for Stay and its Petition for Expedited Reconsideration all focus on the supplemental payment, ignoring deferral of the last step of rate integration and the relationship of the one to the other. AT&T's latest request, for the Commission to order supplemental payments to be placed in

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[1] (continued)
ing and adding to its stay motion and renewing the attack on the Commission's Structural Order made in its Petition for Expedited Reconsideration the State is responding to AT&T's Supplement, and asks that, if such a request is necessary, its comments be accepted (see Section 1.45(c) of the Commission's Rules). Also for these reasons, the State believes that, if necessary, good cause for acceptance of these comments has been shown. (See Section 1.3 of the Commission's Rules.)

[2] AT&T has also sought judicial review of the Commission's Structural Order. AT&T v. FCC and U.S.A., No. 84-1606 (D.C. Cir., filed December 14, 1984).

escrow, or for Alascom, Inc. to enter into a binding commitment to repay supplemental payments, similarly ignores deferral of the last step of rate integration and the relationship of the supplemental payments to it. Termination of any supplemental payment is to occur only on institution of the last step of rate integration. Accordingly, were the Commission to accomodate AT&T's escrow/binding commitment strategy, it should, consistent with its past Orders, require AT&T to return to ratepayers the funds it received (as a result of deferral of rate integration), starting from the time any such escrow/binding commitment became effective. In short, should the supplemental payments be terminated retroactively, so too should the last step of rate integration be instituted retroactively. In addition, AT&T's request should not be permited to undo the Commission's Structural Order, and the supplemental payments should be continued until such time as there is full rate integration.

I. SUMMARY

AT&T has challenged the Structural Order in three main respects. (1) It claims that the Structural Order exceeds the Commission's authority. As the State shows, the Order preserves the status quo on an interim basis and therefore is well within the Commission's authority to grant interim relief, MCI Telecommunications Corp. v. FCC, No. 82-1237 (D.C. Cir. December 18, 1984). (2) AT&T contends the Commission could not consider any possible intrastate impact of its actions. There is no such prohibition on Commission recognition of the full ramifications of its actions, and indeed the Commission must consider the effect of its actions on universal service. See NARUC v. FCC, 737 F.2d 1095, 1108 & n.6 (D.C. Cir. 1984) (petitions for certiorari pending). (3) AT&T argues that the Commission's decision was procedurally improper. This contention erroneously assumes that the Commission prescribed rates and abrogated inter-carrier agreements, and ignores the record that has been developed over the two year course of this proceeding. The Structural Order should accordingly be reaffirmed.

II. BACKGROUND

On April 11, 1983, the State submitted the Petition for Rulemaking in response to which this proceeding was instituted. After rounds of comments, the Commission released a Notice of Inquiry, in which, among other things, the Commission noted the importance to rate integration of settlements and of supplemental payments (FCC 83-606 at ¶¶ 9, 13). Comments were submitted, and in its comments, the State noted that it strongly recommended that "the Commission not change its basic rate integration policy or mechanism" which at that time included Commission-approved supplemental payments. (Comments at 27.)

In its May 10, 1984 Reply Comments, the State urged that "[p]ending final resolution, the Commission must order the continuance of the existing support mechanism for rate integration, including contractual payments between AT&T and Alascom, to maintain the status quo in service availability and to avoid harmful public consequences." (Reply Comments at 13.) (See also Reply

Comments at 17, where the State suggested the Commission "Order AT&T, on an interim basis, to extend the current settlement arrangements with its partner carriers as necessary to continue rate integration without causing intrastate rate increases, pending a final determination in this proceeding" and specifically cited the AT&T payments to Alascom, due to expire at the end of 1984.) The State's request that the supplemental be continued was also reiterated in its September 4, 1984 Comments. As this brief recitation indicates, AT&T's statements to the contrary notwithstanding, the relationship of rate integration and settlements, including supplemental payments, and the need to preserve the status quo pending resolution of the issues raised in this Docket and to do so by extending the supplemental, were repeatedly raised in this Docket, and it was appropriate, reasonable and within the Commission's authority to issue an Order which addresses these issues.[1]

III. THE STRUCTURAL ORDER IS WITHIN THE COMMISSION'S BROAD AUTHORITY TO MAINTAIN THE STATUS QUO AND TO FASHION INTERIM RELIEF

The Commission held that "the public interest requires the extension of a supplemental payment . . . and deferral of the final step of rate integration . . .," ordered that "the final

[1] AT&T's contentions that it "was not afforded due process" (Supplement at 5; Petition at 8) and that it did not have an opportunity to address the question of extension of the supplemental payments are simply wrong. Not only did AT&T have adequate and repeated opportunities to address this matter, but the State believes there is no question that it had the resources to do so had it wished.

step of rate integration . . . is deferred pending resolution of the issues in this Docket" and ordered AT&T to pay Alascom a supplemental payment "until the Commission issues a final decision in this docket." (Structural Order at ¶¶ 4, 8, 9.) The Commission said: "An extension of the supplemental payment and a deferral of rate integration maintains the status quo while the Commission resolves the issues in this docket." (Id. at ¶ 6.) Contrary to AT&T's assertions (Supplement at 2, 4; Petition at 11-18), this interim relief, which preserves the status quo pending a Joint Board recommendation and final Commission action (Structural Order at ¶¶ 4, 6), is well within the Commission's authority.

The Court of Appeals for the District of Columbia Circuit recently confirmed the Commission's authority to craft interim relief, holding that "[s]ubstantial deference must be accorded an agency when it acts to maintain the status quo so that the objectives of a pending rulemaking proceeding will not be frustrated. What needs to be shown to uphold the FCC is that 'existing, possibly inadequate rules' had to be frozen to avoid 'compounding present difficulties.'" MCI Telecommunications Corp. v. FCC, No. 82-1237, slip op. at 12, 13 (D.C. Cir. December 18, 1984); see also MCI Telecommunications Corp. v. FCC, 712 F.2d 517, 535-36 (D.C. Cir. 1983) (upholding the Commission's decision to extend the ENFIA Agreement: the Commission "affirmatively decided to continue in effect a 'good' interim solution rather than to undermine the inquiry designed to establish a more 'perfect' rate structure"); Lincoln Telephone and Telegraph Co. v. FCC, 659 F.2d 1092, 1107-08 (D.C. Cir. 1981) (upholding Commission authority under Section 4(i) of the Communications Act to establish an "interim billing and collection arrangement").

In starting this proceeding, the Commission said ". . . we begin a rulemaking proceeding to evaluate the rate integration policy and associated settlement arrangements in the light of more recent developments." (Notice at ¶ 13.) It also said its focus was on ". . . adjustments which may be necessary to reconcile" its competition and rate integration policies. (Id. at ¶ 14.) In its Structural Order, the Commission noted it needed more time to resolve these issues than the January 1, 1985 date on which rate integration and termination of the supplemental would go into effect. (Id. at ¶ 14.) Accordingly, the Commission said it would defer the former and continue the latter. It said it was acting "to ensure that the public benefits achieved through the agreement, which formed the basis for [the] decision not to order full rate integration, are maintained until this proceeding is completed." (Id. at ¶ 5.)[1/] This action, and the Commission's rationale for it, meet the MCI test. The Commission acted to ensure that present inadequacies in its requirements (which led to initiation of the proceeding) did not compound present difficulties in reconciling its competition and rate integration policies,

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[1/] The Commission also identified events (including impacts on rates) that "could result" if the "transitional supplement" were terminated prior to resolution of the issues in the Docket (Structural Order at ¶ 4). As the court noted in MCI, the Commission can consider the "ability of the industry to adjust financially to changing policies" (Slip op. at 14).

or in making necessary adjustments. This action is also consistent with Lincoln and the MCI ENFIA decisions.[5]

The Commission's authority with respect to the Structural Order is reinforced by the historical context in which the supplemental and deferral of rate integration arose. In 1980, after a lengthy Joint Board proceeding,[6] Alascom and AT&T voluntarily entered an Agreement that recommended deferral of full implementation of rate integration and an "interim settlement arrangement" in the form of uniform cost-based settlements and a transitional supplement, in conjunction with having the separations manual go into effect without modifications with respect to Alaska. The Joint Board considered the Agreement, including the transitional supplement, and recommended that the Commission approve it. Integration of Rates and Services, 87 F.C.C.2d 20 (1981). The Commission considered the Joint Board's recommendations and expressly found that "rate modifications consistent with the agreements will diminish the disparity of rates between mainland and offshore points," and held that the transitional supplement formula was a "reasonable phased-in approach to final rate integration." Id. at 28.

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[5] **See also** Memorandum Opinion and Order, CC Docket 83-1145 (FCC 84-106; released March 28, 1984) at p. 13 (¶ 17) (interim ENFIA arrangements kept in effect to prevent any lapse in service; these arrangements, like the supplemental, were also inter-carrier contracts between AT&T and other carriers).

[6] Docket No. 21263, commenced by Integration of Rates and Services, 64 F.C.C.2d 1033 (1977). The Joint Board was charged with making recommendations "for the purposes of establishing the separations procedure[s] applicable to Hawaii and Alaska." Id.

The Commission's extension of the supplemental in the Structural Order continues the approach to rate integration that the Joint Board and the Commission approved four years ago. As noted above, the Structural Order was expressly designed "to ensure that the public benefits achieved through the agreement, which formed the basis for our decision not to order full rate integration in 1981, are maintained until this proceeding is completed." Id. at ¶ 5. In view of these facts, extension of the supplemental does not, as AT&T claims (Petition at 11-15), require new action by the Joint Board. Nor does continuation of the supplemental effect an alteration in separations levels, separations procedures, or the separations manual, or increase the level of support to Alaska. Therefore there is no need for further Joint Board action in these respects.

IV. THE COMMISSION'S CONSIDERATION OF THE IMPACT OF ITS ACTIONS WAS PROPER

AT&T attacks the Structural Order because the Commission noted (Structural Order at ¶ 4) that its actions could have an intrastate impact. (Petition at 12-13.) This recognition of facts the State has brought to the Commission's attention since the inception of this proceeding was not improper. As the State said in asking the Commission to open a proceeding:

> Because the off-shore areas typically have both high cost exchanges and high cost inter-exchange facilities, rate integration cannot be achieved or maintained without some form of modified, interstate rate averaging or other substantial support for both types of facilities costs.

Petition for Rulemaking, April 11, 1983, at 4. In its Reply Comments, the State explained that:

> . . . if new rate integration support results in a reduction in interstate settlements, an increase in intrastate rates may be required to compensate for the reduced interstate contribution. Alaskan intrastate toll rates are already about 65% higher than interstate rates,10/ the greatest disparity in the nation. A significant increase in intrastate rates is certain to depress demand for toll services. The resultant decline in toll revenues will raise costs for both interstate and intrastate services.11/
>
> * * *
>
> 11/ Commonly used toll plant has an essentially fixed revenue requirement. If the volume of toll calls, whether interstate or intrastate declines, the result will be decreased revenues which will fail to meet the total revenue requirement upon which the rates are predicated. If intrastate calling declines in proportion to interstate calling, the result will be an increased interstate revenue requirement without increased revenues.
>
> * * *
>
> . . . the Alaska toll network, as pointed out in the State's earlier comments, has not achieved the level of reliability and sophistication available in other states. The network needs considerable improvement.12/ Revenues generated from toll services, both interstate and intrastate, cannot support even this rudimentary toll network, much less contribute to the sorely needed improvements. Therefore, without federal support, this toll network, a vital part of the national network, cannot be upgraded to meet national standards.
>
> * * *
>
> First, without supplemental support, interstate rate integration can be achieved only at the expense of higher intrastate rates, with likely adverse impact on both interstate and intrastate services. Second, the toll network in Alaska requires significant further

> investment to improve its efficiency and reliability so as to bring it up to national standards.[1]

Reply Comments, May 10, 1984, at 10-11 & n.11, 15 (footnotes 10 and 12 omitted).

The State has recently explained that:

> If AT&T is allowed, by its stay request, to sweep aside this important interim step [the Structural Order], it is the people of Alaska and of the entire Nation who will be injured. They will ultimately bear the cost of termination of the supplement before a permanent rate support mechanism is in place and the burden of resulting rate and service disruptions.

Opposition, December 26, 1984, at 4.

The Commission's Structural Order responds to and recognizes these facts. This recognition is appropriate and consistent with the Commission's universal service mandate. As the D.C. Court of Appeals noted, "our case law recognizes the prominence of this universal service objective." NARUC v. FCC, 737 F.2d 1095, 1108 (D.C. Cir. 1984) (petitions for certiorari pending). The Commission is not barred from recognition and consideration of intrastate (as well as interstate) effects of its decisions. See NARUC, 737 F.2d at 1108 n.6 ("MCI contends that the FCC has no responsibility to promote universal service because 'the Commission has no statutory responsibility for local communications,' and therefore 'it would be unlawful for it to promulgate a policy designed to . . . benefit local communications.' Brief for

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[1] Cf. Virginia State Corporation Commission v. FCC, 737 F.2d 388 (4th Cir. 1984), in which the Commission prescribed nationwide depreciation procedures in part to ensure nationwide national network standards.

Intervenor MCI Telecommunications Corp. at 19 n.20. We reject MCI's argument. Congress directed that, 'so far as possible, . . . all people of the United States' are to have adequate telephone facilities at reasonable prices"); see also MCI v. FCC, No. 82-1237, slip op. at 12-15 (upholding Commission's decision to freeze SPF on an interim basis).[8/]

V. THE STRUCTURAL ORDER IS PROCEDURALLY SOUND

AT&T's procedural attacks on the Commission's Structural Order are flawed. Its claims that the Commission prescribed rates and improperly abrogated an intercarrier agreement without complying with the procedural requirements of Sections 201(a) and 205 (Petition at 15-18, 18-20) proceed from the erroneous contentions that the Commission prescribed rates, was required to engage in hearings before ordering this emergency interim relief, or was arbitrary and its decision unsupported by record evidence. As the recent MCI case holds, the Commission has broad authority to preserve the status quo on an interim basis. MCI v. FCC, No. 82-1237, slip op. at 12-13. The Structural Order is a means of preventing harm to the public interest pending resolution of this Docket. It does not prescribe rates. It does not abrogate intercarrier agreements. Consequently, the Commission was not required to find existing arrangements unlawful before promulgating its

---

8/ For the reasons discussed above, AT&T's subsidiary contentions that the Commission's decision "raises serious Constitutional issues" and imposes a tax (Petition at 15 n.*) are erroneous.

Order. "[W]hile the FCC cannot continue in effect charges -- established by tariff or by contract -- it has determined to be unlawful, rates not yet found to be either just, reasonable and nondiscriminatory or unjust, unreasonable, or discriminatory 'can avoid the stigma of unlawfulness,' at least during a reasonable interim period in which the FCC is attempting to establish a more permanent rate structure." MCI v. FCC, 712 F.2d at 535. Moreover, AT&T's narrow reading of Section 4(i) of the Act (Petition at 21) is belied by precedent describing the scope of that section. See Lincoln Telephone and Telegraph Co., 659 F.2d at 1107-08. AT&T's argument that the Structural Order is arbitrary and capricious (Petition at 22-24) also runs counter to precedent. The Commission's informed decision to preserve the status quo pending a final determination in this Docket is an appropriate exercise of its authority to act in the public interest, MCI, No. 82-1237, slip op. at 12, 13, and one on which there was, over the almost two year course of this proceeding, sufficient record evidence.

CONCLUSION

For the foregoing reasons, AT&T's attacks on the Structural Order in its Supplement and Petition must be rejected, AT&T's

Motion for Stay and its Petition for Expedited Reconsideration denied, and the Commission's Structural Order reaffirmed.

Respectfully submitted,

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I, Karen Blair, hereby certify that on this 15th day of February, 1985, I sent true copies of the attached "Comments of the State of Alaska and the APUC on the 'Supplement to Motion for a Stay of the Order Granting a Transitional Supplement to Alascom, Inc., Pending Judicial Review'" filed by the American Telephone and Telegraph Company by first class mail, postage pre-paid, to the following:

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FILE COPY

Rate int. mngs

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washi gton, D.C. 20554

In the Matter of	)	
	)	
Integration of Rates and Services	)	
for the Provision of Communications	)	RM 4436
by Authorized Common Carriers	)	CC Docket No. 83-1376
Between the Contiguous States and	)	
Alaska, Hawaii, Puerto Rico, and	)	
the Virgin Islands	)	

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APR 5 1985

FCC
Office of the Secretary

To: The Commission

COMMENTS OF THE STATE OF ALASKA
AND THE ALASKA PUBLIC
UTILITIES COMMISSION ON THE
"JOINT MOTION OF THE AMERICAN
TELEPHONE AND TELEGRAPH COMPANY AND
GENERAL COMMUNICATION, INCORPORATED"

The State of Alaska and the Alaska Public Utilities Commission (collectively referred to as "Alaska" or "the State"), by their attorneys, hereby comment on the "Joint Motion of the American Telephone and Telegraph Company [AT&T] and General Communication, incorporated [GCI]" (Joint Motion) filed with the Commission on March 20, 1985, and the Settlement Agreement between AT&T and GCI, filed with the Commission on March 26, 1985[1/] pursuant to which the Joint Motion was filed.

1/ The Commission, by Order released March 29, 1985, set April 5, 1985 as the date for filing comments with respect to these submissions. The service list associated with filing of the Settlement Agreement shows, however, that not all listed persons were hand-served with a copy of the filing. See Sections 1.4(g) and 1.45 of the Commission's Rules.

The State is not now taking a position either in support of or in opposition to the proposed AT&T/GCI arrangements. The AT&T/GCI Joint Motion, their Carrier Lease Agreement, their Settlement Agreement and the related pleadings they have filed in the Court of Appeals for the District of Columbia Circuit (in Dockets 84-1605 and 84-1606) and in the Federal District Court for the Western District of Washington (in Case No. 84-523)(in Seattle) raise, however, complex and important public interest questions. The information needed by the Commission to answer these questions is presently not available in the existing administrative record. The answers are of vital concern to users and ratepayers. The State urges, therefore, that the Commission require that the needed information be provided to it and to the parties, and that the parties be given an opportunity to comment on it, before the Commission decides whether to approve the proposed AT&T/GCI arrangements.

The State's present concerns relate directly to its consistent position, repeatedly articulated in this and related FCC proceedings. It is of the greatest importance to all Alaskans that affordable, universal telephone service be available to them. The institution of full and permanent rate integration, the preservation of supplemental payments until that goal is achieved, and the maintenance of other necessary cost support mechanisms lie at the heart of achieving this goal.

The adjectives "affordable" and "universal" apply to intra, as well as interstate service. While the Commission does not regulate intrastate communications, it cannot blind itself to the impact its actions may have on intrastate rates and service.

Alaska supports competition and the potential for economic efficiency and innovation it holds out. The State bears in mind, however, that competition is a means and not an end. It would ill serve the public interest to pursue claimed competitive advantages at the expense of affordable universal service or in such a way as to compromise the support mechanism and rate integration. The State has made clear that it favors pro-competition policies, not those which benefit only one or a select group of individual competitors.

Generally, the State supports the private resolution of disputes between carriers. Clearly, however, the AT&T/GCI Settlement Agreement will have both immediate and long-run impacts on the public interest concerns and objectives outlined above. This is particularly true since key portions of the Carrier Lease and Settlement Agreements will continue in effect well beyond the present interim period, that is, beyond Commission final resolution of the underlying public interest issues in this proceeding. The two Agreements, therefore, have the necessary effect of prejudging,2/ to some presently undeterminable extent, the Commission's final decision, as well as any Joint Board deliberations which

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2/ Cf. FCC 84-512 at ¶ 18 (the GCI Order).

precede it.[3/] This fact makes it all the more important that the Commission require the production of specific and detailed facts sufficient to permit informed assessment of the Agreements' total impact on telephone service in Alaska.

The State urges that the Commission require the parties to provide specific information sufficient to permit evaluation of the impact of the full complex of proposed arrangements on:

1. The "major, longstanding Commission policy objective[]" of rate integration;.[4/]
2. Existing[5/] settlement arrangements;[6/]
3. Interstate rates (both to and from the State);

3/ The State reiterates and renews its request that initiation of the contemplated Joint Board proceeding be expedited.

4/ Integration of Rates and Services, 87 F.C.C.2d 25, 28 (1981). The Commission has noted "the public benefits of full rate integration . . . ." FCC 84-616 (the Structural Order) at 5. With regard to "interim" relief, the Commission has said: "Any such relief would have to be structured to have the least possible impact on the competitive environment and should be consistent with long-run options." Notice of Inquiry, 96 F.C.C.2d 567, 573 n.6 (1984).

5/ It is important to note that the proposed arrangements expressly do not contemplate or require termination of supplemental payments. See Carrier Lease Agreement at ~~1, 2~~ 2; Settlement Agreement at 7; Joint Motion at ~~6~~ 2.

6/ This rulemaking was begun because the Commission concluded ". . . the public interest will be served if we begin a rulemaking proceeding to evaluate the rate integration policy and associated settlement arrangements in the light of more recent developments." Notice of Inquiry, 96 F.C.C.2d at 572-73.

4. Intrastate rates;[7/]

5. Competition,[8/] including,

   a. The ability of carriers other than AT&T, GCI and Alascom to enter both interstate and intrastate markets, and to compete in them;[9/] and

   b. the availability of the proposed arrangements to other carriers;

6. Alaska exchange carriers, including the availability and amount of support payments made pursuant to the Commission's present High Cost Fund,[10/] and of other access arrangements and payments; and

---

7/ Cf. GCI Order, FCC 84-512 at ¶ 20. The Commission said it thought ". . . affording this interim relief for a short period will not have adverse effects on Alaskan ratepayers . . ." and noted that its related Structural Order "should serve to offset any potential detrimental impact on intrastate ratepayers in particular." See also Structural Order, FCC 84-616 at ¶ 4, where the Commission recognized the undesirability of "churning of intrastate rates" and the inequity of "plac[ing] at risk the intrastate communications that are essential to many subscribers in the remote areas of Alaska." As the State noted in its February 1985 Comments (at 9-12), the Commission may recognize that its actions could have an intrastate impact.

8/ In the Notice of Inquiry, 96 F.C.C.2d at 573, the Commission said: "The focus of our disucssion is on the potential long-run implications of maintaining our policies favoring both competition and rate integration, and on adjustments which may be necessary to reconcile these policies."

9/ See GCI Order, FCC 84-512 at n. 22 (". . . competition in the Alaskan interstate market is an important objective."). See also nn. 4 and 8, supra.

10/ Decision and Order, CC Docket Nos. 78-72 and 80-286, FCC 84-637, released December 28, 1984.

7. Ultimately, affordable, universal service.[11/]

In getting this information, the Commission will want to determine with precision the extent to which the private benefits created by the proposed arrangements will be passed on to Alaskan and other ratepayers.[12/] It will also need to assess the impact of the proposed arrangements on the full range of interim procedures adopted by the Commission.[13/]

Finally, the State is troubled by the fact that the May 1 deadline privately agreed to by AT&T and GCI does not afford the Commission time to get the needed facts to develop the factual record necessary to assess adequately the significant public interest concerns raised in this proceeding, give interested persons a fair opportunity to comment on them, and then make a reasoned decision based on the facts and comments. The State asks the Commission

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11/ Universal service is a fundamental Commission goal and policy. MTS & WATS Market Structure, FCC 83-356 at ¶ 8 (released August 22, 1983), affirmed in part, remanded in part, National Ass'n of Regulatory Utility Commissioners v. FCC, No. 83-1225 (D.C. Cir. June 12, 1984). Notice, CC Docket No. 78-72, Phase IV, FCC 83-254, released June 8, 1983; MTS & WATS Market Structure, 93 F.C.C.2d 241, 267 (1983), affirmed in part, remanded in part, National Ass'n of Regulatory Utility Commissioners v. FCC, No. 83-1225 (D.C. Cir. June 12, 1984).

12/ See nn. 4 and 7, supra and cf. GCI Order, FCC 84-512 at ¶ 5 (" . . . the Commission will be able to prevent undue enrichment of GCI's stockholders . . . .") and ¶ 22 (reporting requirements established "[t]o ensure . . . that the relief . . . does not create undue profits for GCI's stockholders at the expense of the ratepayers of AT&T and its concurring carriers, or GCI's ratepayers . . . .").

13/ Such interim procedures would recognize that benefits Alaskans and others currently receive as a result of existing Commission policies are not to be reduced or impaired. For example, the Commission has previously noted the importance of reporting requirements and continuing scrutiny in any "interim" period. See n. 12, supra.

to urge AT&T and GCI to accede to a reasonable time schedule that would accomodate sufficient analysis of the public interest issues in this proceeding. Expedition, however admirable, must give way to determination of the public interest. The public interest issues affected by the proposed GCI and AT&T arrangements require that the Commission obtain sufficient specific information to permit evaluation of the impact of these arrangements.

Respectfully submitted,

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ALASKA PUBLIC UTILITIES COMMISSION
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Its Attorneys

April 5, 1985

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I, Jacquelyn Lyles, hereby certify that on this 5th day of April, 1985, I sent true copies of the attached "Comments of the State of Alaska and the Alaska Public Utilities Commission on the 'Joint Motion of the American Telephone and Telegraph Company and General Communication, Incorporated'" by first-class mail, postage prepaid to the following:

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9-18-86

FILE

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 Commission

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SEP 18 1986

FCC
Office of the Secretary

COMMENTS OF THE STATE OF ALASKA ON
EMERGENCY REQUEST FOR IMMEDIATE RATE INTEGRATION

The State of Alaska (Alaska or the State), by its attorneys, hereby submits its comments on the "Emergency Request for Immediate Rate Integration" (Request) of Alascom, Inc. (Alascom), filed September 5, 1986. Alascom's request addresses immediate implementation of the final step of rate integration and the transitional supplement of $15 million per year it presently receives from AT&T. (Request at 1, 15.)

Elimination of the supplement at this time would be neither justified nor appropriate. Alascom has not requested termination of the supplement, but only, in one sentence, said it would "not oppose" ending the supplement. (Request at 15.) An agreement between AT&T and GCI states that, until this proceeding is concluded, they "will not oppose continuation of the transitional supplement in accordance with the terms of the Alascom Order"1/

1/ AT&T-GCI Settlement Agreement, filed March 25, 1985, at ¶B.

(which set the amount of the supplement). Elimination of the supplement would (1) contradict the Commission's previous determination that the supplement is tied to the separations and cost support issues in this proceeding, (2) be inconsistent with the Commission's decision to refer the cost support and other issues in this proceeding to the Federal-State Joint Board, and (3) threaten the Commission's goal of promoting universal, affordable telecommunications service.

The supplement has been and continues to be integral to proper resolution of the overall separations and cost support issues regarding Alaska. In the previous Alaska rate integration proceeding, the Commission approved an agreement assembling a package of interrelated mechanisms. In addition to deferral of rate integration, the package included a provision that "settlements will consist of a uniform cost-based portion calculated according to the existing Separations Manual plus a so-called transitional supplement."[2/] While more recently the parties and the Commission have focused on the supplement and rate integration, the supplement has been part of the settlement and cost support mechanism.[3/] To eliminate that supplement now would remove one of the legs on which cost support for Alaska stands,

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2/ Integration of Rates and Services, 87 F.C.C.2d 25, 26 (1981).

3/ Id., see also Integration of Rates and Services, 87 F.C.C.2d 20, 21 (1981). AT&T, in discussing creation of the supplement as part of the Commission approved agreement said, "Although the Agreement called for the parties to urge the Commission to institute full rate integration as of that date [January 1, 1985], the payment of supplements was set independently, and was not made contingent in the Agreement on whether full rate integration occurred before or after the same date." AT&T Petition for Expedited Reconsideration of the Alascom Order, filed Dec. 21, 1984 at 4.

disrupting in a piecemeal manner the framework previously constructed by the Commission, without replacing it with the new framework this proceeding was convened to establish.

In its prior pleadings, the State has emphasized the critical importance of continuing the supplemental cost support.[4] Alaska agrees with the Commission that loss of the supplement could threaten achievement of universal, affordable telephone service in the State, and that as stated by the Commission:

> The churning of intrastate rates that could result from the termination of the transitional supplement amount prior to the development of a resolution of the issues in this docket is a circumstance that this Commission wishes to avoid. The remote communities in Alaska rely on telecommunications for much of their contact with others. The costs of providing this service to these points is significantly higher than that for other locations, given the low population density, the remoteness of many of the communities, and the fixed costs associated with satellite transmission. While the support mechanism and support amount remain undecided, it appears inequitable to place at risk the intrastate communications that are essential to many subscribers in the remote areas of Alaska.[5]

The Commission concluded that the supplement must remain in place until the overall issue of cost support could be addressed by the Joint Board and the Commission issues a final decision with respect to a Joint Board recommendation. Id.

The Commission has subsequently reaffirmed its decision to continue the supplement until this proceeding is concluded. In response to a local exchange carrier's statement that the

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4/ See, e.g., Comments of State of Alaska, filed Mar. 21, 1984, at 5.

5/ Memorandum Opinion and Order, Integration of Rates and Services, FCC 84-616 (released Dec. 11, 1984) at ¶4.

supplement keeps a downward pressure on intrastate rates, it said "We have addressed this concern by providing in the Alascom Order for a continuation of the supplemental payment pending resolution of the rulemaking proceeding."[6/] Continuation of the supplement, the Commission said, "will serve to mitigate any adverse effects on intrastate separations allocations during the pendency of the rulemaking proceeding." Id.[7/] Indeed, Alascom two months ago told the Joint Board that an "obvious source" for making up the loss of the supplement "would be in the form of an intrastate rate increase."[8/]

The Commission has now referred issues relating to the amount of assistance necessary to support telecommunications service for Alaska to the Joint Board.[9/] The supplement relates to separations questions the Joint Board is addressing. Elimination of the supplement now would preempt the Joint Board and deprive the Commission of the benefits of the Board's analysis of the data submitted to it and its expertise on the issues.

The State has consistently and vigorously supported[10/] and continues to support implementation of full rate integration.

6/ Memorandum Opinion and Order, Integration of Rates and Services, FCC 85-235 (released May 1, 1985) at ¶23.

7/ See also Brief of Federal Communications Commission, Alascom, Inc. v. FCC, No. 85-1279, filed Nov. 27, 1985 at 11, 21, 31.

8/ Response of Alascom, Inc. to Federal-State Board's Request for Data Relating to the Alaska Market, filed July 15, 1986 at 121.

9/ Notice of Proposed Rulemaking, Integration of Rates and Services, CC Docket No. 83-1376, FCC 85-520 (released Sept. 27, 1985) at ¶17.

10/ See, e.g., Comments of the State of Alaska, filed March 21, 1984 at 14.

Rate integration will help integrate Alaskans into the society of their nation. Data recently submitted to the Joint Board show the State's economy is undergoing serious and widespread dislocations resulting from the radical decline in the price of oil. Personal income and employment are decreasing in sharp contrast to the national economy, and the State has been forced to institute drastic cuts in a wide range of government programs.[11/] In these difficult times, and in a state where telephone service plays a uniquely important role, policies which will make telephone rates more affordable continue to be vital.

Respectfully submitted,

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September 18, 1986

11/ Response of the State of Alaska to Order Requesting Data and Inviting Comments, filed July 15, 1986, at Sections G and H.

CERTIFICATE OF SERVICE

I, Lynne L. Forehand, hereby certify that on this 18th day of September, 1985, I caused copies of the foregoing "Comments of the State of Alaska on Emergency Request for Immediate Rate Integration" to be sent by first-class mail, postage prepaid, to the following:

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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 Commission

RESPONSE OF THE STATE OF ALASKA
TO REPLY COMMENTS OF
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

The State of Alaska (Alaska or the State), by its attorneys, hereby responds to the "Reply Comments" of American Telephone and Telegraph Company (AT&T), dated September 30, 1986, concerning the "Emergency Request for Immediate Rate Integration" (Request) filed by Alascom, Inc. (Alascom). The Reply Comments constitute AT&T's second pleading on the Request. This Response is filed to correct matters addressed in AT&T's Reply Comments.

1. The State's Comments raised only matters discussed in Alascom's Request. Indeed, AT&T itself discussed these matters in its Comments. (AT&T Comments at 5-7.) AT&T's Reply Comments merely reargue the same point it had previously raised.[1/]

1/ For this reason, AT&T has not demonstrated "good cause" for acceptance of its Reply Comments under Section 1.3 of the Commission's Rules (the procedural rule on which it relies). Should, however, AT&T's Reply Comments be accepted, the State requests leave to submit this Response.

2. AT&T incorrectly implies that the State alone supported continuation of the transitional supplement. The Alaska Telephone Association's comments on Alascom's Request supported continuation of the supplement until the other issues in this proceeding can be resolved, because "termination of the supplemental payments without resolving the underlying separations issues will have disastrous consequences for Alaskan telephone subscribers." (ATA Comments at 3.)

3. AT&T reargues its view that continuation of the transitional supplement "is beyond the Commission's authority under Section 201 of the Communications Act." (Reply Comments at 6-8.) AT&T, however, cites no authority interpreting Section 201. The Commission has the authority to continue the supplement pending resolution of this proceeding, as it has held. Memorandum Opinion and Order, Integration of Rates and Services, CC Docket No. 83-1376 (FCC 85-616, Dec. 11, 1984) at ¶ 4-6.[2/] This is particularly true given the nexus, which AT&T ignores, of the supplement to separations (see State of Alaska Comments at 2-4), and given that the Commission is not barred from recognition and consideration of intrastate (as well as interstate) effects of its decisions. See NARUC v. FCC, 737 F.2d 1095, 1108 n.6 (D.C.Cir. 1984), cert. denied, 105 S.Ct. 1224 (1985) ("MCI contends that the FCC has no responsibility to promote universal service because 'the Commission has no statutory responsibility for local communications,' and therefore 'it would be unlawful for it to

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2/ See also MCI Telecommunications Corp. v. FCC, 750 F.2d 135, 141 (D.C. Cir. 1984); Lincoln Telephone and Telegraph Co. v. FCC, 659 F.2d 1092, 1107-08 (D.C. Cir. 1981).

promulgate a policy designed to . . . benefit local communications.' Brief for Intervenor MCI Telecommunications Corp. at 19 n.20. We reject MCI's argument. Congress directed that, 'so far as possible, . . . all people of the United States' are to have adequate telephone facilities at reasonable prices.").

4. AT&T relies on information submitted in a pending proceeding before the Alaska Public Utilities Commission (Appendix A to AT&T Reply Comments). That information[3/] is submitted in a different proceeding, and one which is not resolved. This Commission has, of course, had no opportunity to examine the context in which it was submitted, nor its underlying premises, nor its relationship to the other issues this Commission is considering.

Respectfully submitted,

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Attorney General

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Its Attorneys

October 9, 1986

3/ Compare "Opposition of General Communications, Inc. to Alascom Emergency Request," filed September 18, 1986, at 23.

CERTIFICATE OF SERVICE

I, Lynne L. Forehand, hereby certify that on this 9th day of October, 1986, I caused copies of the foregoing "Response of the State of Alaska to Reply Comments of American Telephone & Telegraph Company" to be sent by first-class mail, postage prepaid, to the following:

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Lynne L. Forehand

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* Hand Delivered

11-28-86

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

NOV 28 '86

OFFICIAL
FILE

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

COMMENTS OF THE STATE OF ALASKA

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November 28, 1986

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SUMMARY

The comments of the State of Alaska (Alaska or the State) focus on Alaska telecommunications service, and on the importance of rate integration and existing separations policies to achievement of universal service for Alaska.

The State believes that the Joint Board's recommendations in this proceeding must promote the goals of universal service and integration of Alaska into the Nation. Universal service (established by the Congress and endorsed by the courts and the Commission), and recognition that universal service has been uniquely difficult to achieve for Alaska, should be the governing principle on which the Joint Board's recommendations are based.

The Commission has at earlier stages of this proceeding affirmed the relationships between Alaska's demographics and geography, the state's dependence on telecommunications and the high cost of Alaska telecommunications. (Data submitted in the State's Data Response of particular relevance to these matters and to the importance of universal service have been highlighted for the Joint Board's convenience.)

Rate integration will implement achievement of universal service. Any difference between Alaska interstate revenues and costs is built into nation-wide, geographically averaged rate levels, which are an essential element of rate integration. While Alaska may be a high cost portion of the national market, it is part of -- not separate from -- that market. The Commission has said that the rate integration policy "should be interpreted as implicitly

recognizing that a rate structure which averages rates in 48 states and de-averages rates in 2 states may subject the residents of those two states to an unreasonable prejudice or disadvantage within the meaning of Section 202(a)" of the Communications Act. MTS/WATS Market Structure, 81 F.C.C.2d 177, 192 (1980). For these reasons, any difference between revenues and costs in the provision of Alaska interstate service must be recovered from rate integrated interstate rates.

Suggested alternatives are inconsistent with national policies and goals. For example, charging higher rates for Alaska interstate service would be inconsistent with rate integration. Recovering any difference between revenues and costs for interstate services by increases in intrastate rates is unsupported by any policy and inconsistent with universal service. It would also impose a "tax" on rate integration, and amount to no rate integration at all.

Like rate integration, separations policy should also implement achievement of universal service. The plan to reform COE Category 8 separations policies advocated by AT&T would increase intrastate revenue requirements by $42 million ($167.50 per Alaska access line) per year. But separations policies have as a primary concern the "permanent protection of universal service," (Jurisdictional Separations Procedures; Federal State Joint Board Recommendations, 48 Fed. Reg. 46,556, 46,564 (1983)) and are also designed to promote a national, integrated telephone network. Separations changes of this magnitude and type, and which have unique impact on only one state, undercut both the universal service policy and the national network concept, and are discriminatory. In no other state would the shifts to the intrastate jurisdiction be so great (either overall, or on a per access line basis), nor the likely impact be so devastating to universal service. In that regard, it should be noted that the telephone subscribership level in Alaska is already 8.7 percent below the national average, and lower than in 48 of the other 49 states.

The Category 8 separations change advocated by AT&T would prevent potential savings of only 4 cents per month if distributed among all AT&T customers. AT&T has consistently met or exceeded its allowed rate of return. In light of these (and other) facts, the Category 8 changes advocated should not be adopted.

It must be recognized that uniform changes to separations procedures can create discriminatory, rather than even handed, results. Accordingly, such policies cannot, consistent with equity, comity and national policy goals, be applied across the board without modification. In light of its charter, this Joint Board should be part of the process of establishing separations policy applicable to Alaska.

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

COMMENTS OF THE STATE OF ALASKA

I. INTRODUCTION

The State of Alaska (Alaska or the State) hereby submits its comments in the above-captioned proceeding. These comments focus on Alaska telecommunications service, and on the importance of rate integration and existing separations policies to achievement of universal service for Alaska. In light of the fact that on December 1, 1986, one day before these comments must be submitted, a new Governor will take office in Alaska, and of the complexity of the issues in this Joint Board proceeding (complicated by the existence of a number of unresolved related matters, such as the Alascom "Emergency Request for Immediate Rate Integration" and the pendency of Alascom, Inc. v. FCC (No. 85-1279) before the United

States Court of Appeals for the District of Columbia Circuit), the State is not now submitting a specific proposal. After submission of comments or proposals by other parties, and analysis of them, the State will submit additional comments or a proposal, as appropriate.

II. THE JOINT BOARD'S RECOMMENDATIONS MUST PROMOTE THE GOALS OF UNIVERSAL SERVICE AND INTEGRATION OF ALASKA INTO THE NATION.

A. Universal Service, And Recognition That It Is Uniquely Critical To And Difficult To Achieve For Alaska, Must Be The Governing Principle For The Joint Board's Recommendations.

Universal service is a statutorily based Commission policy. Section 1 of the Communications Act of 1934, as amended (the Act), 47 U.S.C. § 151, states that the Commission was created:

> For the purpose of regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible, to all the people of the United States a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges . . . 1/

1/ Congress has specified that this objective apply to rural subscribers:

> It is declared to be the policy of Congress that adequate service be made generally available in rural areas through the improvement and expansion of existing telephone facilities and the construction and operation of such additional facilities as are required to assure the availability of adequate telephone service to the widest practicable number of rural users of such service.

(Footnote continued)

47 U.S.C. § 151 (1962). Citing this statutory directive, the United States Court of Appeals for the District of Columbia Circuit stated that "[o]ur case law recognizes the prominence of this universal service objective," and rejected a contention that the Commission has no responsibility to promote universal service. National Association of Regulatory Utility Commissioners v. FCC, 737 F.2d 1095, 1108 & n.6 (1984), cert. denied, 105 S. Ct. 1224 (1985). The Commission has also consistently recognized that Section 1 of the Act mandates affordable, universal telephone service.[2]

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[1] (continued)

Rural Electrification Act of 1936, 7 U.S.C. § 921. More recently, the House Committee on Energy and Commerce Report on H.R. 4102, the "Universal Telephone Service Preservation Act of 1983," stated:

> The 50-year national effort to bring affordable and universally available telephone service to the public has served the nation well. Universal telephone service has contributed to the nation's economic, social and political integration and development. Each telephone subscriber receives a greater benefit and more valuable service when anyone else in the country can be called. Universal telephone service is threatened by significant rate increases that will impact especially hard upon the poor, elderly, handicapped and those living in high-cost rural and urban areas.

H.R. Rep. No. 479, 98th Cong., 1st Sess. 13 (1983).

[2] See, e.g., MTS and WATS Market Structure, CC Docket Nos. 78-72 and 80-286 (July 26, 1985) at 1. The Joint Board, in an Order Inviting Further Comments, stated that "The preservation of universal telephone service has been a major Commission objective throughout the MTS and WATS Market Structure proceeding". MTS and WATS Market Structure, 97
(Footnote continued)

While universal service must be the lodestar for this proceeding, as it is in consideration of all national telecommunications matters, it must also be recognized that universal service is of particular importance to Alaska.[3] Alaska is a state of vast distances, scattered communities and limited transportation alternatives, where telecommunications service plays a unique and irreplaceable role in, for example, providing health care, creating educational opportunities, facilitating business and commerce, and linking Alaska to the rest of the Nation.

The Commission has, in this proceeding, previously recognized the link between Alaska's demographics and geography and the state's reliance on telecommunications, as well as the link between these conditions and the high cost of telecommunications for the State. In its December 11, 1984 order regarding market structure, the Commission concluded:

> The remote communities in Alaska rely on telecommunications for much of their contact with others. The costs of providing this service to these points is signficantly higher than that for other locations given the low population density, the remoteness of many of the communities, and the fixed costs associated with satellite transmission.[4]

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[2] (continued)
F.C.C.2d 682, 683 (1983), aff'd in part, remanded in part, sub nom. NARUC v. FCC, 737 F.2d 1095 (D.C. Cir. 1984), cert. denied, 105 S. Ct. 1224 (1985). See also Notice, CC Docket No. 78-72, Phase IV, FCC 83-254 (June 8, 1983); MTS and WATS Market Structure, 93 F.C.C.2d 241, 265-67, 278 (1983).

[3] Cf. Alaska Communications Disposal Act, 40 U.S.C. § 771, et seq.

[4] Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-616 (December 11, 1984) at 2.

Likewise, in a companion order issued the same day the Commission noted that:

> The State of Alaska has unique geographic and cost characteristics which were a significant factor in the Commission's adoption of rate integration, and may also influence the type of competitive market structure that will be viable in Alaska. In the decision opening the Alaska MTS/WATS market to competition, the Commission noted several of these characteristics, including low, thinly distributed population density . . . adverse climatic and geographic conditions, and remote facility locations leading to high maintenance costs.[5/]

Exhaustive data with respect to the state were submitted in the first round of this proceeding. Only a few of the facts of particular relevance to the issues before the Joint Board will be highlighted here. As noted in the State's Data Response, Alaska has the largest land mass of any state and the smallest population. (Response of the State of Alaska to Order Requesting Data and Inviting Comments, filed July 15, 1986 (Data Response) at Section A, 1). In its 591,004 square miles -- 20 percent of the continental U.S. -- the U.S. Bureau of the Census estimates that there are only 500,000 people. (Id.) Superimposed on a map of the U.S., Alaska reaches from the East Coast to the West Coast, and from the Canadian border to Mexico. (Id.)

Alaskan communities are isolated from the continental U.S. and from each other by very significant geographic distances. Although Alaska is only 2.5 miles from the Soviet Union, it is 663 miles north of Seattle. (Id. at Section B, 5.) Within the state,

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5/ Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-512 (December 11, 1984) at 7.

some communities are over 1500 miles from the state capital at Juneau (id. at Attachment D-1), the distance from Miami to Boston or Denver to Mexico Ci[illegible]d. at Section B, 2.)

In addition to be[illegible]arated from each other by vast distances (as well as terra[illegible] climate and lack of roads), most Alaskan communities are extremely small. Over one half of the state's residents reside in one city, Anchorage, and another 10 percent reside in the only other U.S. Census Bureau and Alaska Department of Labor designated communities with populations larger than 10,000, Fairbanks and Juneau. (Id. at Section A, 4.) The remaining 43 percent, some 200,000 people, are scattered across the state among 300 smaller communities, 260 of which contain 1,000 or fewer people, and 228 (the majority) of which contain under 500 people.6/ (Id. at Section A, 4-5.) The population

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6/ The distribution of Alaska's population by community size is as follows:

Population of Community	Number of Communities
More than 100,000	1
50,000 - 100,000	0
10,000 - 50,000	2
5,000 - 10,000	5
2,500 - 5,000	11
1,000 - 2,500	17
500 - 1,000	32
100 - 500	138
Less than 100	90

Data Response at Section A, 5. Just as there is disparity in the size of Alaska communities, there is also great variation in the living patterns of Alaskans, depending on where and in what size community they live, and on such other factors as income, history or ethnic origin. For example, a recent study showed that while only 7 percent of households in Anchorage live off the land to obtain all or part of their

(Footnote continued)

density of the state is one person per square mile, the sparsest of any state; exclusive of Anchorage, the population density is one-tenth that of Wyoming, the state with the next lowest population density, and only one-one hundred twentieth that of the average U.S. density. (Id. at Section A, 2.)

Beyond being separated from each other by vast distances, Alaskans are further isolated from each other and the rest of the Nation by uniquely severe climate and terrain. The climate varies dramatically within the state. In one region, it rains or snows about 200 inches annually. (Id. at Section C, 2.) In another, 100-plus mile winds occur. (Id. at Section C, 3.) Other land zones face such severe problems as coastal flooding, snowfall extremes in excess of 900 inches a season, temperatures as low as 80° below zero, and no sun for two months each year. (Id. at Section C, 3-7.)

The vast distances, adverse climate and difficult terrain of Alaska limit the movement of people and information across the state, and to and from the contiguous United States. There are only limited alternatives to transport people or information. For example, there are only 8700 miles of highway in the state, of which only 2517 are paved. (Id. at Section D, 1-2.) Los Angeles County, alone, has 15,827 miles of paved roads, more than six times the mileage of all the paved roads in Alaska. (Id.) The vast majority of Alaska, including the entire western half of the

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6/ (continued)
food, 63 to 93 percent of households in rural areas rely in whole or in part on subsistence activities. (Id. at Section A, 4-5.)

state (an area larger than the state of Texas), is not served by a single paved highway. (Id.)

Other modes of transportation are similarly limited. There is only one operating railroad in the state, which serves a narrow corridor from Fairbanks to Anchorage. (Id. at Section D, 3.) Marine transport, an important form of transportation in the state, is time consuming and costly. For example, the ferry from Juneau to Ketchikan, both in the same region of the state, takes 18 hours and, with car transport, costs $209. (Id. at Section D, 6.) Air travel is a primary means of travel, but it is also subject to cost constraints and weather delays. While one can commonly fly from the east coast to the west coast in the continental U.S. for under $200, one-way flights from Juneau to certain regional centers can cost over $300. (Id. at Attachment D-11.) Air travel, moreover, may be unavailable for several days at a time due to inclement weather. (Id. at Section D, 8.)

The importance of universal service to Alaska can only be evaluated against this backdrop. Alaskans have long recognized the state's extraordinary reliance on telecommunications. Lisa Rudd, the former Commissioner of the Alaska Department of Administration, noted that:

> Modern communications are not a convenience in Alaska. Communications are often essential to life itself and to the continuing economic development of the State. Rural areas simply do not develop where adequate telephone service does not exist . . . .

(Id. at Section I, 2.) The State Legislature made a similar observation earlier this year, taking special note of the "importance that electronic communications plays in eliminating the problem of distance and isolation." (Id. at Section B, 2.)

Commensurate with the critical role that telecommunications plays, the State itself has invested heavily in telecommunication programs. Since 1975, exclusive of purchase of conventional telephone equipment and services, the State Legislature has appropriated $217.6 million for telecommunications, an average of $19.8 million annually. (Id. at Section I, 4.)

Not surprisingly, given the absence of alternatives, and the demographic and the other conditions in the state, telecommunications has assumed a critical and expanding role in the delivery of vital services to Alaskans. One of the earliest telecommunications initiatives in Alaska was in the area of emergency health service. Alaska suffers from a high rate of accidents, infant mortality, drug abuse and violent crime, and the health service system is taxed by the fact that two-thirds of all Alaskan communities lack a local physician or hospital. (Id. at Section F, 1-8.) The primary health provider in these communities is Alaska Area Native Health Service (AANHS). AANHS features a system of community health aides, linked by telecommunications to regional hospitals. This life saving system allows local aides to receive instructions for stabilization and immediate care, directs emergency assistance to the scene, and allows receiving clinics to prepare for patients. (Id. at Section F, 8-9.)

Educational opportunities in a state characterized by widely scattered tiny communities are also dependent on effective and affordable telecommunications service. As recently as 1970, 28 percent of Native high school age children lived in communities without high schools. (Id. at Section E, 2.) Many students were uprooted from their families to attend boarding school, but studies revealed social and emotional adjustment problems contributed to a 50 percent plus dropout rate and limited educational gains. (Id.) In the mid-70's, the State began heavy funding for a major initiative to provide local secondary school programs. To supplement the small teaching staffs which small schools can support, at both the high school and college level, the State has developed the Learn/Alaska Instructional Television programs as well as the Learn/Alaska Teleconferencing Network. These programs, however, are dependent on affordable telecommunications and the economy of the state. As the Dean of Rural Education stated regarding the Learn/Alaska Teleconferencing Network in hearings before the Alaska House Telecommunications Committee earlier this year:

> We are facing a telecommunications crisis in terms of the costs of the audioconference . . . . I am dismayed that we may have to curtail the program that is demonstrating the efficacy of distance delivery to rural Alaska, at the very moment it is proving itself to the participants.

(Id. at Section I, 15.)

While universal service is critical to the State, it has been difficult to achieve. As the State pointed out to the Joint Board in CC Docket Nos. 78-72 and 80-286, a recent report on telephone subscribership released by the Commission[7] indicates that between March and July 1986 (during which period the subscriber line charge doubled), telephone subscribership in Alaska fell almost 5 percent, and now stands at 83.5 percent, lower than all other states except Mississippi. (Report at Table 1.) It is 8.7 percent below the national average of 92.2 percent. (Id.) Penetration in Alaska now appears to be lower than it was almost three years ago, in November, 1983. (Id.)[8] The State's highest penetration rate occurred in the March 1985 survey conducted before the first dollar of the subscriber line charge was imposed in June 1985; since then it has dropped almost 6 percent. Given this decline in telephone penetration in Alaska, it is particularly important that this Joint Board not retreat from the longtime commitment to rate integration, impose changes in separations procedures or devise mechanisms which would either undermine the realization of universal service for Alaska or prevent provision of service to all areas of Alaska.

7/ Industry Analysis Division, Common Carrier Bureau, "Telephone Subscribership in the U.S." (released September 12, 1986) (Report). The Report provides national and state figures for telephone penetration (percentage of households with residential phone service), based on a July 1986 survey conducted by the U.S. Census Bureau.

8/ This is true even if telephone availability, other than in a household, is considered. See Report at Table 1. In November 1983, availability was 88.8 percent; in July 1986 it was 86.1 percent, 7.9 percent below the national average. Id.

III. ANY DIFFERENCE BETWEEN REVENUES AND COSTS FROM THE PROVISION OF INTERSTATE SERVICE TO AND FROM ALASKA MUST BE RECOVERED FROM RATE INTEGRATED INTERSTATE RATES AND NOT RECOVERED BY SEPARATIONS CHANGES THAT SHIFT COSTS TO THE INTRASTATE JURISDICTION.

A. Rate Integration Will Implement Achievement Of Universal Service.

Achievement of universal service requires the national policy of rate integration to be continued and fully implemented. In adopting the rate integration policy over 14 years ago, the Commission said:

> The relatively high level of charges . . . has inhibited the free flow of communications between the contiguous states and these [offshore] points to the disadvantage of all of our citizens. It is our considered view that the public interest requires that the distinctions, particularly with respect to level of charges and rate patterns, should be eliminated.9/

Not long ago, the Senate Committee on Commerce, Science, and Transportation recognized the crucial link between universal service and rate integration:

> The policy of rate integration has been specifically endorsed by this Committee as long ago as 1975. The Committee believes that rate integration represents sound public policy that benefits the entire Nation, and must be maintained. The Committee notes it is consistent with the overall policy objective of this legislation -- to maintain universal telephone service at reasonable rates throughout the Nation.10/

9/ Domestic Communications-Satellite Facilities, 35 F.C.C.2d 844, 856 (1972) (Domsat II), aff'd on recon., 38 F.C.C.2d 665 (1972), aff'd sub nom. Network Project v. FCC, 511 F.2d 786 (D.C. Cir. 1975).

10/ S. Rep. No. 270, 98th Cong., 1st Sess. 25, 26 (1983).

B. Any Difference Between Alaskan Interstate Revenues And Costs Is Built Into The Rate Integration Process.

The parties to this proceeding have recognized that provision of interstate message toll service to and from Alaska is a costly undertaking. AT&T estimates that in 1985 the cost of providing interstate message toll service to and from Alaska exceeded revenues derived from that service by $87 million.[11] The State lacks the information necessary to confirm the accuracy of this figure. But, whatever the precise figure is, it seems that for Alaska interstate message toll service, costs exceed revenues.[12]

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[11] AT&T Response to Data Request, filed July 15, 1986 (AT&T Data Response) at 4. AT&T estimates that approximately $40 million of that amount is attributable to application of separations procedures which it views as improper. Id. at 16. Also included in the $87 million estimate is the $15 million annual supplement. Maintenance of the supplement has been advocated by the State in its pleadings in response to Alascom's "Emergency Request For Immediate Rate Integration" and will not be separately addressed here. AT&T apparently views the remainder ($32 million) as related to rate integration.

[12] This is not to suggest that any disparity between costs and revenues attributable to Alaska interstate service is immutably fixed at present levels. There well may be cost savings that can be achieved by Alascom, AT&T or others through increased efficiency or other means. As both a policymaker and a customer, the State would welcome the achievement, and the resulting pass through to ratepayers, of any cost savings.

In addition, based on data submitted to the Joint Board, there may be one or more Alaska interstate service routes with respect to which costs do not exceed revenues. See Data Response of Alascom, Inc., filed July 15, 1986, at 107-08 (providing data with respect to interstate service to and from Anchorage), and Opposition of General Communications, Inc. (GCI) to Alascom Emergency Request, filed September 18, 1986, at 14-15, commenting on that data. Nonetheless, it (Footnote continued)

It has long been the industry practice to charge for interstate toll calls on the basis of geographic mileage bands. The charge for a call of 1000 miles is the same, regardless of the particular locations and costs involved in transmitting the call. The costs of providing service are averaged and the rates for each mileage band set on a national basis to assure a reasonable rate of return for the provision of service to all markets, not each market individually. What a carrier loses on the more costly routes, is recouped on the less costly routes.

Rate integration necessarily involves nationwide averaging of rates for interstate service. The Commission has recognized that "averaged rates charged . . . may not necessarily relate to the underlying costs of providing the service. The averaging . . . has been justified on the grounds that no person should be deprived of telecommunications service at reasonable rates simply because of the high costs associated with serving the user's location." Integration of Rates and Services, 96 F.C.C.2d 567, 571 (1984).13/

In reviewing national rate averaging in context with the increasingly competitive MTS market, the Commission concluded that

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12/ (continued)
appears from the data provided by the parties that, on a state-wide basis, costs exceed revenues for Alaska interstate service.

13/ See also Domsat II, 35 F.C.C.2d at 857 ("In case of message telephone service . . . . [service] proposal[s] . . . . should be designed, in specified time phases if necessary, to integrate [non-continguous] points into the uniform mileage rate pattern that now obtains for the contiguous states, with all that such approach implies in terms of nationwide cost averaging and equalizations for interstate rate-making purposes."

any "de-averaging will not be caused by the mere presence of competition . . ." and that it "will not be forced upon us by the presence of competition in interstate interexchange services."[14] The Commission has reiterated its warning against selective de-averaging.[15] More recently, the Commission said: "Beside significantly contributing to the achievement and maintenance of universal service, geographic averaging has contributed greatly to the simplicity and clarity of MTS rates."[16] Rate averaging has also been supported by members of Congress.[17]

The purpose of the Commission's rate integration policy is to include offshore points, including Alaska, into the national geographic mileage bands.[18] Rate averaging is a necessary

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14/ MTS and WATS Market Structure, 81 F.C.C.2d 177, 192-3 (1980).

15/ MTS and WATS Market Structure, 48 Fed. Reg. 42,984, 43,007 (1983).

16/ Guidelines for Dominant Carriers' MTS Rates and Rate Structure Plans, 50 Fed. Reg. 1881, 1886 (1985); see also Guidelines for Dominant Carriers' MTS Rates and Rate Structure Plans, 59 R.R.2d 70, 90 (1985) ("[W]e find that any optional MTS offering that proposes to geographically de-average rates would be unacceptable and not in compliance with these guidelines even if the offering satisfied all other criteria.").

17/ See, e.g., Letter from Senator John C. Danforth, Chairman, Committee on Commerce, Science and Transportation, U.S. Senate, to Mark S. Fowler, Chairman, Federal Communications Commission, (November 18, 1986), in which Senator Danforth states: ". . . I firmly support the policy of nationally averaged rates. . . . My concern is that the deaveraging of toll rates could force rural Americans to pay dramatically higher rates and could have a detrimental effect on independent telephone companies and small interexchange carriers."

18/ See Domsat II, 35 F.C.C.2d at 856-59.

element of the Commission's rate integration policy.[19] The Commission has said its rate integration policy "should be interpreted as implicitly recognizing that a rate structure which averages rates in 48 states and de-averages rates in two states may subject the residents of those two states to an unreasonable prejudice or disadvantage within the meaning of Section 202(a) [of the Communications Act]."[20]

Any difference between revenues derived from and costs allocated to interstate service to and from Alaska is built into the Commission's rate integration policy. This difference for service to and from Alaska must be treated the same as differences for service to and from other locations which are costly to serve. Any shortfall is not properly viewed as a burden on interexchange carriers providing such service.

Put another way, while Alaska may (like other states) be a high-cost portion of the national market, it is not a separate market.[21] In the nation-wide market of which Alaska is a part,

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19/ Integration of Rates and Services, 96 F.C.C.2d 567, 571 (1984).

20/ MTS/WATS Market Structure, 81 F.C.C.2d 177, 192 (1980). The Commission also said, "[A] rate structure which uses different ratemaking methods to determine the rates which different users pay for comparable services is inconsistent with the national policy expressed in Section 202(a)." Id.

21/ Competitive Common Carrier Services, 95 F.C.C.2d 554, 574-75 (1983) ("[W]e conclude that there is a single national relevant geographic market (including Alaska . . .) for interstate, domestic, interexchange telecommunications services with no relevant submarkets."). Deviations from national, rate averaged and integrated rates would be inconsistent with this finding and undercut the Commission's competitive and deregulatory policies.

in states where overall costs are lower than the national average, integrated rates will be higher than costs. In states where costs are higher than the national average, integrated rates will be lower than costs. The shortfalls on high cost routes are recouped by service on low cost routes.[11] But in the national market, nation-wide rates are structured to include all of these costs.

C. The Suggested Alternatives For The Treatment Of Any Difference Between Alaska Interstate Service Revenues And Costs Are Inconsistent With Fundamental National Communications Policies.

Apparently underlying some of the comments and data submissions in this proceeding is the suggestion that any difference in revenues and costs of Alaska interstate service be recovered through charging either higher than rate-integrated rates for interstate service to and from Alaska, or higher Alaska intrastate rates. These suggestions are inconsistent with fundamental national communications policies.

11/ The State does not know the amounts of any differences between revenues and costs attributed to the provision of interstate message toll service to and from particular states. There may, or may not, be other states which have differences approximately equal to, or even greater than, the difference between revenues and costs for Alaska interstate service. See Order Requesting Data and Inviting Comments, CC Docket No. 83-1376 (May 9, 1986) at ¶ 31. In any event, the fact remains that nationally averaged, rate integrated rates are designed to generate a reasonable rate of return for service to and from all states. The difference between revenues and costs for any one state, by itself, is not relevant.

Rates for interstate message toll service to and from Alaska already exceed nationally rate integrated rates.[23] The Commission has repeatedly determined that rates for that service should be reduced to rate integrated levels.[24] To reverse that determination, and maintain or increase the disparity between rates for interstate service to and from Alaska and national interstate rates, might result in an absence of state-wide service and would be inconsistent with the rate integration policy. Such an action would discriminate against Alaska and deny its citizens the benefits of the national telecommunications system. (See pages 12-15, supra.) The social, political and economic integration of Alaska with its forty-nine brethren would be retarded, to the detriment of all Americans.

It has also been suggested that any difference between revenues derived from and costs allocated to the provision of Alaska interstate service be recovered through increases in Alaska intrastate service rates.[25] But the issue in this proceeding is how

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[23] AT&T has reduced its interstate message toll service rates considerably over the past several years. Its latest rate reduction, estimated at about 8 percent, is scheduled to go into effect on January 1, 1987. AT&T's rates for Alaska interstate toll service have declined, but a difference between interstate rates for Alaska and the rest of the Nation remains. See GCI Response to Data Request, filed July 15, 1986, at Exhibit VI-A (differential estimated at 9 percent). See also Alascom Transmittal No. 424, November 4, 1986 (revising Tariff FCC No. 1) (differential estimated at 7 percent).

[24] See, e.g., Domsat II, 35 F.C.C. 2d at 856; Integration of Rates and Services, 96 F.C.C.2d 567, 570 (1984).

[25] See AT&T Data Response at 17, 30-31.

the costs of interstate service to and from Alaska should be recouped. There is no support for the proposition that intrastate service rates should be increased to pay for interstate service.

Such a proposition, in fact, flies in the face of often repeated federal telecommunications policy goals, including promotion of universal service. Universal service in Alaska and elsewhere would be harmed if interstate costs above national norms were shifted to intrastate jurisdictions. Such a move would also negate the goal of rate integration, to provide reasonably priced interstate toll service to all United States residents. Totalling the costs of interstate service and recovering those costs in an equitable way by averaging the rates that everyone pays for that service is an essential element of rate integration. Increasing intrastate rates to recover any difference between revenues and costs of Alaska interstate service imposes a "rate integration tax" on Alaska, and thus results in no rate integration at all.

D. Separations Policy Should Also Implement Achievement Of Universal Service.

The Joint Board in CC Docket No. 80-286 is examining changes in Part 67 separations policies. It has recognized that any NTS allocation plan must "ensure the permanent protection of universal service."26/

26/ Jurisdictional Separations Procedures; Federal State Joint Board Recommendation, 48 Fed. Reg. 46,556, 46,564 (1983).

In addition, the Senate Committee on Commerce, Science, and Transportation has stated in connection with rate integration that separations policies should not create substantial shifts to the intrastate jurisdiction:

> It is the intent of the Committee that any change in the prescription of separations and settlements methodologies of the noncontiguous States necessary to implement rate integration not result in the shifting of a greater percentage of the costs of providing long distance facilities from the Federal to the State jurisdictions that [sic] is now the case.[27]

E. Any Difference Between Alaska Interstate Revenues And Costs Should Not Be Reduced By Adopting Separations Changes That Transfer Costs To The Intrastate Jurisdiction.

AT&T suggests that much of the difference between Alaska interstate revenues and costs is the result of separations procedures it believes are not cost-justified.[28] In particular, AT&T suggests that this difference could be reduced significantly if separations rules and procedures relating to Category 8.23 central office equipment (COE), which includes satellite earth stations, were revised. AT&T believes that use of a distance-related factor -- conversation minute miles (CMM) -- in separating allocations is inappropriate and, even if appropriate, has been improperly applied by Alascom.[29]

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[27] S. Rep. No. 270, 98th Cong., 1st Sess. 25, 26 (1983).

[28] AT&T Data Response at 13-17. This amount was estimated by AT&T in its Data Response at $40 million. But see page 21, infra.

[29] Id. at 13-17.

AT&T suggests that the CMM factor not be applied to Category 8.23 equipment for which it believes costs are not distance sensitive.[10] Alternatively, if that step is not taken, AT&T requests that Alascom be required to exclude from its separations calculations the mileage between Alaska and the lower 48. AT&T also suggests that it be allowed to provide service up to points of interconnection in Alaska.[11] Each of these three suggestions would shift costs presently allocated to the interstate jurisdiction to the intrastate jurisdiction. This shift would be accomplished by removing or reducing the Alaska study area interstate mileage factor used to separate Category 8.23 costs.[12]

The Joint Board in CC Docket No. 80-286 is considering whether to recommend on a nation-wide basis changes to Category 8 separations procedures. The primary change in Category 8 separations procedures which AT&T seeks in this Joint Board proceeding is, in effect, the adoption of alternative separations procedure Plan 8-C in CC Docket No. 80-286. That plan would remove distance as a factor in allocating the cost of Category 8.23 equipment perceived as distance insensitive but not Category 8.23 equipment perceived as distance sensitive.[13] Data submitted by Alascom in

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10/ Id. at 16; Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986.

11/ AT&T Data Response at 17.

12/ Id.

13/ Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986.

that proceeding indicates that the Category 8 separations rules changes AT&T is seeking (the adoption of Plan 8-C) would increase Alascom's intrastate costs, and decrease interstate message toll service costs, by approximately $42 million a year.14/

AT&T's proffered justification for the Category 8 separations changes it seeks, that current procedures are not cost causative,15/ ignores fundamental Commission policies regarding separations rules. Separations has never been, nor should it be, a

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14/ Data submitted by Alascom, Inc. in CC Docket No. 80-286, filed October 16, 1986.

The Joint Board in CC Docket No. 80-286 is considering two other alternative plans for Category 8 COE. Plan 8-B, which, like Plan 8-C, would remove distance as a factor in separating the cost of some, but not all, Category 8.23 equipment, would shift $21.6 million of Alascom's interstate costs to the Alaska intrastate jurisdiction. Plan 8-D, which would remove distance as a factor in separating the cost of all Category 8.23 equipment, would shift $50.5 million of Alascom's interstate costs to the Alaska intrastate jurisdiction. Id.

Also under consideration in CC Docket No. 80-286 are changes to Category 6 COE separations procedures which would shift some local dial switching equipment costs presently allocated to the interstate jurisdiction onto local exchange carriers. It has been estimated that as much as $17 million annually in costs presently allocated to the interstate jurisdiction could be shifted to the intrastate jurisdiction through proposed Category 6 separations procedure changes. The effect of the Joint Board's proposed Category 6 plans would be greater on a per access line basis in Alaska than in any other state. See Reply Comments of the State of Alaska, CC Docket No. 80-286, filed October 29, 1986, at 11-14 (provided with this pleading as Attachment A).

15/ See, e.g., AT&T Data Response at 13-14; Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986, at 20-25, Supplemental Comments of AT&T Concerning Category 8 COE, CC Docket No. 80-286, filed September 12, 1986.

blind application of cost-causation principles.[16] "[C]onsiderations of fairness, not mere mathematics, govern the allocation of costs."[17] The Commission recently reiterated that "[t]he ultimate purpose of separations is . . . to achieve an equitable division of costs between interstate and intrastate ratepayers."[18] Of primary concern is the "permanent protection of universal service."[19] AT&T itself appears to recognize that protection of universal service justifies shifting costs to the interstate jurisdiction.[20]

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> Separations of telephone plant is a political process. As a political process, separations has been one of accommodation and adjustment.

Gabel, Development of Separations in the Telephone Industry, Institute of Public Utilities, Michigan State University, at vii, quoted in State of Alaska Response to Comments, Docket No. 21263, filed March 19, 1982, at 2.

17/ Colorado Interstate Gas Co. v. Federal Power Commission, 324 U.S. 581, 591 (1945), quoted in Jurisdictional Separations Procedures; Federal-State Joint Board Recommendations, 48 Fed. Reg. 46,556, 46,566 (1983).

18/ MTS and WATS Market Structure, CC Docket Nos. 78-72 and 80-286, FCC 86-503 (November 14, 1986) at 2.

19/ Jurisdictional Separations Procedures; Federal-State Joint Board Recommendations, 48 Fed. Reg. at 46,564. Separations policy has favored extension of the national network and rate structures shaped to promote use of that network and growth of all services, local, intrastate and interstate.

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> Cross-jurisdictional subsidies cannot arbitrarily be established, both as a matter of law and of established Commission practice. Where, as here, absolutely no showing has been made that cross-jurisdictional subsidies are needed to protect universal service goals,
> (Footnote continued)

Another factor to be considered with respect to changes in separations procedures is whether those changes would promote the functioning of a national, integrated telephone network:

> The first separations procedures anticipated (but did not fully articulate) a basic principle: that separations should be utilized not as a means of subdividing the telephone network into economically self-sustaining and independent units, but rather, separations - administered on a nationwide scale - should be employed for adjusting economic relationships among the telephone services and between the regulatory jurisdictions in a manner consistent with the perception of that telephone network as an integral whole.[41]

Separations changes that discriminate against one state do not promote a national telephone network.

Data submitted to the Joint Board in CC Docket No. 80-286 demonstrate that the separations procedures changes suggested by AT&T would have an extraordinary and discriminatory impact on Alaska. A shift of $42 million would, assuming 250,000 access lines in the state, increase the annual intrastate revenue

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[40] (continued)

> interstate services nationwide cannot arbitrarily be burdened with costs that are attributable to intrastate operations.

Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986, at 31 (citations omitted). Conversely, it follows that where there is a showing, as here, of a need for what AT&T calls "subsidies" in order to protect universal service goals, such steps are appropriate.

[41] Separations Procedures in the Telephone Industry; The Historical Origins of a Public Policy, Harvard University Program on Information Resources, Policy Publication (P-77-2) (1977) at 129, quoted in Comments of the State of Alaska, Docket No. 21263, filed February 5, 1979, at 1.

requirement by approximately $167.50 per access line.[42] A review of the exchange company data filed in CC Docket 80-286 and compiled by four exchange carrier trade associations indicates that in no other state would the impact of proposed Category 8 separations changes be nearly so severe.[43]

Outside of Alaska, some of the largest jurisdictional shifts under Plan 8-C (the plan advocated by AT&T) would occur in Florida and Maine, two states which, like Alaska, are at geographic ends of the country. In Florida, an approximately $13 million shift would be distributed over almost 5.5 million access lines, resulting in an annual intrastate revenue requirement increase of approximately $2.40 per access line. In Maine, an approximately $6 million shift would be distributed over almost 440,000 access lines, resulting in an annual revenue requirement increase of

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42/ The $21.6 million shift which would occur if Plan 8-B were implemented would increase the annual intrastate revenue requirement by approximately $89.90 per access line. The $50.5 million shift which could occur if Plan 8-D were implemented would increase the annual intrastate revenue requirement by approximately $201.50 per access line. See Reply Comments of the State of Alaska, CC Docket No. 80-286, filed October 29, 1986, at 24-25. See also page 21 and note 34, supra.

43/ Alascom is at present the sole intrastate interexchange carrier in Alaska. (An application by GCI to provide intrastate interexchange service has been submitted to the Alaska Public Utilities Commission.) In any event, in other states, local exchange carriers perform that function, at least on an intraLATA basis. (There are no LATAs in Alaska.) For this reason, a comparison of Alascom and local exchange carrier data is instructive. It should also be noted that existing data compilations in CC Docket No. 80-286 allow no other comparison.

approximately $14 per access line.[14] The estimated shift for Alaska is ten times greater than for Maine and 70 times greater than for Florida.

The discriminatory impact of such changes on Alaska is not simply based on the magnitude of the potential shifts to the intrastate jursidiction. Separations policy has been designed to provide support for high local costs (particularly high local loop costs) to enhance universal service and the national network. In Alaska, significant high costs are found in the satellite network. Support for them would serve the same goals and purposes as are presently served by separations policies. Indeed, in Alaska, satellite service serves many of the same functions as local loops, that is, to connect the subscriber to communities and the national network.

The impact of the advocated $42 million shift on universal service would be devastating. Elasticity studies presented to the Joint Board in CC Docket No. 78-72 suggest telephone subscribership levels are more elastic in areas in which such levels are already relatively low.[15] The $42 million Category 8 separations

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14/ Summary Reports of Category 8 Data for Local Exchange Carriers Submitted to the Joint Board in CC Docket 80-286, Summary Report 19.

15/ MTS and WATS Market Structure, CC Docket No. 78-72, FCC 84-636 (January 4, 1985) at 31, quoting "Residential Demand for Telephone Service in Areas Served by Contel" (National Economic Research Associates, Inc., August 10, 1984). This is true at least in areas where telephone subscribership is at the mid-70% level.

shift advocated by AT&T involves overall increases in intrastate rates of approximately $14 per access line per month.[46] This could cause serious difficulties in provision of state-wide, as well as nation-wide, universal service.[47]

There is no need to make the separations rules changes AT&T seeks, AT&T's protestations to the contrary notwithstanding. The impact on AT&T and its ratepayers of the application of current Category 8 separations procedures to the provision of Alaska telecommunications service are miniscule when compared to the devastating effect changes in those procedures would have in Alaska.

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[46] $42,000,000 divided by 250,000 (the estimated number of Alaskan access lines) divided by 12 (months per year) equals $14 per access line per month.

[47] Other proposed cost recovery changes would further harm universal service. If intrastate rates must rise to recover the remainder of the difference between revenues generated and costs attributable to Alaska interstate service, $45 million would need to be raised. (This figure is based on AT&T's estimates and includes the $15 million supplement.) This would require an additional rate increase averaging $15 per access line per month. Data compiled in CC Docket No. 80-286 with respect to Category 6 separations changes could well require intrastate rate increases of approximately $3-$4 per access line per month. (<u>See</u> Summary Reports of Category 8 Data for Local Exchange Carriers Submitted to the Joint Board in CC Docket No. 80-286, Summary Report 8C.) Further increases in subscriber line charges of $2 per line per month are being considered in CC Dockets 78-72 and 80-286. Finally, changes in mandatory pooling are under consideration which could jeopardize approximately $20 million in annual high cost support received by Alaskan local exchange carriers. This could require a rate increase of approximately $6-7 per access line per month. These changes -- totalling $26 to $28 per access line per month -- could cause further declines in telephone subscribership levels in Alaska.

Assuming that there are 113 million access lines in the Nation,[48] and that AT&T serves 75 percent (or approximately 84.75 million) of those access lines, not changing current Category 8 separations rules in Alaska would prevent potential savings by AT&T ratepayers of less than 50 cents per year, or only about four cents per month, if distributed evenly among all AT&T customers.[49] This amount would be virtually invisible to subscribers on a cost per call or cost per minute basis. The $42 million separations amount at issue constitutes about 0.1 percent of AT&T's annual revenues.[50] In view of this fact, its effect on AT&T's ability to compete cannot be significant.

Current separations rules also do not unfairly affect AT&T's profitability. Category 8 costs that are allocated to the interstate jurisdiction are included in AT&T's revenue requirement. AT&T's rates are established to allow it to recover fully those costs. AT&T has consistently been able to meet its allowed rate of return.[51]

48/ Local Exchange Carrier Recommendations on Category 6 COE Separations Procedures, CC Docket No. 80-286 (October 29, 1986) at 14.

49/ $42,000,000 divided by 84,750,000 lines divided by 12 months equals 4 cents per line per month.

50/ See FCC 1985 Preliminary Domestic Data from Statistics of Communications Common Carriers (August 27, 1986) at 1.

51/ AT&T's rate of return on interstate MTS/WATS service for 1984 and 1985 was 14.8 percent. AT&T Data Response at 37. The Commission recently lowered AT&T's authorized rate of return from 12.75 percent to 12.2 percent. Authorized Rates of Return for Interstate Service (Phase III), 60 R.R.2d 1589 (1986).

As noted above, equity, as well as mathematics, must be considered in resolving separations questions. The Joint Board should recognize the fact that investment in Category 8 equipment by Alaskan carriers has been encouraged by the Commission. Alascom, for example, has invested approximately $172 million in such equipment. Local exchange carriers have also made such investments. These investments have been made on the basis of existing separations rules. To change those rules at this time, when the consequences would be so severe, would be inequitable.

In summary, the Category 8 separations changes proposed by the Joint Board in CC Docket No. 80-286, including the plan endorsed by AT&T, would have discriminatory, unnecessary and inequitable effects on the provision of telecommunications service for Alaska and would jeopardize attempts to accomplish universal service. Separations changes which would have uniquely discriminatory and adverse consequences for one state do not promote the national telephone network. Even if such changes were adopted generally, equity and comity, as well as universal service and other federal telecommunications policies, require that such changes not be applied (without appropriate modification) to that state. To ensure that nondiscriminatory and even-handed results are created by separations policies, even if those policies are themselves uniform, special steps must be taken. This Joint Board must be part of the process that establishes the separations ground rules for Alaska.

IV. CONCLUSION

Achievement of universal service and integration of Alaska into the national telephone network require continued implementation of rate integration and establishment of separations procedures which do not result in huge, discriminatory increases in intrastate revenue requirements. The State asks the Joint Board to keep these principles in mind as it continues its deliberations.

Respectfully submitted,

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November 28, 1986

ATTACHMENT A

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

In the Matter of Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board	CC Docket 80-286

To: The Federal-State Joint Board

REPLY COMMENTS OF THE STATE OF ALASKA

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SUMMARY

The State of Alaska opposes adoption of any of the alternative plans currently proposed by the Joint Board for separating the costs of jointly used Category 6 and Category 8 central office equipment. Each plan would create extraordinary increases in intrastate revenue requirements for Alaska carriers, the highest of any state in the Nation. Adoption of those plans could have a devastating effect on the attainment and maintenance of universal telephone service.

With respect to Category 6, the State believes that the continuation of the distinction between non-traffic sensitive (NTS) and traffic sensitive (TS) costs is consistent with principles of cost causation and with national communications policy goals. There are Category 6 costs in every central office that do not vary with the number of calls switched, regardless of the specific technology employed. Some costs incurred are attributable to interstate calling requirements. Abolishing the NTS/TS distinction and allocating all costs on the basis of usage, as the alternative Category 6 plans propose, would not, therefore, be consistent with cost causation principles. Such a change in separations rules would also encourage uneconomic bypass. With respect to traffic sensitive costs, the State suggests the appropriate usage related factor is busy season, busy hour completed calls weighted by office size.

There is no justification for treating high Category 6 costs differently than high NTS local loop costs for purposes of high

cost support. At least in Alaska, high Category 6 costs are an unavoidable result of geography and other conditions. Communities in rural Alaska are widely scattered, but geographically compact. As a result, exchange companies in Alaska have high Category 6 expenses, and, concomitantly, relatively low NTS local loop costs. For example, Category 6 investment for some Alaska carriers exceeds $1,000 per subscriber loop, over three times the national average. Companies with high Category 6 costs should receive high cost support analogous to the support provided for high NTS local loop costs.

With regard to Category 8, the data submitted to this Joint Board establish that the proposed alternative plans would have a unique and devastating impact on the provision of telecommunications services to, from and in Alaska. The data show that adoption of those plans would increase intrastate revenue requirements in Alaska from a low of $21.6 million per year to as much as $50.5 million per year, or from $85.90 per loop per year to as much as $201.50 per loop per year. Such a shift would undermine attainment and maintenance of universal service in Alaska. No other state would suffer any revenue requirement shift of anything approaching this order of magnitude.

Adoption of Category 8 separations procedures changes without taking special steps that recognize and address the extraordinary and unique effect of those changes in Alaska discriminate against Alaska, creating uniquely and critically adverse consequences for that state alone. This Joint Board must permit the Joint Board in CC Docket 83-1376 to participate in the evaluation and recommendation of specific provisions that would allow the citizens of Alaska, like the citizens of other states, to be a part of the Nation's telecommunications system.

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

In the Matter of Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board	)	CC Docket 80-286

To: The Federal-State Joint Board

REPLY COMMENTS OF THE STATE OF ALASKA

The State of Alaska (Alaska or the State) hereby submits its reply comments in response to the Order Inviting Comments and Request for Data released by the Federal-State Joint Board on May 7, 1986 (Order). In that Order, the Joint Board proposed various alternative plans for separating the costs of two categories of jointly used Central Office Equipment (COE): Category 6 (local dial switching equipment) and Category 8 (interexchange circuit equipment).

I. INTRODUCTION

The Joint Board has requested comments and data regarding the effect and merits of current and several specific alternative separations procedures for COE Categories 6 and 8. The Joint Board asked that these procedures be evaluated on the basis of the extent to which they (1) reflect cost causation principles; (2)

affect the existing division of revenue requirements between the jurisdictions; and (3) are simple to implement and administer. (Order at ¶ 25.)

These criteria are not, however, sufficient to evaluate alternate separations procedures. As the Commission has stated, Part 67 separations policies should be consistent with Part 69 access charge policies.[1] The Commission has identified preserving universal service, promoting economic efficiency, eliminating discrimination and deterring uneconomic bypass as the primary policy goals of its access charge policies.[2] While these policy goals may be implicit in the three criteria set forth by the Joint Board,[3] explicit consideration should be given to these policy goals in evaluating the separations procedure options under review here.

As further introductory matter, the State wishes to note its concern about two procedural issues in this proceeding. As indicated in the "Request for Extension of Time" filed by the National Rural Telecom Association, the National Telephone Cooperative

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1/ WATS-Related and Other Amendments to Part 69, 59 R.R.2d 1418, 1429 at n.61 ("[U]nless there are substantial reasons to the contrary, the access charge rules should be consistent with the separations rules.").

2/ MTS and WATS Market Structure; Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board (Further Notice of Proposed Rulemaking) at ¶ 10 (July 2, 1986).

3/ Preserving universal service may be implicitly included in the criterion of affect on existing jurisdictional revenue requirements. Eliminating discrimination, promoting efficiency, and deterring uneconomic bypass may be implicitly included in the criterion of cost causation.

Association, the Organization for the Protection and Advancement of Small Telephone Companies and the United States Telephone Association, and in the Order of the Common Carrier Bureau responding to that Request, those telephone industry groups have joined together to compile Category 6 and Category 8 data. It was apparently intended that all participants be given an opportunity to analyze and evaluate the issues and alternatives raised in this docket in light of these data. See Order, CC Docket 80-286 (October 8, 1986).

In fact, approximately six inches of data concerning Category 6 were filed with the Joint Board on October 14 and another stack of data concerning Category 8 was filed with the Joint Board on October 17. None of those data were served on other participants in this proceeding.[4] The State, and other participants, have not had a meaningful opportunity to review and analyze these data, although the State has been able to obtain them, belatedly, through its own efforts. Nor does the State (or any other participant) know how these data were compiled and whether the procedures used and any assumptions made were appropriate. Even a cursory review of the data, however, shows that they are likely to have flaws.[5]

4/ Public notice of the filing and inclusion in the record of the Category 6 data was given on October 20, 1986. (FCC Public Notice 229) (October 20, 1986). Even assuming that it is proper to permit these data to be included in the record in the absence of service, nine calendar days notice of their inclusion in the record is inadequate to provide meaningful opportunity to review and comment on them.

5/ The state-by-state figures in Summary Report 19 concerning the impact of Plan 8C on interstate revenue requirements is nonsensical. The data are apparently a running total of all states and not the state-by-state figures they purport to be.

The inclusion of these data in the record, therefore, raises serious due process concerns unless all participants are promptly served with both the data and an explanation of how they were compiled, and are given an additional and reasonable period of time to comment on them.

Additionally, the State understands that certain industry trade associations have been meeting and formulating alternative plans to be proposed to the Joint Board as part of their reply comments. The State has not been invited to participate in this process nor has it had an opportunity to review and comment on these plans. If such plans are proposed, the Joint Board must provide <u>all</u> participants -- carriers and others -- at a minimum, an opportunity to review and comment on them. To do otherwise would be to deny the State and other interested parties their due process right to a meaningful opportunity to participate in this proceeding.[6/]

The State also wishes to note that it has not had the benefit of the Alaska Telephone Association's analysis of the data filed and issues presented in this proceeding. The State will, of course, consider that analysis when it becomes available and may wish to file further comments based on it.

6/ Depending on the nature of these plans and the extent to which they are different from the Joint Board's proposals, it may be necessary to have two additional comment periods.

II. COE CATEGORY 6 SEPARATIONS PROCEDURES

A. Overview Of The Existing Separations Procedure And The Issues Raised By The Joint Board's Suggested Alternatives.

Currently, costs of jointly used local dial switching equipment, which comprises COE Category 6, are allocated to the intrastate and interstate jurisdictions in a two step process. First, Category 6 COE is designated as either non-traffic sensitive (NTS) or a traffic sensitive (TS). NTS equipment includes equipment for which quantities needed "are determined as a function of the number of lines terminated and which in no way are a function of the busy hour or total volumes of attempts, calls and messages offered to or switched by the office . . . ."1/ TS equipment is defined as all other equipment.2/ Some equipment is considered to include both NTS and TS components. With respect to such equipment, a certain percentage is designated as NTS or TS depending on the extent to which it performs NTS or TS functions. For example, modern digital switching equipment is generally considered 75 percent NTS. Some other (and older) types of switching equipment are considered 25 percent NTS.3/

Category 6 NTS costs are allocated between the interstate and intrastate jurisdictions based on the so-called subscriber plant

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1/ 47 C.F.R. § 67.138(b).

2/ Id.

3/ See, e.g., Comments of the Public Utilities Commission of Colorado at 6 (July 9, 1986) (Colorado PUC Comments).

factor (SPF), which is frozen at 1981 levels.[10] Generally, on a nation-wide basis, SPF runs approximately 27-28 percent.[11] In Alaska, however, SPFs are generally much higher. The State gathered from the Commission's files and analyzed data with respect to 16 Alaska local exchange carriers for which it could locate data. All of these 16 companies have SPFs above the national average, and some have SPFs of 85 percent.[12]

Category 6 TS costs are allocated based on weighted dial equipment minutes (DEM), a usage-related factor. The toll weighting factors applied to DEM result in more TS costs being allocated to the interstate jurisdiction then would be the case if usage alone were considered. Because SPF is generally higher than the percentage of interstate weighted DEM, however, relatively more NTS costs than TS costs are allocated to the interstate jurisdiction.

The State's reply comments address three issues raised by the Joint Board's proposed alternative Category 6 separations plans and by the comments submitted concerning those plans:

1. Should the distinction between NTS and TS costs be maintained, or should all costs be treated as TS and then allocated by a usage-related factor?

2. What is the appropriate usage related factor for allocating TS costs?

10/ Decision and Order, CC Docket 80-286, 89 F.C.C.2d 1 (1982).

11/ See Further Comments of AT&T at 19 (August 11, 1986) (AT&T Further Comments).

12/ Alaska carriers with SPFs of 85 percent include Interior Telephone Company, Yukon Telephone Company, Bristol Bay Telephone Company, and Arctic Slope Telephone Company. See Attachment A to these reply comments.

3. How should exchange carriers with high Category 6 COE costs be treated with respect to high cost support?

B. The NTS/TS Distinction Is Consistent With Both Cost Causation Principles And National Communications Policy Goals And Should Be Retained.

A number of commenters[13] argue that the NTS/TS distinction should be eliminated. Generally, they contend that digital technology, increasingly used in central offices, makes the distinction obsolete.[14] They argue, for example, that it is now virtually impossible to determine the NTS portion of state-of-the art digital Category 6 COE since all such equipment is usage sensitive.[15] In the view of such parties, because 75 percent of the costs of some digital equipment are treated as NTS and allocated using SPF, interstate carriers (and customers) are subsidizing the conversion to digital switching equipment in local exchange offices.[16] For these reasons, it has been argued that the NTS/TS distinction should be eliminated and a single usage-related allocator should be adopted for all Category 6 costs.

13/ See, e.g., AT&T Further Comments at 8-18; Comments of BellSouth Corp. et al. at 6-7 (August 4, 1986); The Ameritech Operating Companies' Comments Concerning Separations Changes at 5 (July 16, 1986) (Ameritech Comments).

14/ See, e.g., Ameritech Comments at 5.

15/ See, e.g., Comments of Southwestern Bell Telephone Co. at 6 (July 14, 1986) (Southwestern Comments).

16/ It has been contended that, under current methodology, an average of 21 percent of the cost of a newly installed switching system is allocated to the interstate jurisdiction. Comments of AT&T at 9 (July 19, 1985) (AT&T Comments).

The State believes that the distinction between NTS and TS costs is consistent with both cost causation principles and national communications policy goals and, for a number of reasons, should be retained. First, there is a real and continuing difference between NTS and TS functions and costs. A large amount of Category 6 investment in digital offices is in line circuit equipment which is dedicated to a single or small number of individual lines. That line circuit equipment is clearly NTS. It is equipment for which demand is a function of the number of subscribers and not the amount of traffic switched. In addition, it performs the same functions performed by the analog NTS equipment which it replaces.[17] The costs of that dedicated equipment in digital offices should not be treated as traffic sensitive for the same reason the costs of NTS analog equipment should not be treated as traffic sensitive. It is simply not consistent with principles of cost causation to allocate costs which do not vary with usage on the basis of a usage-related factor.

Second, many Category 6 costs presently categorized as NTS are incurred primarily to satisfy interstate calling requirements.[18] Allocating NTS costs by employing a usage-based factor would require the intrastate jurisdiction to pay for costs incurred primarily because of interstate service and which need not be incurred to provide intrastate service.

17/ See Colorado PUC Comments at 20-23.

18/ See, e.g., Colorado PUC Comments at 13-20.

There are several examples of this phenomenon. Data transmission equipment, often involving expensive new digital or other technology, is frequently installed by an exchange company in response to demands for complex data services, which are predominantly interstate.[19] In addition, the quality of the line circuit equipment in local offices must meet certain technical standards (for noise, balance, return loss and echo, for example) which are designed to accommodate interstate services. Line circuit equipment is, therefore, more expensive than it would have to be to accommodate intrastate services needs.

More complex and expensive switching equipment is needed for interstate traffic than intrastate traffic, particularly in the 24 states like Alaska which have only one area code.[20] The increased demands switching inter-area code calls imposes is demonstrated in the decision chart found at Attachment B to these reply comments. Switching intraoffice calls involves less and simpler equipment and therefore costs less than switching interoffice, intraexchange calls. Switching intra-area code interexchange calls, similarly, costs less than switching inter-area code calls. In the 24 states with only one area code, <u>all</u> costs incurred in switching calls of more than seven digits are attributable solely to the interstate jurisdiction. In light of these facts, abolishing the NTS/TS distinction and allocating all costs by a

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19/ Colorado PUC Comments at 16.

20/ In addition, the District of Columbia has one area code and Puerto Rico and the U.S. Virgin Islands share the same area code.

usage-based factor would not be consistent with cost causation principles.

Third, maintaining the NTS/TS distinction and the allocation of NTS costs on the basis of a constant factor unrelated to usage minimizes incentives for uneconomic bypass. As the NYNEX telephone companies point out, so long as NTS-related interstate costs are not recovered on a usage-sensitive basis, a dominant interstate carrier cannot reduce its NTS-related interstate access charges by reducing its demand for access services. Such a carrier, therefore, would be encouraged to expand, rather than contract, the volume of calls routed over exchange carriers' access facilities, since added usage would reduce the per unit cost for NTS access.[21] Accordingly, maintaining the NTS/TS distinction and a non-usage based allocator is consistent with policy goals set forth by the Commission and the Joint Board. See p. 2, supra.

Fourth, it is not consistent with cost causation principles to employ a usage-related measure to allocate fixed (i.e., NTS) costs between services for which a consumer incurs a marginal cost and those for which a consumer incurs no marginal cost. Where flat rate service is purchased, local calls have no marginal cost to telephone subscribers. Goods with such a cost structure -- free goods -- are consumed in greater quantities than they would be if they had significant marginal costs. Toll calls (whether local, intrastate or interstate) have marginal costs. Consumers

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[21] Comments of the NYNEX Telephone Companies at 20-21 (August 11, 1986) (NYNEX Comments).

make toll calls only if the perceived value of the call exceeds the toll charges. Employing a usage-related factor to allocate fixed (i.e., NTS) costs between a free good and one with significant marginal costs would result in an excessive allocation to the free good, because the consumer has no incentive to restrict consumption of the free good. Since all calls which have no marginal costs are local calls, and local calls are generally intrastate calls, abolishing the NTS/TS distinction and allocating NTS, as well as TS, costs based on usage would result in an allocation to the intrastate jurisdiction that exceeds the relative value of intrastate calls made.22/

Fifth, if the NTS/TS distinction were eliminated and all Category 6 costs were allocated by a usage-based measure, there would be enormous effects on existing divisions of revenue requirements between the jurisdictions. Although the amounts involved for Alaska cannot yet be determined with precision, they are very large. The 16 local exchange company analysis conducted by the State indicates annual allocation changes of $5.8 million (for Plan 6E) to $7.9 million (for Plan 6D) would result from proposed Category 6 changes.23/ This, of course, understates the total impact of these changes because data for several Alaska exchange carriers, including those serving Anchorage and Fairbanks, were not available. AT&T apparently estimates the allocational shift

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22/ See Comments of United Utilities, Inc. at 5 (July 9, 1986) (United Utilities Comments).

23/ See Attachment A.

for Alaska from changed Category 6 procedures to be approximately $16 million a year.[24] In these circumstances, adoption of the proposed plans would deal universal service, particularly in rural areas, a crippling blow.

The Alaska Telephone Association, based on a preliminary view of local carrier data, estimated that allocating all Category 6 costs on the basis of subscriber line usage (SLU) (Plan 6D) would result in increases in the intrastate revenue requirement in rural areas of Alaska in the range of $2.70 to $20.27 per access line per month.[25] United Utilities noted that under Plan 6D, its revenue requirement would increase by $101.55 annually per access line, or approximately $8.46 per access line per month.[26]

The State's analysis confirms that each of the proposed alternative plans would involve a substantial change in jurisdictional revenue requirements. If all Category 6 costs were allocated on the basis of SLU (Plan 6D), the data submitted by Alaska carriers show that intrastate revenue requirements on a per loop per month basis would increase from a low of $2.67 (for Matanuska Telephone Association and General Telephone Co. of Alaska) to as much as $17.12 (for Yukon Telephone Company). See Attachment A.

24/ Compare AT&T Comments at 21, with Comments of the Alaska Telephone Association at 7 & n.7 (August 11, 1986) (ATA Comments).

25/ ATA Comments at 6.

26/ United Utilities Comments at 7. For Plan 6B, United Utilities shows an annual per access line shift to the intrastate jurisdiction of $90.12 ($7.51 per month); and for Plan 6C of $81.68 ($6.82 per month). Even under Plan 6E, the shift would be $44.18 ($3.68 per month).

Under Plan 6D, 11 of the 16 carriers would have increases in per access line per month intrastate revenue requirements above $8, and 4 would have increases over $16 per access line per month.[17]

Attachment A shows that the effects of Plans 6B[18] and 6C[19] would be similar. Under Plan 6E, the effects, while still dramatic, are somewhat less large, because of its use of weighting factors for smaller companies.[20] Other data show that for Alaska carriers surveyed, the average per loop per month shift to the intrastate jurisdiction would be $3.61 (the national average would

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[17] Compare, for example, Reply Comments of the Kansas Corporation Commission Staff, CC Dockets 78-72 and 80-286, at 3 (October 9, 1986) (Kansas Staff Reply Comments). The maximum shift for the 22 surveyed carriers serving Kansas, under Plan 6D, would be $4.92 per loop per month. Id.

[18] Under Plan 6B, the shifts would range from a low of $2.24 per loop per month (for General Telephone Company of Alaska) to $16.36 (for Interior Telephone Company). Of the 16 companies, 11 would have shifts above $7 per loop per month, and 3 would have shifts above $15 per loop per month. See Attachment A. In contradistinction, the maximum shift for a surveyed Kansas carrier would be $4.38 per loop per month. Kansas Staff Reply Comments at 3.

[19] Under Plan 6C, the shifts would range from a low of $1.95 per loop per month (for Matanuska Telephone Association) to $16.79 (for Yukon Telephone Company). Of the 16 companies, 11 would have shifts above $6 per loop per month, and 3 would have shifts above $13 per loop per month. See Attachment A. In contradistinction, the maximum shift for a surveyed Kansas carrier would be $3.11 per loop per month. Kansas Staff Reply Comments at 3.

[20] Under Plan 6E, the shifts would range from a low of $0.78 per loop per month (for Arctic Slope Telephone Association) to $22.47 (for Sitka Telephone Company). Of the 16 companies, 9 would have shifts above $5 per loop per month, and 2 would have shifts above $13. See Attachment A. In contradistinction, the maximum shift for a surveyed Kansas carrier would be $1.88. For one Kansas carrier, Plan 6E would result in an increased allocation to the interstate allocation of $1.20 per loop per month. Kansas Staff Reply Comments at 3.

be $0.53); under Plan 6C would be $3.36 (the national average would be $0.44); under Plan 6D would be $3.77 (the national average would be $0.79); and under Plan 6E would be $3.07 (the national average would be $0.42).[11] For each of these plans, the impact is greater on Alaska than on any other state.[12] Under any of the alternative plans, it is clear that huge shifts in jurisdictional separations would result and that universal service would be severely harmed.

For all of these reasons, the State believes that the present distinction between NTS and TS costs, and the allocation of NTS costs on the basis of SPF and not a usage-related factor, should not be changed.

C. <u>The Appropriate Usage Related Factor To Apply To Traffic Sensitive Costs Is Busy Season, Busy Hour Completed Calls Weighted By Office Size.</u>

Although the State believes the NTS/TS distinction should be retained, and that NTS costs should be allocated on the basis of SPF, it does not disagree with the proposition that traffic sensitive costs should be allocated on the basis of a usage-related factor. Most of the comments suggested that subscriber line usage

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[11] Summary Reports of COE Data For Local Exchange Carriers Submitted to the Joint Board in CC Docket 80-286, Summary Report 8C.

[12] Under Plan 6B, the state on which the impact is next greatest is Nevada, $2.35 per loop per month; under Plan 6C, Nevada, $2.08 per loop per month; under Plan 6D, Nevada, $2.69 per loop per month; and under Plan 6E, also Nevada, $1.45 per loop per month. Id.

(SLU), dial equipment minutes (DEM) or some variant of them be used as the TS allocator. A proper application of cost causation principles, however, requires use of an allocator not suggested by the Joint Board -- weighted busy season, busy hour completed calls, with weights inversely related to office size.

Completed calls, rather than some allocator based on call minutes (e.g., SLU or DEM) is the appropriate basic allocational unit, because Category 6 COE performs switching functions. By and large, the costs of actually switching a call are the same whether a call is one minute or ten minutes in duration.[11]

Busy season, busy hour calls, rather than all calls, should be employed because traffic sensitive equipment are engineered to meet busy season, busy hour traffic requirements. In the past, the Commission has refused to adopt busy hours as the relevant

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11/ Theoretically, all calling activity -- both completed calls and call attempts -- should be used as the basic allocational unit, because switching equipment is used for attempted calls as well as completed calls. Employing a factor which includes unsuccessful call attempts, however, would not be sound. First, while billing records provide a readily available source of completed call data for at least toll calls, there is no ready available existing source of data for call attempts. Collecting such data would be an additional burden on exchange companies. Second, although there need not be perfect symmetry between cost allocation and cost recovery, some close relationship is useful. Given that it is neither regulatory policy nor industry custom to charge for attempted calls, it does not appear appropriate to allocate costs based on that factor. Third, there is no reason to believe that the use of attempted calls in cost allocation procedures would have any significant effect. It is likely that the ratio of unsuccessful to successful call attempts for interstate calls is not significantly different than the ratio for intrastate calls. There is, therefore, no reason to complicate the separations procedure by adding unsuccessful call attempts to the calculus.

time period for allocational studies. It concluded that the difference between a busy hour period and other periods is not sufficiently signifi-ant to require use of busy hour data. While this conclusion may be correct for some parts of the country, it is likely to be incorrect for the eastern and western parts of the country. For example, businesses in the Eastern and Pacific (even without regard to Alaska) time zones generally may communicate with each other only during the relatively limited portions of day which fall within the business hours of both the calling and called parties.[14/] Traffic sensitive equipment must be designed with the busy season busy hour load in mind.[15/] Thus, to allocate costs for equipment which is designed for busy hour loads on any basis other than busy hour calls would not be cost causative.

Completed busy season, busy hour calls, however, is not, by itself, an adequate allocator of traffic sensitive costs. Interstate calls should be weighted more heavily than intrastate calls because of the additional costs incurred in switching an interstate call. See Attachment B. This is particularly (but not exclusively) true in the 24 states like Alaska which have only one area code. In addition, the extent to which interstate calls cost more to switch on a cost per call basis depends, in significant part, on the size of the local switching office. This is so

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14/ This limitation is particularly severe in Alaska, where the time difference between most of the State and East Coast is 4 hours.

15/ _See_, _e.g._, Comments of Anchorage Telephone Utility at 6 (July 19, 1985) (ATU Comments); Comments of Mountain Bell Telephone _et_ _al_. at 11-12 (July 19, 1985).

because much Category 6 COE does not come in small units of ca- ity. Generally speaking, for example, in central offices with digital and stored program analog switches, the smallest switching network that can be purchased is of a size capable of handling approximately 800 access lines. Costs for switching networks are, therefore, fixed for any office under 800 lines. For these reasons, the State believes that call weighting factors related to office size are consistent with cost causation principles and should be employed.[16] The weights set forth in the Joint Board's proposed Plan 6E, however, are inadequate. The State suggests that the Joint Board consider applying greater weights to interstate calls, such as the following, for example:

Office Size -- Number of Access Lines	Interstate Weighting Factor
0-1000	3.5
1001-2000	3.0
2001-3000	2.5
3001-5000	2.0
5001 +	existing weighting factors

Of course, determination of whether these call weighting factors are adequate cannot be made without application of them to the circumstances of specific exchange carriers. But use of an allocator derived by applying weighting factors such as these to busy season, busy hour completed calls, for the reasons set forth

16/ Currently, in allocating traffic sensitive costs, size related weights are used with respect to some types of central offices but not with respect to others. See Comments of the United States Telephone Association at Attachment B (July 11, 1986).

above, will allow a cost causative separation of traffic sensitive costs.

D. Exchange Carriers With High Category 6 COE Costs Should Receive High Cost Support Analogous To The Support Received For High Local Loop Costs.

In prior actions in this docket, the Commission adopted the recommendations of the Joint Board to provide cost support to exchange carriers with high NTS local exchange plant costs. Carriers with high unseparated NTS local loop costs can allocate varying percentages of those costs which exceed 115 percent of the national average for unseparated NTS loop costs per working line directly to the interstate jurisdiction. For study areas reporting 50,000 or fewer working loops, such cost support is accorded for 50 percent of the costs between 115 percent and 150 percent of the national average and 75 percent of the costs in excess of 150 percent of the national average.[17] For larger study areas, cost support is accorded for 25 percent of the costs between 115 percent and 150 percent of the national average and 75 percent of the costs in excess of 150 percent of the national average.[18]

Several carriers[19] have commented that exchange companies with high Category 6 COE expenses should not be entitled to high cost support, because, among other reasons, high Category 6 COE

17/ 47 C.F.R. § 67.631(a).

18/ 47 C.F.R. § 67.631(b).

19/ See, e.g., NYNEX Comments at 25; Ameritech Comments at 19.

costs are avoidable and, unlike high local loop costs, are not due to geography, low population density, or other factors beyond the control of local exchange companies.

Certainly in Alaska, this is not correct. Communities in Alaska are extraordinarily widely scattered, and geographically compact. Telephone systems in such communities are, unlike those in small remote communities located elsewhere, characterized by relatively short amounts of outside wiring or subscriber loops, with concomitantly relatively low local loop costs, and remote central offices, with unavoidably high COE costs. The small population base of these communities means that these COE costs are particularly high on a per subscriber loop basis.

In fact, Category 6 COE NTS costs per subscriber loop are higher in Alaska than in any other state. If the data submitted to the Joint Board by the four exchange carrier trade associations on October 14 1986 is accurate, Category 6 NTS investment in Alaska is $256.93 per loop, <u>three times the national average</u>. In no other state does Category 6 NTS investment exceed $200 per loop.[10/]

On a nation-wide basis, as data submitted in this proceeding show, total Category 6 COE investment (NTS and TS) amounts to approximately $300 per loop. In Alaska, the average is more like $500 per loop.[11/] For many telephone companies serving remote

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10/ Summary Reports of COE Data for Local Exchange Carriers Submitted to the Joint Board in CC Docket 80-286, Summary Report 6C.

11/ <u>Id.</u>, Summary Report 6A.

areas of Alaska, Category 6 COE investment exceeds $1000 per loop.[42] There is no justification for treating these companies differently than companies with high NTS local loop costs. Indeed, different treatment would discriminate against ratepayers in remote Alaskan communities merely because they lived in communities where physical characteristics meant local loops were relatively short and COE fixed costs, accordingly, relatively high.

It should be noted that a number of carriers agree that if cost support is needed (and the data set forth above indicate it is), a mechanism separate from the high loop cost fund should be recommended.[43] The suggestion has been made that assistance be determined on the basis of a comparison of individual company impacts with national average impact of Category 6 separation procedure changes on a per subscriber loop basis.[44] The State believes it is preferable (and simpler) to use a mechanism similar to that used for high local loop costs, that is, one based on percentages in excess of national per loop averages for unseparated costs.

It should be recognized that the particular mechanism for Category 6 cost support may need to be varied, depending on whether other changes in Category 6 separations procedures are

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42/ These companies include Interior Telephone Company ($1109 per subscriber loop); United Utilities ($1345 per subscriber loop); Bush-Tel ($1422 per subscriber loop); Mukluk Telephone Company ($1697 per subscriber loop); and Sitka Telephone Company ($1063 per subscriber loop). <u>See</u> Attachment A.

43/ <u>See</u>, <u>e.g.</u>, AT&T Further Comments at 17-19.

44/ <u>Id</u>. at 19.

implemented. Unseparated Category 6 COE costs would be the appropriate basis for Category 6 high cost support, particularly if the NTS/TS distinction is modified or SPF is no longer used. If SPF continues to apply to approximately the same proportion of Category 6 costs as it presently does, using unseparated Category 6 costs as the basis for high cost support could result in some companies having a negative Category 6 intrastate allocation. In the event SPF continues to be employed to allocate a relatively unchanged percentage of Category 6 COE, it would, therefore, make more sense to base high cost support on separated, intrastate Category 6 expenses.

III. COE CATEGORY 8 SEPARATIONS PROCEDURES

A. Overview Of The Existing Procedure And The Critical Issue Raised By The Joint Board's Suggested Alternatives.

The major portion of Category 8 COE -- interexchange circuit equipment -- is allocated to the interstate or intrastate jurisdiction based on a formula that includes a distance-related factor -- conversation minute miles (CMM). Some telephone carriers have argued in their comments that interexchange circuit costs in an era dominated by satellites are not distance sensitive and that, as a result, distance should not be a factor in allocating these Category 8 costs.

Some of the plans proposed by the Joint Board divide Category 8 equipment into two types: termination equipment and line haul equipment. Termination equipment is defined as equipment that is not distance sensitive.[45] Conversely, line haul equipment is defined as equipment for which costs are distance sensitive.[46] All of the alternative plans propose to remove distance as a factor in allocating the costs of termination equipment. Under Plan 8D, distance would also be removed as a factor in allocating line haul costs.

The impact of the various proposed Category 8 alternatives on Alaska telecommunications must be assessed in the light of the unique manner in which Alaska telecommunications services are provided. First, to the State's knowledge, Alaska is the only state in which interexchange intrastate service is furnished by use of satellite. Second, Alaska is the only state in which intrastate interexchange service is provided solely by an entity which does not provide local exchange service. For these and other reasons, the impact of proposed changes in Category 8 separations procedures is very different for local exchange companies than it is for an intrastate interexchange service provider, and very different for Alaska than it is for other states.[47]

45/ The proposed glossary definition for termination equipment is "[i]nterexchange circuit plant, the cost of which is generally not distance sensitive." Order, Appendix C at 9.

46/ The proposed glossary definition for line haul equipment is "[i]nterexchange circuit plant, the cost of which is generally distance sensitive." Id., Appendix C at 8.

47/ At present, only Alascom, Inc. (Alascom) is authorized by the Alaska Public Utilities Commission (APUC) to provide intrastate interexchange service. An application for authority to provide intrastate interexchange service was submitted to the APUC on September 12, 1986 by General Communication, Inc. (GCI), and is pending.

For most exchange carriers, including many in Alaska, it appears that adoption of any of the proposed alternative plans would not create a significant shift in revenue requirements. The separations results of each of the alternative Category 8 proposed plans are the same for a local exchange carrier that consists only of end offices that have a single toll route to a connecting company. Many, but not all, Alaska exchange companies fit that description.

For Alascom (the Alaska intrastate interexchange carrier) and Alaskan citizens, the impact of the proposed changes in Category 8 separations procedures would be very different and adverse. Data submitted to this Joint Board indicate that Alascom's intrastate revenue requirement would increase $21.6 million per year under Plan 8B; $42.0 million per year under Plan 8C; and $50.5 million per year under Plan D.[48] Changes in Category 8 procedures would also have a seriously adverse effect on Alaskan exchange carriers with significant satellite earth station costs.

For Alaska, therefore, the alternative Category 8 plans offered by the Joint Board raise one fundamental issue:

> If Category 8 separations procedures are revised, what special provisions should be made for Alaska because of the extreme and unique effect such revisions would have on telecommunications service and the achievement of universal service in Alaska?

48/ Alascom, Inc. data submission, Appendix A at 12-13 (October 14, 1986).

B. If Category 8 Separations Procedures Are Revised, Steps Must Be Taken To Avoid Massive Allocational Shifts To The Intrastate Jurisdiction In Alaska.

As the Florida Public Service Commission recognized in its comments, adoption of any of the revised Category 8 separations procedure options would have a uniquely adverse impact in Alaska.[49] The data submitted by Alascom confirm that the impact of the revised procedures would be devastating. Currently, Alascom's annual intrastate revenue requirement for Category 8, as reported to the Joint Board, is approximately $23.6 million.[50] If Plan 8B were adopted, that revenue requirement would approximately double, to about $45 million.[51] If Plan 8C were adopted, the intrastate revenue requirement would grow to approximately $65.6 million.[52] If Plan 8D were adopted, that revenue requirement would be more than tripled, to approximately $74.1 million.[53]

The magnitude of this shift is best understood if measured on a per access line basis. There are approximately 250,000 access

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49/ Supplemental Comments of the Florida Public Service Commission at 4-5 (September 11, 1986).

50/ Alascom, Inc. data submission, Appendix A at 9 (line 00).

51/ Id., Appendix A at 9, 12-13. This figure adds the $21.6 million decline in Alascom's interstate revenue requirement under Plan 8B to the current intrastate revenue requirement.

52/ Id. This figure combines the $42.0 million decline in Alascom's interstate revenue requirement under Plan 8C with the current intrastate revenue requirement.

53/ Id. This figure combines the $50.5 million decline in Alascom's interstate revenue requirement under Plan 8D with the current intrastate revenue requirement.

lines in Alaska. The approximate annual increase in intrastate revenue requirements per line for each alternative plan is:

Plan 8B	$85.90
Plan 8C	$167.50
Plan 8D	$201.50

This massive jurisdictional shift will occur in Alaska, and likely only in Alaska, for a number of reasons. First, as noted above, to the State's knowledge, Alascom is the only intrastate carrier that uses satellites to transmit a substantial number of intrastate calls and is, therefore, the only intrastate interexchange carrier with satellite costs as a significant part of its intrastate rate base. Second, the significant costs of installing interexchange equipment, including (but not limited to) satellite equipment, are greatly increased by the great distances between Alaska communities. Third, because of the remoteness of facilities locations, the difficult and varied terrain, and the harshness of the Alaskan climate, the costs of maintaining Category 8 equipment are much higher in Alaska than they tend to be in other states. Fourth, because of the relatively few access lines in Alaska, those costs are particularly high on a per access line basis.

Further, as discussed by United Utilities in its comments, changes in Category 8 procedures would also adversely affect it.[54] The Commission approved the joint licensing of satellite earth stations to Alascom and local exchange carriers serving

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54/ See Comments of United Utilities, Inc. at 1-3 (September 12, 1986).

remote portions of Alaska. In so doing, the Commission recognized that removing distance as a factor in separating the costs of that equipment would result in a "substantial and unintended" increase in intrastate revenue requirements for these exchange carriers and it approved the continued use of the CMM factor in an effort to maintain reasonably affordable telephone service in rural Alaska.[55]

The impact of the staggeringly large increases in intrastate revenue requirements for affected Alaskan carriers that would result from adopting any of the proposed Category 8 plans would be devastating to attempts to attain and maintain universal service in Alaska. As the State noted in reply comments filed before this Joint Board earlier this month, the struggle to achieve and maintain universal service is an ongoing one in Alaska.[56] Telephone subscribership in Alaska is among the lowest in the country. Adoption of any of the Category 8 proposals would likely double or triple Alascom's intrastate revenue requirement. The result would be huge increases in intrastate rates. Such increases would affect interstate service usage for Alaska interstate carriers as well, creating further separations issues and potential problems for achievement of universal service. The revenue requirements

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[55] Memorandum Opinion and Order, CC Docket 80-584, FCC Mimeo 86-68 (February 25, 1986) (Bush Reconsideration I); further reconsideration denied, Memorandum Opinion and Order, CC Docket 80-584, FCC Mim 86-439 (October 24, 1986) (Bush Reconsideration II).

[56] See Reply Comments of the State of Alaska, CC Dockets 78-72 and 80-286 (October 9, 1986).

and rates of exchange carriers in rural Alaska, which need earth stations to communicate effectively with the rest of Alaska and the Nation, would also be likely to increase markedly. Universal service, a primary policy goal of the Commission as well as the Joint Board, would be undermined.

If the Joint Board determines that changes in Category 8 procedures must be made and that such changes do not create massive jurisdictional shifts or impair universal service in the rest of the fifty states, equity and comity nonetheless require that special steps be taken so that telephone service in, to, and from Alaska is not impaired. The State believes that the Joint Board and the Commission can and should accomplish with respect to Alaska what is accomplished for other states -- procedures that foster and maintain universal service. To do otherwise would be to adopt a policy that uniquely -- and unnecessarily -- discriminates against Alaska and creates in Alaska alone conditions which are inconsistent with the universal service policy and the public interest.

In order that Alaska be treated like other states, special provisions must be made for it. "Make-whole" policies would allow the Nation to benefit from both separations reform and further universal service in the Nation and Alaska.

Even AT&T, which has argued in this and the Alaska Joint Board that distance must be removed as a factor in Category 8 separations, has recognized the adverse potential effects of such a step.[57] AT&T has noted that "a variety of means may be available to avoid undue rate pressures on subscribers in Alaska."[58] The State urges that such means be considered, and that this consideration go well beyond a "short transition" period to respond to particular hardships that might result from changes in separations rules that AT&T suggests.[59] Such a step would be inadequate to remedy the harm massive jurisdictional shifts would cause.[60]

The Alaska Joint Board should be asked to participate in evaluating and recommending these suggested special provisions, and to do so in conjunction with its consideration of other issues in that proceeding. Given the magnitude of proposed Category 8 changes, their likely impact, and the fact that the treatment of distance in separations has been put in issue in that proceeding,[61] the task of the Alaska Joint Board would be made extraordinarily complex, if not impossible, without such coordination

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57/ See, e.g., AT&T Further Comments at 19-22.

58/ Id. at 21.

59/ Id. See also Supplemental Comments of AT&T Concerning Category 8 COE at 7 (September 12, 1986) (AT&T Supplemental Comments).

60/ In this regard, it should noted that Alascom, in earlier comments, estimated that a $40 million shift to intrastate revenue requirements would add a burden of $180 per access line on Alaska ratepayers, and save United States interstate ratepayers an average of only approximately $0.20 per year. Preliminary Reply Comments of Alascom, Inc. at 3 (August 16, 1985).

61/ See, e.g., Order Requesting Data and Inviting Comments, CC Docket 83-1376, at ¶ 22 (May 9, 1986).

and consultation.[62] The Alaska Joint Board should not be forced to make recommendations after a fait accompli, that is, after a transition period has been initiated, as AT&T suggests, or after a decision has been made which would either have to be undone or which would eliminate options available to it to resolve the important and difficult issues it is facing.

62/ AT&T appears now to agree that consideration of this issue, including special relief, by the Alaska Joint Board is appropriate. AT&T Supplemental Comments at 7.

IV. CONCLUSION

Adoption of any of the proposed separations procedure changes could have a devastating effect on the attainment and maintenance of universal service in Alaska. For all the reasons set forth above, the State urges that the Joint Board not recommend changes in current procedures that increase intrastate allocations unless steps are taken to insure that universal service in Alaska, as well as elsewhere, is not impaired.

Respectfully submitted,

THE STATE OF ALASKA
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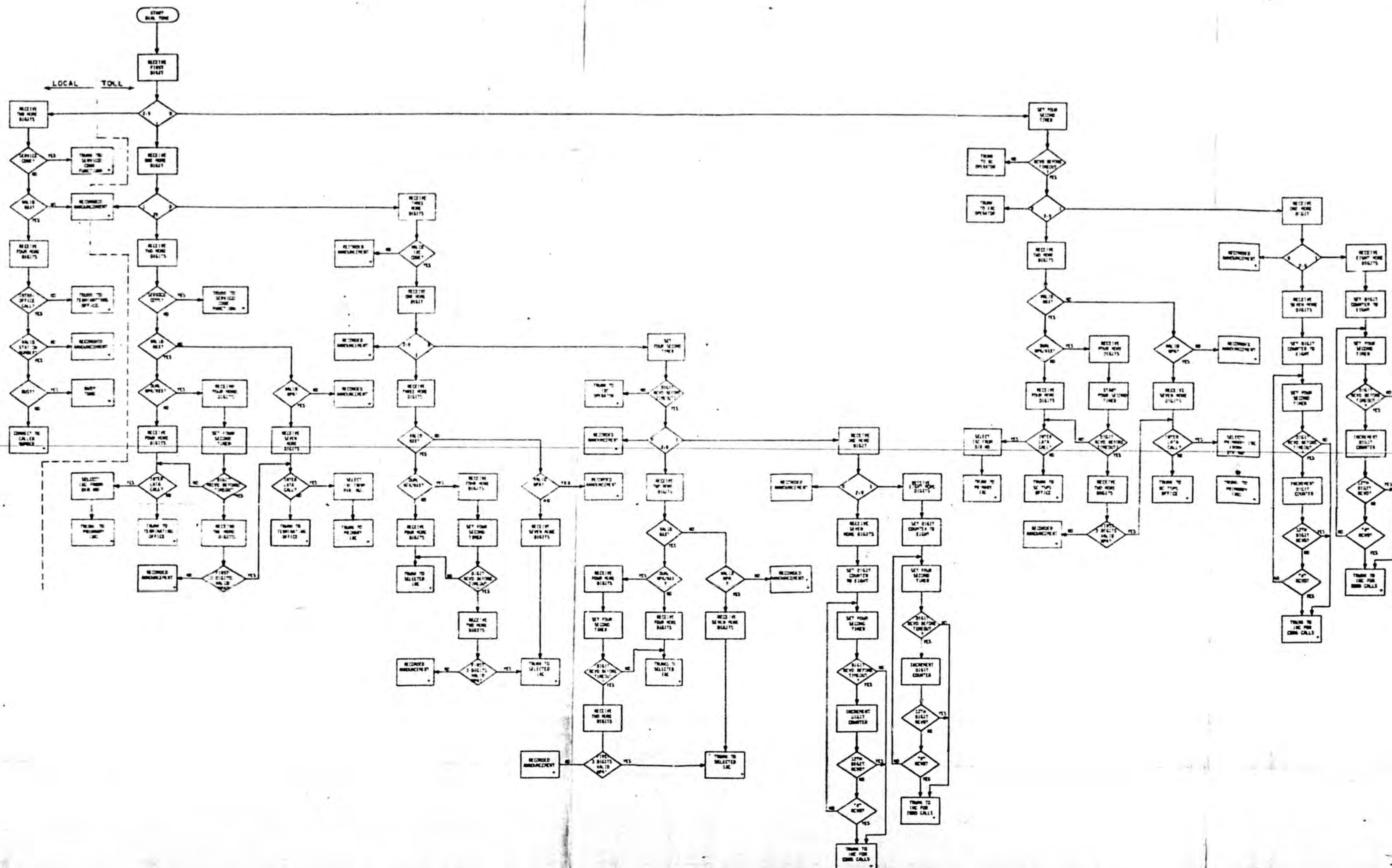
October 29, 1986

ATTACHMENT A

Category 6 Data For
Sixteen Alaska Exchange Carriers

	Matanuska Telephone Association	Ketchikan' Public Utilities	Interior Telephone Company	General Telephone Co of Alaska	United Utilities	Yukon Telephone Company	Bristol Bay Telephone Cooperative	Bush-Tell
CAT 6 TS Investment, M1	3,555,613	1,375,422	1,233,675	1,709,907	2,018,042	183,973	203,664	322,084
CAT 6 NTS Investment, N1	5,432,795	1,979,265	902,718	1,824,121	1,471,471	122,281	343,769	295,133
CAT 6 TOT Investment, A7	9,088,408	3,354,687	2,136,393	3,534,028	3,489,513	306,254	547,433	617,217
CAT 6 TS Revenue Req, Q1	1,297,743	652,912	979,785	672,506	1,280,202	148,982	100,589	170,446
CAT 6 NTS Revenue Req, T1	1,928,642	939,558	716,938	717,427	933,469	99,022	169,788	156,185
CAT 6 TOT Revenue Req, L1	3,226,385	1,592,470	1,696,723	1,389,933	2,213,671	248,004	270,377	326,631
Total Subscriber Loops, X	22,336	5,159	1,927	11,196	2,595	377	800	434
SPF, Z	.445800	.658399	.850001	.582886	.320671	.850000	.850000	.487900
Weighted DEMs, AA2	.175083	.262816	.340563	.247080	.093317	.201000	.303400	.078400
SLU, AA3	.115200	.182500	.322450	.162737	.070148	.198700	.288900	.076700
Adj Weighted DEMs, BB2	.175018	.262795	.366134	.229027	.093317	.153900	.303400	.089900
Adj SLU, BB3	.115200	.182500	.322450	.162737	.070148	.152200	.288900	.088000
Plan 6A								
IS TS Revenue Req, FF1	227,187	171,596	333,679	166,163	119,465	29,945	30,519	13,[illegible]3
IS NTS Revenue Req, GG1	859,789	618,604	609,398	418,178	299,336	84,169	144,320	6,203
IS TOTAL Revenue Req, EE1	1,086,975	790,200	943,077	584,341	418,801	114,114	174,839	89,566
IS Rev Req per Loop per mo	4.06	12.76	40.78	4.35	13.45	25.22	18.21	17.20
Plan 6B								
IS TS Revenue Req, FF2	227,187	171,596	333,679	166,163	119,465	29,945	30,519	13,363
IS NTS Revenue Req, GG2	222,180	171,469	231,177	116,752	65,481	15,071	49,052	13,744
IS TOTAL Revenue Req, EE2	449,366	343,065	564,855	282,915	184,946	45,017	79,570	27,107
Rev Req shift to state per Loop per mo	2.38	7.22	16.36	2.24	7.51	15.27	9.92	11.99
Plan 6C								
IS TOTAL Rev Req, EE3	564,675	418,493	621,228	318,332	206,573	38,168	82,032	29,364
Rev Req shift to state per Loop per mo	1.95	6.00	13.92	1.98	6.82	16.79	9.67	11.56
Plan 6D								
IS TOTAL Rev Req, EE4	371,680	290,626	547,108	226,194	155,285	37,746	97,525	28,744
Rev Req shift to state per Loop per mo	2.67	8.07	17.12	2.67	8.46	16.88	8.05	11.68
Plan 6E								
IS TOTAL Revenue Req, EE5	564,490	418,501	746,948	362,610	304,147	52,031	97,525	44,095
Rev Req shift to state per Loop per mo	1.95	6.00	8.48	1.65	3.68	13.72	8.05	8.73

	Cordova Telephone Cooperative	Artic Slope Telephone Association	Otz Telephone Cooperative	Mukluk Telephone Company	Copper Valley Telephone Cooperative	Glacier State Telephone Company	Sitka Telephone Company	Juneau Douglas Tel Co
CAT 6 TS Investment, N1	204,706	504,171	738,770	583,3[illegible]	800,246	4,056,296	2,991,165	1,360,373
CAT 6 NTS Investment, N1	614,117	319,363	360,260	314,[illegible]	1,020,123	6,185,161	3,444,893	3,790,444
CAT 6 TOT Investment, A7	818,823	823,534	1,099,030	897,498	1,820,369	10,241,457	6,436,058	5,150,817
CAT 6 TS Revenue Req, Q1	74,452	272,252	447,842	271,328	277,526	2,968,239	1,436,773	1,035,861
CAT 6 NTS Revenue Req, T1	223,354	172,456	218,390	146,098	353,778	4,526,060	1,654,716	2,886,249
CAT 6 TOT Revenue Req, L1	297,806	444,708	666,232	417,426	631,304	7,494,299	3,091,489	3,922,110
Total Subscriber Loops, X	1,261	1,564	1,336	529	2,917	22,459	6,054	13,850
SPF, Z	.840000	.850000	.371200	.457400	.644300	.687700	.850000	.648500
Weighted DEMs, AA2	.296000	.188100	.107900	.116400	.206000	.164800	.238776	.269133
SLU, AA3	.201600	.327700	.084000	.099400	.173000	.269194	.180608	.193300
Adj Weighted DEMs, BB2	.329500	.188100	.125200	.125100	.229200	.269194	.238776	.269133
Adj SLU, BB3	.224400	.327700	.097500	.106900	.192500	.164800	.180608	.193300
Plan 6A								
IS TS Revenue Req, FF1	22,038	51,211	48,322	31,583	57,170	489,166	343,067	278,784
IS NTS Revenue Req, GG1	187,617	146,588	81,066	66,825	227,939	3,112,571	1,406,509	1,871,732
IS TOTAL Revenue Req, EE1	209,655	197,798	129,389	98,408	285,110	3,601,737	1,749,576	2,150,517
IS Rev Req per Loop per mo	13.86	10.54	8.07	15.50	8.15	13.36	24.08	12.94
Plan 6B								
IS TS Revenue Req, FF2	22,038	51,211	48,322	31,583	57,170	489,166	343,067	278,784
IS NTS Revenue Req, GG2	50,121	56,514	21,293	15,618	68,102	745,895	298,855	557,912
IS TOTAL Revenue Req, EE2	72,158	107,724	69,615	47,200	125,273	1,235,060	641,922	836,696
Rev Req shift to state per Loop per mo	9.09	4.80	3.73	8.07	4.57	8.78	15.25	7.91
Plan 6C								
IS TOTAL Rev Req, EE3	98,127	83,650	83,412	52,220	144,695	2,017,420	738,173	1,055,569
Rev Req shift to state per Loop per mo	7.37	6.08	2.87	7.28	4.01	5.88	13.92	6.59
Plan 6D								
IS TOTAL Rev Req, EE4	66,828	145,731	64,958	44,623	121,526	1,235,060	558,348	758,144
Rev Req shift to state per Loop per mo	9.44	2.77	4.02	8.47	4.67	8.78	16.40	8.38
Plan 6E								
IS TOTAL Revenue Req, EE5	113,226	183,220	105,598	63,031	192,485	1,884,849	117,252	1,579,407
Rev Req shift to state per Loop per mo	6.37	.78	1.48	5.57	2.65	6.37	22.47	3.44


LOCAL
TOLL

ATTACHMENT B

KEY

Local:	Call within the same exchange. Requires seven digits to complete.
Toll:	Interexchange call. Requires more than seven digits to complete.
CDOS:	Customer Dialed Operator Service.
IDDD:	International Direct Distance Dialing.
INC:	International Carrier.
IXC:	Interexchange Carrier.
NPA:	Numbering Plan Area (area code).
NXX:	Office Prefix. (N must be a digit between 2 and 9, inclusive. X may be any digit.)
TSPS:	Traffic Service Position System (cordless operator board).
XC:	Exchange Carrier.

CERTIFICATE OF SERVICE

I, Steven J. Gorosh, hereby certify that on this 28th day of November, 1986, I caused copies of the foregoing "Comments of the State of Alaska" to be hand-delivered or sent by first-class mail, postage prepaid, to the following:

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2-27-87

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

RECEIVED

FEB 27 1987

FCC
Office of the Secretary

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 Island	)	CC Docket No. 83-1376 RM 4436

To: The Federal-State Joint Board

FURTHER COMMENTS OF THE STATE OF ALASKA

I. INTRODUCTION

The State of Alaska (Alaska or the State) hereby submits further comments in the above-captioned proceeding. The December 2, 1986 round of initial comments shows that all parties recognize the need to ensure universal service for Alaska and that provision of telecommunications service is critical to the State.

II. FOSTERING AND MAINTAINING UNIVERSAL SERVICE SHOULD CONTINUE TO BE THE LODESTAR FOR THIS PROCEEDING.

In its initial comments, the State stressed the reliance Alaskans place on telecommunications to help overcome the vast distances, harsh climate, and limited transportation alternatives which characterize the State. Other parties also voiced this concern, and stressed the importance of universal service for Alaska.[1] The State highlighted the fact that universal service in the State continues to be difficult to achieve: the telephone penetration level has recently been as low as 83.5% (in July 1986), which was lower than all other states except Mississippi.[2] The State concluded that given the telephone penetration level in Alaska

> it is particularly important that this Joint Board not retreat from the longtime commitment to rate integration, impose changes in separations procedures or devise mechanisms which would either undermine the realization of universal service for Alaska or prevent provision of service to all areas of Alaska.[3]

1/ See, e.g., Comments of Alascom, Inc. at 6-10 (Alascom Comments); Comments of the Anchorage Telephone Utility at 2-4 (ATU Comments); Comments of the Alaska Telephone Association at 6-11 (ATA Comments); Comments of General Communication, Inc. at 16 (GCI Comments); Comments of the National Telecommunications and Information Administration at 5 (NTIA Comments). See also Comments and Proposal of American Telephone and Telegraph Company at 14 (AT&T Comments).

2/ Comments of the State of Alaska at 11 (Alaska Comments). The most recent survey of "Telephone Subscribership in the U.S." shows Alaska telephone penetration for November, 1986 at 87.3 percent. Because of the State's small population and the small sample size, the statistical variation for Alaska in this survey is 5 percent. Industry Analysis Division, Common Carrier Bureau, "Telephone Subscribership in the U.S." at Table 2 (released January 12, 1987) (Report). Even this Report, however, shows that in Alaska both telephone penetration in households and telephone availability other than in households remain very substantially below national averages (by 5.1 and 4.8 percent, respectively). Id. at Tables 1 and 2.

3/ Alaska Comments at 11.

As the State discussed in its initial comments, elasticity studies presented to the CC Docket No. 78-72 Joint Board suggest that telephone subscribership levels are more elastic in areas in which such levels are already relatively low.[4] Two recent studies provide additional evidence that increases in monthly telephone rates could cause significant declines in telephone penetration levels.

A study by the Idaho Public Utilities Committee concludes that each $1.00 increase in monthly residential telephone rates in Idaho sparks a 0.4 percent decline in telephone penetration assuming other factors are held constant. Idaho Public Utilities Commission, "The Demand for Basic Residential Telephone Service in Idaho" at 8 (undated) (IPUC Study). Accordingly, a $5.00 increase per month would lower the Idaho telephone penetration level 2.28 percent, and a $20.00 monthly increase would spark a decline of 9.18 percent.[5]

A study prepared for the Consumer Advocate Division of the West Virginia Public Service Commission concludes that a $5.00 per month increase in residential rates in West Virginia would lead to a 4 percent decrease in telephone penetration. A $10.00 per month increase would cause 12 percent of West Virginian customers to cancel service and, as monthly increases approach $20, 27 percent would give up service. Chilton Research Services, "Residential Customers' Attitudes Toward Telephone Services in West Virginia",

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[4] See Alaska Comments at 26 & n.45.

[5] IPUC Study at 8-9.

Prepared for The Consumer Advocate Division, State of West Virginia Public Service Commission at 3, 26 (October 28, 1986) (West Virginia Study). This study confirms the findings of studies submitted to the FCC that customers with the lowest incomes are most likely to cancel service in response to rate increases.[6]

These studies, of course, were not done in Alaska. Both Idaho and West Virginia, however, are, like Alaska, primarily rural. Both have higher telephone penetration levels than Alaska. Thus, the effects of rate increases on universal service may be greater in Alaska than the effects these studies indicate for Idaho and West Virginia. Together, these studies suggest the Joint Board must proceed with great caution, particularly in addressing proposals to change separations policies, which could create as much as $26 to $28 per access line per month increases in Alaska telephone rates.[7]

III. WITH IMPLEMENTATION OF THE FINAL STEP OF RATE INTEGRATION, ALASKA SHOULD BE TREATED AS PART OF THE NATIONALLY AVERAGED RATE STRUCTURE.

On December 31, 1986, the Commission granted the Emergency Petition for Relief of Alascom, Inc. (Alascom) and ordered implementation of the final step of rate integration and termination of the $1.25 million monthly transitional supplement paid to Alascom

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6/ West Virginia Study at 28.

7/ See Alaska Comments at 27 n.47.

by AT&T.[8] After fifteen years' transition, implementation of the final step of rate integration now allows Alaskans to enjoy the same geographically averaged interstate rates enjoyed by residents of all other states. Full rate integration should be maintained.[9]

Now that it has been fully instituted, Alaska rate integration should be accommodated in the same manner it is in other states. Rates for MTS/WATS service to and from Alaska should be part of the nationally averaged rate structure. Costs of service to and from Alaska should be treated as are those of other states, because the national rate structure is designed to generate revenue needed to recoup costs of providing service to and from all parts of the country. Shortfalls on so-called high cost routes are recouped by providing service on so-called low-cost routes.[10]

8/ Memorandum Opinion and Order, CC Docket No. 83-1376, FCC 86-602 at 2, 16 (released January 2, 1987) (January 2 Order).

9/ Whatever steps the Commission might take in connection with the U.S. Court of Appeals recent decision in Alascom, Inc. v. Federal Communications Commission (Case No. 85-1279 (January 27, 1987)), it should not tamper with the final step of rate integration. To undo that step would mean interstate rates, just lowered, would be forced back up, creating rate churn and inequity for Alaska consumers. This would be particularly unjust given that the final step of rate integration was accompanied by termination of the $15 million annual transitional supplement. Because of that termination, Alascom has filed a request to the Alaska PUC for authority to institute certain new charges designed to increase intrastate revenues. See n.24, infra. Changes to full rate integration would require, at the least, corresponding changes with respect to reinstitution of the transitional supplement.

10/ See Alaska Comments at 12-19.

In this connection, the data requested by Alascom, Inc. in its Motion to Obtain Required Information (filed December 24, 1986) may well prove instructive.

IV. SEPARATIONS CHANGES THAT SHIFT COSTS TO THE INTRASTATE JURISDICTION WOULD UNDERMINE UNIVERSAL SERVICE.

In its January 2 Order terminating the supplement paid to Alascom, the Commission recognized that it was "inequitable to place at risk the intrastate communications that are essential to many subscribers in the remote areas of Alaska."[11] The Commission concluded that, chiefly because of the decreased cost of capital and the treatment of the now terminated supplement as cost-free capital by the Alaska Public Utilities Commission (APUC), upward pressures on intrastate rates had abated, "if not disappeared completely."[12]

The State believes that the Commission has misread the status of pressures on intrastate rates. These pressures have not "disappeared completely." Although the cost of capital may have decreased, there remain significant factors that contribute to upward pressure on intrastate rates, including, for example, the need to complete the development of Alaska's telephone system. This and other factors creating upward pressures on intrastate rates are conspicuously absent from the Commission's analysis.

Perhaps even more conspicuous, however, is the failure by the Commission to acknowledge that the greatest pressure on intrastate rates could come from the myriad of separations proposals the Joint Board in CC Docket No. 80-286 is now considering. These

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[11] January 2 Order at ¶ 14.

[12] Id. at ¶ 34.

proposals, if adopted, would increase dramatically the costs to be recovered from the intrastate jurisdiction, and accordingly, create enormous upward pressures on intrastate rates. As the State noted in its December 2 Comments, the Category 8 separations procedures changes proposed by AT&T could cause an extraordinary shift -- $42 million -- to the Alaska intrastate jurisdiction.[13] Given the small number of access lines in the State -- approximately 250,000 -- a shift of $42 million would increase the intrastate revenue requirement by approximately $167.50 per access line per year, or $14 per line per month.[14] Combined with other cost recovery changes, intrastate revenue requirements could increase by up to $28 per line per month.[15]

Increases in Alaskan intrastate revenue requirements of these magnitudes are inconsistent with universal service.[16] According to data submitted by Alascom and ATA, rural (and other) Alaskans already pay more for phone service than comparable customers in

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13/ Alaska Comments at 24.

14/ Id. at 25 n.42.

15/ Id. at 27 n.47.

These figures would be reduced by $3 per line per month if the Commission is correct in its assumption, enunciated in its January 2 Order, that the impact of that decision would require only a $6 million per year intrastate rate increase. January 2 Order at ¶ 34. See also ATA Comments at 26, 36.

16/ Were the IPUC Study results to be applicable in Alaska, a $40 per month increase could lead to a decline in service of over 18 percent (reducing Alaskan penetration levels to about 70 percent). Were West Virginia Study results applicable, an even greater decline in service would be suggested.

the lower 48.[17] Merely stating the magnitude of these shifts and resulting revenue requirements, however, understates the special hardships that rate increases would pose for low income residents of the State, whom, the Idaho, West Virginia and other studies show, are apt to suffer the greatest decline in service.[18]

In light of these facts and the facts set forth in the State's Comments, separations changes must not be instituted which would harm universal service. As the State has urged, companies with high Category 6 costs should receive cost support analogous to the support provided for high NTS local loop costs, or comparable support. With respect to Category 8 costs, Alaska should be treated like other states, which requires adoption of "make-whole" policies to assure that Alaskans, like other Americans, face no massive jurisdictional revenue shifts.[19]

AT&T has suggested that if separations shifts would harm universal service in Alaska, then the State should subsidize telephone service so as to minimize that harm.[20] This argument is both theoretically and factually unsound. If adopted, it would

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[17] ATA Comments at 16-17, 26 & Attachment C; Alascom Comments at 10-11.

[18] In order to preserve and prevent declines in universal service, the Commission could closely monitor the status of Alaska telecommunications service. This monitoring would assist it in assessing the impact of termination of the supplement, any separations changes adopted, or any other changes in provision of service.

[19] Reply Comments of the State of Alaska, CC Docket No. 80-286 at 18-21, 26-27 (October 29, 1986). See also Alaska Comments at 20-29.

[20] AT&T Comments at 31-32.

discriminate against Alaska by requiring it, and no other state, to subsidize telephone service to keep rates at affordable levels. Viewed in this way, the proposal is the antithesis of rate integration. Further, as AT&T itself emphasized in its Opposition to Alascom's Motion to Obtain Required Information, Alascom's toll network is the functional equivalent of local loops in the lower 48.[21] In the lower 48, high local loop costs are supported by the high cost fund. In Alaska, support from a similar source must be found for its functional equivalent.[22]

In its Order extending time for filing these comments, the Commission recognized that parties should have an opportunity to comment in this proceeding on actions taken by the CC Docket No. 80-286 Joint Board on separations issues.[23] On February 13, 1987, the Commission announced that the February meeting at which that Joint Board was to have arrived at a recommendation on those issues was being postponed until March. The State suggests that the Commission either postpone the final round of comments in this proceeding or announce that supplemental comments may be filed

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[21] AT&T Opposition at 3.

[22] In this connection, it should be noted that, in significant part because of the precipitous drop in oil revenues described in its Comments, the State budget for Fiscal Year 1987 is now estimated to be $875 million in the red. The State, therefore, is being forced to retrench. The Governor, in fact, has proposed a Fiscal Year 1988 budget that represents a 27 percent cut in spending from Fiscal Year 1987 levels. Annual Budget Message By The Honorable Steve Cowper, Governor of the State of Alaska (January 28, 1987).

[23] Memorandum Opinion and Order, CC Docket No. 83-1376, FCC 1558 at 1.

thirty days after the CC Docket 80-286 Joint Board's recommendations on Central Office Equipment Categories 6 and 8 separations are released.[24] Resolution of collateral matters, such as Alascom's motion concerning immediate implementation of the Court of Appeals order in Alascom, Inc. v. Federal Communications Commission, may also require the filing of supplemental comments.

V. CONCLUSION

The State suggests that the points raised in these comments and the principles outlined in its initial comments be used to

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[24] Some comments in this proceeding have addressed the issue of transition periods for implementation of new separations rules. Given that the existence, nature and scope of any changes in separations rules has yet to be decided, it would appear that such comments are premature. Any transition period must be calibrated to be sufficiently long to take into account the relationship between any enacted separations changes and the need to maintain universal service.

Alascom suggests four methods of increasing instrastate revenues. Id. at 42-43. To respond to the need for increased intrastate revenues in light of the termination of the supplement Alascom, on January 22, 1987, filed a request with the APUC to institute directory and operator assistance rates, and related measures. Presumably, those methods would, therefore, not be available to support intrastate revenue increases required by other separations changes.

protect and enhance universal service for Alaska.

Respectfully submitted,

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February 27, 1987

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I, Jena Talarico, hereby certify that on this 27th day of February, 1987, I caused copies of the foregoing "Further Comments of the State of Alaska" to be hand-delivered or sent by first-class mail, postage prepaid, to the following:

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3-5-87

FILE COPY

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 [illegible]

RECEIVED

MAR - 5 1987

FCC
OFFICE OF THE SECRETARY

To: The Commission

MOTION FOR LEAVE TO FILE LATE-FILED COMMENTS

The State of Alaska (Alaska or the State), by its attorneys, hereby requests leave to file the attached "Comments of the State of Alaska in Connection with the Motion of Alascom, Inc. for Immediate Implementation of the Order of the United States Court of Appeals for the District of Columbia."

The Motion which the State's Comments addresses was filed February 6, 1987. Related pleadings were filed February 17, 1987 (Response of American Telephone & Telegraph Company to Motion of Alascom, Inc. and Opposition of General Communication, Incorporated) and March 2, 1987 (Reply of Alascom, Inc. to Responses to the Motion for Immediate Implementation of the Order of the United States Court of Appeals for the District of Columbia). The State wishes, having had the opportunity to review these pleadings and to analyze them from a public interest perspective, to file these comments. It asks that this motion be granted, because it will not delay the proceeding and because it believes its Comments will be useful in this matter.

Respectfully submitted,

THE STATE OF ALASKA
Grace Berg Schaible
Attorney General

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March 5, 1987

CERTIFICATE OF SERVICE

I, Jacqui Farrell, hereby certify that on this 5th day of March, 1987, I caused copies of the foregoing "Motion for Leave to File Late-Filed Comments" for the State of Alaska to be hand-delivered or sent by first-class mail, postage prepaid, to the following:

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3-5-87

FILE COPY

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

RECEIVED

MAR - 5 1987

FCC
OFFICE OF THE SECRETARY

To: The Commission

COMMENTS OF
THE STATE OF ALASKA
IN CONNECTION WITH THE MOTION OF
ALASCOM, INC. FOR IMMEDIATE
IMPLEMENTATION OF THE ORDER
OF THE UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA

The State of Alaska (Alaska or the State), by its attorneys, hereby files Comments in connection with the "Motion of Alascom, Inc. for Immediate Implementation of the Order of the United States Court of Appeals for the District of Columbia," filed February 6, 1987.[1/] In its Motion, Alascom asks the Commission

1/ These Comments are accompanied by a separate Motion for Leave to File Late-Filed Comments.

immediately to take certain actions to carry out the January 27, 1987 Order of the United States Court of Appeals for the District of Columbia Circuit in Alascom, Inc. v. FCC et al. (Case No. 85-1279) (January 27 Order).[2]

At the time the Commission was first considering the AT&T/GCI arrangements which led to the decision at issue in the January 27th Order,[3] the State said that it was not taking a position in support of or in opposition to those arrangements and pointed out that the arrangements raised complex and important public interest questions. Comments of the State of Alaska at 2 (filed April 5, 1985) (State of Alaska April 5 Comments). The State noted that the information needed to answer these questions was not in the administrative record and urged that such information be obtained to permit evaluation of the impact of the arrangements on some seven factors identified by the Commission in other phases of this proceeding as important to the public interest. Id. at 2, 4-6. The State also said at that time, and throughout this proceeding, that it "is of the greatest importance to all Alaskans that affordable, universal telephone service be available to them." Id. at 2. The State repeated this view in its brief to the Court of Appeals. See generally Brief of Intervenor The State of Alaska, Case No. 85-1279 (filed

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[2] On February 4, 1987, the court issued a further order directing that issuance of mandate be withheld until seven days after disposition of any timely petition for rehearing.

[3] Memorandum Opinion and Order, FCC 85-235 (released May 1, 1985) (May 1 Order).

January 24, 1986). That goal continues to be of paramount importance.

Accordingly, in connection with the Alascom Motion, the State urges that at the appropriate time the Commission engage in the type of reasoned, fact-based decision making the State has previously supported. The Commission has available to it data submitted to the Joint Board by the parties in July 1986,[4/] as well as additional and supplemental data submitted since that time. The Commission should also obtain further information bearing on the relevant issues here. The criteria cited by the Commission as determinative of the public interest should be applied to this administrative record and a decision made based on the record and analysis of it.

Further, as the State has repeatedly noted, availability of affordable, universal service to all Alaskans is of greatest importance. Interstate service is presently being provided to and from Alaska by two Alaska carriers (as well as by AT&T). Change in this situation would have complex and serious impacts on Alaskan telephone subscribers. Service disruption is not in the public interest. To avoid disruptions in Alaskan telephone service, the State urges that the Commission not take any action which would impair the provision of such telephone service to Alaskans by these carriers while the Commission is engaging in the process outlined above. If, on the basis of the administrative

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4/ The Joint Board had not been convened when the Commission issued its May 1 decision.

record, the Commission finds that (1) any applicable legal standards are not violated; (2) there is financial hardship or other significant considerations relevant to the public interest; and (3) that as a result of such considerations, service would be disrupted during the pendency of the Joint Board proceeding, appropriate action should be taken by the Commission to protect and preserve affordable, universal service.

Respectfully submitted,

THE STATE OF ALASKA
Grace Berg Schaible
Attorney General

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March 5, 1987

CERTIFICATE OF SERVICE

I, Jacqui Farrell, hereby certify that on this 5th day of March, 1987, I caused copies of the foregoing "Comments of the State of Alaska in Connection with the Motion of Alascom, Inc. for Immediate Implementation of the Order of the United States Court of Appeals for the District of Columbia" to be hand-delivered or sent by first-class mail, postage prepaid, to the following:

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MAR 10 '87

OFFICE OF THE SECRETARY

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

FILE

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 Joint Board

COMMENTS OF
THE STATE OF ALASKA

The State of Alaska (Alaska or the State), by its attorneys, hereby submits comments in connection with the Supplemental Notice of Proposed Rulemaking (Supplemental Notice)1/ in the above-

1/ 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; Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the United States Mainland and the Offshore Points of Hawaii, Alaska and Puerto Rico/Virgin Islands, et al., FCC 86-600, CC Docket No. 83-1376; RM 4436 (released January 9, 1987).

captioned proceeding and the comments filed in response to the Supplemental Notice.

As the Commission and the Joint Board well know, the State has long advocated institution of full rate integration for Alaska. With respect to Alaska-Hawaii routes, the State believes the Commission long ago settled the question of whether those routes should be rate integrated and determined that they should be.

In 1976, the Commission issued an opinion responding to a request for a declaratory ruling "on the question of whether MTS service among the following points should be regarded as interstate:

(a) Mainland - Puerto Rico/Virgin Islands

(b) Puerto Rico - Virgin Islands

(c) Puerto Rico/Virgin Islands - Alaska

(d) Puerto Rico/Virgini Islands - Hawaii

. . . [and] whether service between the points specified in b-d above, even if interstate, is encompassed within rate integration as a matter of policy."[2/] The Commission concluded that such service was interstate and that "the public interest would be best served by integrating the rates for service to the off-shore states."[3/] The Commission further held that: "It follows from

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2/ Memorandum Opinion, Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the United States Mainland and Hawaii, Alaska and Puerto Rico/Virgin Islands, 62 FCC 2d 693, 693-4 (1976).

3/ Id. at 694-95.

our conclusions herein that the rates for interstate services between Hawaii and Alaska should also be integrated into Mainland rate patterns by the relevant carriers as soon as practicable."[4]

The Commission's directive -- that rate integration applied to and among offshore points -- including Alaska and Hawaii -- has been repeated in later decisions.[5] Thus it has been abundantly clear for more than a decade that rate integration applies to Alaska-Hawaii routes (as well as to other off-shore points).

The State agrees with its sister State of Hawaii that "there is absolutely no basis for treating services between Alaska and Hawaii any differently from services between Alaska and the 'lower 48' states."[6] To do otherwise would be to reverse the determination already made that rate integration applies to and between off-shore points. Accordingly, the State believes rate integration should apply to Alaska-Hawaii and other off-shore

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[4] Id. at 695, n. 7.

[5] See, e.g., AT&T Co., Long Lines Department, 66 FCC 2d 3, 57, n. 70 ("See also, Rate Integration, 62 FCC 2d 693 (1976), wherein we held our rate and service integration requirement applies between and among Puerto Rico, the U.S. Virgin Islands, Alaska, Hawaii and the U.S. Mainland.") (emphasis in original); Common Carrier Separation Procedures, 72 FCC 2d 715, 717 (1979) (". . . the carriers are also required to integrate rates between other off-shore points, i.e. Alaska and Hawaii. 62 FCC 2d 693 (1976).")

[6] Comments of the State of Hawaii at 5 (filed February 10, 1987).

points, as it does to Alaska-Lower 48 service. The State believes this approach will promote universal, affordable service.

Respectfully submitted,

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March 10, 1987

CERTIFICATE OF SERVICE

I, Donna L. Petruska, hereby certify that on this 10th day of March, 1987, I caused copies of the foregoing "Comments of the State of Alaska" to be hand-delivered or sent by first-class mail, postage prepaid, to the following:

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3-27-87

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MAR 27 1987

FCC
OFFICE OF THE SECRETARY

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

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March 27, 1987

TABLE OF CONTENTS

SUMMARY

The Communications Act establishes as national telecommunications policy the promotion of service on a nation-wide basis to as many people as possible. Universal service must, therefore, be the fundamental goal in this proceeding.

The Joint Board has had presented to it extensive data, comments and proposals, as well as further comments. In these three sets of submissions, no party has disputed that Alaska's geography, demographics and other characteristics make telecommunications services critically important to, and universal service particularly difficult to achieve, in Alaska. In light of these facts and fundamental national telecommunications policies, the Joint Board should recommend, and the Commission adopt, measures that will (1) maximize universal service by allowing all Alaskans to obtain telecommunications services at affordable rates, and (2) promote integration of Alaska into the rest of the United States.

To foster universal service in Alaska, it is necessary to acknowledge the existence of and need for a carrier of last resort for the provision of Alaska interstate and intrastate services. Changes in the market structure through which interstate services are provided can have significant effects on the provision of intrastate services. These effects would frustrate the achievement of universal service.

As the State has maintained in its previously filed comments, integration of Alaska into the rest of the Nation is an important

national goal and can be accomplished, in significant part, by treating the costs of providing telecommunications services to and from Alaska in the same manner as are the costs of providing such services in other parts of the United States.

The State believes any proposal that would frustrate, rather than promote, the goals of universal service and integration of Alaska into the rest of the Nation should not be recommended by the Joint Board.

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 (Alaska or the State), by its attorneys and pursuant to the Joint Board's Order Requesting Data and Inviting Comments in this proceeding, hereby submits its reply comments.

I. THE CRITICAL IMPORTANCE OF TELECOMMUNICATIONS SERVICES TO AND THE DIFFICULTY OF ACHIEVING UNIVERSAL SERVICE IN ALASKA ARE UNCONTROVERTED.

In its July 15, 1986 response to the Joint Board's data request, Alaska submitted data concerning the State and its citizens.[1] Information concerning demographics, geography, climate,

1/ Response of the State of Alaska to Order Requesting Data and Inviting Comments (July 15, 1986) (Data Response).

transportation, education, public safety and health, economics, state revenues and expenditures, and the State's provision and consumption of telecommunications services was provided. Other parties provided similar or related information.

It is worth noting again some of the essential facts established.[2] The combination of Alaska's vast size and its small population makes the State's population density one-fifth that of the state with the next lowest population density (Wyoming) and one-sixty-seventh that of the United States as a whole.[3] Alaska has almost 300 communities. All but three contain fewer than 10,000 people, and over 200 communities have fewer than 500 people.[4] These settlements are dispersed throughout Alaska's 591,004 square miles, an area equal to 20 percent of the continental United States.[5]

This sparse and geographically dispersed population faces an extraordinary harsh climate and difficult terrain.[6] Transportation is difficult and roads are extremely limited.[7] In such circumstances, telecommunications services are critically important.

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[2] A summary of the data was provided with the State's Data Response at 1-5. Facts of particular relevance were highlighted in the Comments of the State of Alaska at 5-10 (November 28, 1986) (Alaska Comments).

[3] Data Response at 1.

[4] Id. at Section A, 4-5.

[5] Id. at Section A, 1.

[6] Id. at Section C.

[7] Id. at Section D.

For example, Alaskans rely on telecommunications to provide emergency medical services and education to citizens in rural areas.[8] The State's unusual characteristics can make telecommunications services unusually costly to provide.[9]

Despite the extraordinary need for it, telecommunications service is not universally available in Alaska. Telephone penetration in the State has historically been, and continues to be,

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8/ Id. at Section F, 1-9, Section E, 2.

9/ As the Commission has previously stated:

> The remote communities in Alaska rely on telecommunications for much of their contact with others. The costs of providing this service to these points is significantly higher than that for other locations given the low population density, the remoteness of many of the communities, and the fixed costs associated with satellite transmission.

Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-616 at 2 (December 11, 1984). See also Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-512 at 7 (December 11, 1984), in which the Commission said:

> The State of Alaska has unique geographic and cost characteristics which were a significant factor in the Commission's adoption of rate integration, and may also influence the type of competitive market structure that will be viable in Alaska. In the decision opening the Alaska MTS/WATS market to competition, the Commission noted several of these characteristics, including low, thinly distributed population density . . . adverse climatic and geographic conditions, and remote facility locations leading to high maintenance costs.

among the lowest in the Nation and significantly below national averages.[10]

These record facts are uncontroverted. The State asks the Joint Board to keep them in mind as it considers the policies to be applied to Alaska.[11]

II. THE JOINT BOARD SHOULD RECOMMEND MEASURES THAT WILL ALLOW ALL ALASKANS TO OBTAIN TELECOMMUNICATIONS SERVICES AT AFFORDABLE RATES AND THAT WILL PROMOTE INTEGRATION OF ALASKA INTO THE NATION.

In the State's view, the record facts outlined above and the fundamental national telecommunications policies of universal service and rate integration require adoption of proposals that will (1) allow all Alaskans to obtain telecommunications services at affordable rates, and (2) promote integration of Alaska into the rest of the Nation.[12] In fact, although they may also advance other goals, the relevant interexchange carriers have acknowledged these public interest policies as proper goals in this proceeding. Alascom has advocated rate integration and sought to minimize additional burdens on intrastate ratepayers to promote universal

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10/ See Further Comments of the State of Alaska at 2 (February 27, 1987); Alaska Comments at 11.

11/ If, because of intervening regulatory or legal events, the Joint Board determines that it needs additional data regarding telecommunications service, the State, or other matters, it should immediately request such additional data and ask that they be filed as promptly as possible.

12/ See Alaska Comments at 2-4, 12-19 for a discussion of the universal service and rate integration policies.

service.[13] AT&T has, at least tacitly, acknowledged the propriety of rate integration by proposing a special fund to support it in rural Alaska.[14] GCI has recognized the importance of universal service by its discussion of the need for a support mechanism for rural service and its proposal to freeze cost allocations to promote universal service.[15]

A. Universal Service Requires A Carrier Of Last Resort.

Universal service can be promoted by recognizing the existence of and need for a carrier of last resort for interstate and intrastate services. The Commission, in its bush earth stations proceeding, recognized that only one satellite facility can be supported in rural Alaskan areas.[16] Alascom has been the carrier obliged to provide service to and from those points.[17] At least

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13/ E.g., Further Comments of Alascom, Inc. at 1-4, 45-47 (February 27, 1987) (Alascom Further Comments).

14/ Comments and Proposal of AT&T at 29-36 (December 7, 1986) (AT&T Comments and Proposal).

15/ Further Comments of GCI at 6 (March 2, 1987) (GCI Further Comments). See also id. at 26 ("[A]doption of GCI's present proposal would provide a new mechanism through which the Commission could harmonize its policies of universal service through rate integration and competition in the Alaska market.").

16/ Policies Governing Ownership and Operation of Domestic Satellite Earth Station in Bush Communities in Alaska, 96 F.C.C.2d 522, 523 (1982); Policies Governing Ownership and Operation of Domestic Satellite Earth Stations in Bush Communities in Alaska, 92 F.C.C.2d 736, 738 & n.12 (1982); RCA Global Communications, Inc., 56 F.C.C.2d 660, 689 (1975).

17/ E.g., Alascom Further Comments at 8.

with respect to intrastate services, Alascom's obligation is a function of state regulation and policy.

The State urges the Joint Board to recommend a market structure that allows a carrier of last resort to provide interstate and intrastate services at affordable rates. Changes to the market structure through which interstate services are provided can have significant effects on the provision of intrastate service by, for example, creating stranded investment problems or causing other shifts in jurisdictional cost allocations. If these effects are ignored, it is possible (and perhaps even likely) that many Alaskans would not have access to telecommunications services and thus that universal service would be undermined.

Costs of standard investment could be forced into the intrastate jurisdiction, and onto intrastate ratepayers, creating rates well beyond the level of affordability for all Alaskans, particularly those for whom a carrier of last resort is most needed. This danger exists because there is a single network through which both interstate and intrastate services are provided by the carrier of last resort.[18]

Similarly, the Joint Board should critically evaluate any approach that would significantly affect cost allocations for jointly used equipment. As did the Joint Board in CC Docket No.

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[18] Alascom Further Comments at 17-19 and Attachment A. It has been predicted that intrastate toll rates could as much as triple to cover increased costs if certain market changes were instituted. Id. Such rates are already almost twice as high as interstate rates for calls of the same distance. Id. at 19 and Attachment B.

80-286,[19] this Joint Board should recognize the need to avoid significant intrastate rate increases as a result of separations procedures and rules. Since separations rules for certain types of equipment take into consideration the relative amounts of interstate and intrastate use, market structure changes that would reduce significantly the relative amount of interstate use of Alascom's network could create significant increases in intrastate revenue requirements and thus, intrastate rates. Such market structure changes would frustrate universal service and should not be recommended.

B. <u>Integration Of Alaska Into The Nation Requires That Costs Of Providing Interstate Service For Alaska Be Treated In The Same Manner As Are Costs Of Providing Such Service Elsewhere In The United States.</u>

Integration of Alaska and other off-shore points into the national telecommunications system has been a fundamental Commission policy for more than fifteen years.[20] Recently, the Commission implemented that policy by ordering the final step of rate integration for Mainland U.S.-Alaska routes[21] and by asking this

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[19] <u>See</u> FCC News Release, Report No. DC-863 (March 12, 1987).

[20] <u>See</u> Alaska Comments at 12-17 for a discussion of the rate integration policy and relevant Commission decisions.

[21] <u>Integration of Rates and Services</u>, Memorandum Opinion and Order, CC Docket No. 83-1376, FCC 86-602 (January 2, 1987).

Joint Board to study rate integration with respect to Alaska-Hawaii routes.[22/]

The final step of Mainland U.S.-Alaska rate integration should be maintained. Alaskans and those who communicate with them should not be forced to pay higher interstate rates than other Americans. Rate integration continues to be in the public interest for the entire nation.

The Commission's rate integration policy requires that, with respect to interstate rates, Alaska be treated no differently than other states. Both the rates charged for service to and from Alaska and the manner in which those rates are calculated should be no different than they are for other states. As the State has stressed,[23/] the essence of rate integration is that geographically averaged rates are set at levels necessary to generate sufficient revenue to cover the cost of providing service (including a reasonable rate of return) to all portions of the United States, not each and every portion by itself. The Commission has said its rate integration policy "should be interpreted as implicitly recognizing that a rate structure which averages rates in 48 states and de-averages rates in two states may subject the residents of those two states to an unreasonable prejudice or disadvantage

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22/ Integration of Rates and Services, Supplemental Notice of Proposed Rulemaking, CC Docket No. 83-1376, FCC 86-600 (January 9, 1987).

23/ See Alaska Comments at 14.

within the meaning of Section 202(a) [of the Communications Act]."24/

Alaska is not, and should not be considered, a separate interstate interexchange market.25/ Differences between revenues derived from and costs allocated to interstate service to and from Alaska have been, and should continue to be, built into nationally averaged rates established pursuant to the Commission's rate integration policy. They have been, and given the mandates of the Communications Act and Commission policy, must continue to be, treated the same as differences for service to and from other locations which are costly to serve.

Notwithstanding AT&T's protestations to the contrary, it is proper to require carriers charging rate integrated rates to be responsible for the costs of Alaska service. AT&T, for example, is permitted to charge rates that are higher than costs for low cost routes because it charges the same rates, which are lower than costs, for high cost routes of comparable length. To allow AT&T to derive excess profits (i.e., profits above a reasonable rate of return) from serving low cost routes and not use those

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24/ MTS/WATS Market Structure, 81 F.C.C.2d 177, 192 (1980). The Commission also said: "[A] rate structure which uses different ratemaking methods to determine the rates which different users pay for comparable services is inconsistent with the national policy expressed in Section 202(a)." Id.

25/ Competitive Common Carrier Services, 95 F.C.C.2d 554, 574-75 (1983) ("[W]e conclude that there is a single national relevant geographic market (including Alaska . . .) for interstate, domestic, interexchange telecommunications services with no relevant submarkets.").

profits to cover the costs of service on high cost routes would likely raise its rate of return above allowed levels. Such a practice would be contrary to the rate integration policy and would involve de-averaging, in a manner which the Commission has said would violate Section 202(a) of the Communications Act.

III. FUNDAMENTAL ELEMENTS OF AT&T'S PROPOSAL TO ALTER THE EXISTING MARKET STRUCTURE WOULD FRUSTRATE ACHIEVEMENT OF UNIVERSAL SERVICE AND INTEGRATION OF ALASKA INTO THE NATION.

As the Supreme Court noted thirty years ago, competition can promote innovation, efficiency, lower prices, and better products or service.[26/] Competition, however, is not an end, but a means.[27/]

AT&T's proposal to change further the existing telecommunications market structure in Alaska is designed to enhance open entry and competition in Alaska interstate services. While open entry and competition may, as the Supreme Court elucidated, result in benefits which promote the public interest, fundamental elements of the AT&T approach appear inconsistent with the primary

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26/ American reliance on free competition rests on the premise that "unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress. . . ." Northern Pacific Railway Co. v. United States, 356 U.S. 1, 4 (1958). See also MTS-WATS Market Structure Inquiry, 92 F.C.C.2d 787, 841 (1982).

27/ "It is only in a blunt, indiscriminating sense that we speak of competition as an ultimate goal." FCC v. RCA Communications, Inc., 346 U.S. 86, 92 (1953). Further, "encouragement of competition as such has not been considered the single or controlling reliance for safeguarding the public interest." Id. at 93.

public interest goals of fostering universal service and integration of Alaska into the rest of the Nation.

AT&T's approach rests on creation of an "Alaska Rural Fund" of $39 million to provide "support" for universal service in rural portions of Alaska.[28] Support would be allocated from the fund on a route-by-route basis. Both the total amount of the fund and the support allocated to each individual route would be capped and phased-out at some indefinite point in the future. In addition, AT&T seeks, inter alia, to be allowed a point of presence in Alaska.[29]

AT&T's approach, while repeated in each of its pleadings, is sketchy and lacking in operational detail. Notwithstanding the absence of detail, the plan is flawed in serious and fundamental respects and thus provides an inadequate and inappropriate solution to the issues before the Joint Board. Universal service and Alaskan integration into the Nation would be hampered, not advanced, by it.

(1) Creation of an Alaska rural fund would be a fundamental and unprecedented departure from, and might well presage the end of, rate integration and national geographically averaged rates. AT&T, in effect, proposes to spin off Alaska, and indeed "rural" Alaska, from the rest of the Nation. The difference between costs and revenues from providing service there would be treated differently than anywhere else in the United States. Ironically,

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[28] AT&T Comments and Proposal at 29-35.

[29] Id. at 26.

if rural Alaska is unusually expensive to serve (an assumption which AT&T has not supported with any comparative data), an area that needs rate integration most would be segregated from the rest of the Nation's telecommunications system. If that were done, analogous treatment for other "high cost" areas, perhaps in rural Western or Southern states, or in costly to serve "rust belt" communities, might follow.

The result of permitting creation of special funds for allegedly costly to serve areas would be the Balkanization of what has been a unified telecommunications system that has served this country well. The current unified system would be replaced by a multi-tiered system in which rates and quality of service would vary geographically. For example, low cost areas would likely be well served either at current rates (which would generate profits above a reasonable rate of return) or perhaps at lower rates. High cost areas would likely be served only at rates higher than those currently charged. Even those rates might not generate revenues sufficient to cover costs and service quality would likely decline. Universal service would no longer be attainable.

(2) Even without regard to the unprecedented nature of what AT&T proposes, and its long-term effects on the Nation's telecommunications system, the support AT&T proposes would not ensure that needed service is provided to all Alaskans. For example, AT&T claims that the difference between costs incurred and

revenues derived from Alaskan interstate service is $97 million.[10] Approximately $40 million, AT&T claims, is attributable to separations procedures for Category 8 COE.[11] Thus, by AT&T's own figures, the remaining difference between cost of providing Alaskan interstate service and the revenues derived is approximately $57 million.

Even that amount, AT&T admits, might be too small. It was based on the difference between revenues and costs before the final step of rate integration. Alaskan interstate rates are now lower and the revenue shortfall on Alaskan routes may be somewhat higher.[12] Thus, even if, in total contravention of the Commission's rate integration policy, there were to be an Alaska rural fund, AT&T's proposed fund could not provide resources needed for service to Alaska to continue.

In addition, AT&T seeks to distinguish between areas within Alaska for purposes of "support." AT&T justifies its $39 million figure as the amount of "support" necessary for rural Alaska only. The difference between $57 million and $39 million (i.e., $18 million), it says, goes to "support" urban service in Alaska.[13] "Urban" Alaska should not be segregated from the rest of the Nation, however, any more than should "rural" Alaska. Each

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10/ E.g., Further Comments of AT&T at 2, 5, 7 (February 27, 1987) (AT&T Further Comments). This figure excludes the transitional supplement which ceased being paid in January 1987.

11/ Id. at 8.

12/ Id. at 5 n.*.

13/ Id. at 15, 20.

is part of the single interstate interexchange telecommunications market. All areas are entitled to geographic rate averaging without regard to whether they are "urban" or "rural." All areas in the United States are entitled to the benefits of rate integration.

(3) There is no evidentiary support for the assumption underlying AT&T's proposal that the difference between revenues generated by rate integrated rates and costs of serving Alaska will diminish over time. This assumption underlies AT&T's argument that a cap and eventual termination of the fund for rural Alaska and no "support" for urban Alaska are appropriate. Apparently, this assumption is based on AT&T's hopes that economic and population growth in rural Alaska will ultimately allow profitable operations there and that competition and market freedom will spur immediate efficiencies and economies in urban markets. These hopes may or may not prove to be correct, but they are unsupported by the record in this proceeding. AT&T has not pointed to any specific cost savings that will result from the market structure changes it seeks.

Further, even if its hope that rural service costs will decrease proves incorrect, AT&T still proposes (again without support) that its Alaska rural fund be phased-down and eventually terminate.[14/] This proposal would destroy any hope of universal service in Alaska and is totally unjustifiable.

14/ AT&T Comments and Proposal at 35-36, 36 n.**.

(4) AT&T's approach of allocating support to specific routes appears impractical and likely to lead to a regulatory and bureaucratic nightmare. Rate integration makes route specific accountings and allocations irrelevant and unnecessary. No purpose would be served by engaging in such exercises here. The complexities, regulatory lag, and inherent inaccuracies of this approach would make the costs of such a scheme -- even without regard to the expense of its administration, including economic and accounting studies -- vastly outweigh any conceivable benefits.

(5) AT&T's proposal for a point of presence in Alaska also raises universal service concerns. A principal purpose of AT&T's attempt to obtain an Alaskan point of presence is to allow AT&T to interconnect with Alascom in Alaska, thus minimizing the distance over which Alascom handles calls.[15] Because distance has been a factor in allocating COE Category 8.23 costs between the interstate and intrastate jurisdictions, creating an AT&T point of presence in Alaska would shift millions of dollars a year in costs to the intrastate jurisdiction.

As noted above, the Joint Board in CC Docket No. 80-286 has recommended that the relative allocation of interexchange carrier COE Category 8.23 costs be frozen at 1985 percentages. Until that Joint Board decision is released and the Commission itself acts, the specific effects AT&T's proposed Alaskan point of presence would have on universal service can not be determined with

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[15] Response to Data Request of AT&T at 15-17 (July 15, 1986).

certainty. It should be noted, however, that the Joint Board recommended freezing interexchange carrier allocation percentages at 1985 levels. It did not recommend continuing to apply a distance sensitive allocation formula to new study period data, which could result in new, different allocation percentages. Thus, if the Joint Board's recommendation is adopted, it appears that Category 8.23 separations will be frozen at 1985 percentages regardless of whether AT&T is allowed a point of presence in Alaska. In any event, the State would have serious concerns if this Joint Board were to permit an AT&T point of presence in Alaska, particularly if such a development would create significant increases in intrastate revenue requirements or other effects which would endanger universal service.

IV. CONCLUSION

The State requests that the Joint Board carefully consider all the evidence in the record and recommend to the Commission a market structure that promotes universal service by allowing all

Alaskans to obtain telecommunications services at affordable rates and that integrates Alaska into the rest of the Nation.

Respectfully submitted,

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October 1, 1987

Mr. William J. Tricarico
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: CC Docket No. 83-1376

Dear Mr. Tricarico:

This is to advise you that on September 29, 1987, John W. Katz and Kay E.M. Gouwens of the State of Alaska, and I met with Commissioner Susan Knowles, and on September 30, 1987, Ms. Gouwens, Robert M. Halperin and I met with Douglas Slotten, Claudia Pabo and Rose Crellin of the Joint Board staff. These meetings were held to provide the State of Alaska's views on the issues before the Joint Board, and to respond to questions asked by Commissioner Knowles and the Joint Board staff.

Very truly yours,

Linda K. Smith

Linda K. Smith

cc: Alaska Joint Board Service List

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October 29, 1987

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Mr. William J. Tricarico
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1919 M Street, N.W., Room 222
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Re: <u>CC Docket No. 83-1376</u>

Dear Mr. Tricarico:

This is to advise you that on October 27, 1987, Kay E.M. Gouwens of the State of Alaska, Robert M. Halperin and I met with Gerald Brock, Carl Lawson, Cynthia Work and Douglas Slotten of the Common Carrier Bureau. The State provided its views on *ex parte* presentations by affected carriers and other issues before the Joint Board in this docket, and responded to questions asked by the staff.

Very truly yours,

Linda K. Smith

Linda K. Smith

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Nov 16 '8

Before the
FEDERAL COMMUNICATIONS COMMISSION
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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 Commission

Opposition of the State of Alaska to the "Petition For A Lawful Interim Division of Charges" of the American Telephone and Telegraph Company

The State of Alaska (Alaska or the State), by its attorneys and pursuant to Section 1.45 of the Commission's Rules, hereby opposes the "Petition For A Lawful Interim Division of Charges" filed by the American Telephone and Telegraph Company (AT&T) on November 5, 1987 (Petition).

AT&T's Petition seeks (1) a finding that existing settlement arrangements for MTS/WATS service jointly provided by it and Alascom, Inc. (Alascom) between Alaska and the lower 48 states violate Section 201 of the Communication Act, and (2) an order permitting it, "on an interim basis," to divide charges for this service "on the basis of the proportionate costs each carrier incurs in the provision of the joint service." Petition at 1-2. Grant of the petition would be unwise, would undermine fundamental national telecommunications policies, including rate integration and universal service, and would violate the Communications Act, for a variety of reasons.

First, AT&T's requests go to the heart of the issues now under consideration by the Alaska Joint Board. As a matter of orderly decision-making, it would be wrong to decide these issues in the context of a so-called "interim" request. More importantly, it would contravene Section 410(c), which requires separations matters of the type raised by AT&T in its petition to be decided first by a Joint Board.[1/]

The Alaska Joint Board process is reaching a critical phase. The pleading cycle has been concluded, and a recommended decision can be expected in the near future. AT&T's request appears to be an attempt to influence the Joint Board's decision-making process at a crucial time in the deliberations. There is no basis for the Commission to take these issues away from the Joint Board at this time. AT&T offers no compelling reason why, even if its arguments had merit, the Commission should now take extraordinary steps to alter the manner in which AT&T and Alascom have provided service to and from Alaska for fifteen years. The reason is simple. No such compelling reason exists.

AT&T is, in fact, not harmed by continuation of the present arrangements. All of the costs AT&T incurs in providing MTS/WATS service to Alaska in combination with Alascom, including its payments to Alascom, are included in AT&T's interstate revenue requirement. Its national, geographically averaged, interstate

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1/ See Notice of Proposed Rulemaking, CC Docket No. 83-1376, RM 4436 at ¶ 14 (released September 27, 1985). ("The Joint Board, pursuant to the mandatory provisions of Section 410(c), is also being asked to recommend any changes in separations procedures relating specifically to Alaska that may be required to implement any market structure change it recommends.")

rates are set at a level designed to recoup all of those costs and provide AT&T a reasonable return on its investment. Thus, no harm exists. Furthermore, the dollar amount of the relief AT&T requests -- $70 million per year[2] -- spread over AT&T's entire interstate MTS/WATS call volume is infinitesimal.

Second, AT&T's argument that the present division of revenues is unjust and unreasonable is wrong. The fact that AT&T recoups the costs of providing MTS/WATS service between the lower 48 states and Alaska with Alascom from its MTS/WATS tariff charges negates any claim of unjustness or unreasonableness. The weakness of AT&T's argument is confirmed by a review of the cases it cites, which do not support the argument it seeks to make.[3]

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[2] According to the petition, AT&T seeks to reduce its payments to Alascom from $166.4 million (Petition at 8) to a figure equal to 73 percent of Alaska MTS/WATS revenues of $132.1 million. (.73 X $132.1 million = $96.4 million. $166.4 million minus $96.4 million = $70 million.)

[3] Most are cases dealing with the power of the ICC of 40 years ago; none is directly on point. See, e.g., Rogers Radio Communications Services v. FCC, 751 F.2d 408 (D.C. Cir. 1985) (case deals with expansion of interconnection requirement of Section 201(a), not with division of charges as AT&T implies (Petition at 12-13)); Baltimore & Ohio Railroad Co., 298 U.S. 349 (1936)(case deals with whether all carrier property and revenues may be considered, as well as those of the service at issue (298 U.S. at 360), not with confiscation of non-joint revenues as AT&T implies (Petition at 12)); ICC v. Hoboken Manufacturers' Railroad Co., 320 U.S. 368 (1943)(case turns on determination that certain facilities are not part of rail carrier service for which division of revenues is sought and therefore that cannot be included in joint service costs (320 U.S. at 374), a point not relevant or at issue here, and one not related to AT&T's implication that the case involves confiscation of non-joint AT&T revenues (Petition at 12)); Chicago & N.W. Railroad Co. v. Atchison, Topeka & Santa Fe Railroad, 387 U.S. 326 (1967)(revenues can be divided on the basis of costs and revenue needs (including the relative financial strength of the carriers)(387 U.S. at 333), not solely on relative costs as AT&T implies (Petition at 13)).

Third, although AT&T seeks to couch its request as merely an interim change in the division of charges, it is, in fact, asking for nothing less than an end to the rate integration policy. As the Commission has said:

> When rate integration is discussed, there are, in fact, two subelements involved. The first . . . is the averaged rates charged which may not necessarily relate to the underlying costs of providing service . . . . The second factor . . . is the settlement arrangements between the carriers serving the non-contiguous points and AT&T.

Rate Integration Policies, 96 FCC2d 567, 571 (1983). AT&T's request seeks explicitly to revise both the relation between rates and costs noted as the first element of rate integration, and the settlement arrangements noted as the second element.

That AT&T's request is an attack on the rate integration policy is also apparent from examination of what would happen if AT&T's petition were granted. As a dominant carrier with carrier of last resort obligations in Alaska, Alascom presumably would be required to continue to provide interstate MTS/WATS service to and from Alaska. Yet, it could be constitutionally required to do so only if it is permitted to charge rates that allow it to cover its reasonable costs (and allow it a reasonable rate of return). That, in turn, could be done only if its interstate MTS/WATS were increased above present levels to cover the $70 million AT&T seeks not to cover. Such an increase, which would raise interstate

MTS/WATS rates for Alaska above the levels for the rest of the nation, would mark the end of rate integration.[4]

Fourth, "interim" measures previously requested by other parties have not contributed to efficient, accurate or timely resolution of the issues in this proceeding. On the contrary, piece-meal resolution of issues has put the Commission in the position of repeatedly having to undo or adjust other relief previously granted.

Fifth, the relief AT&T seeks would, in itself, violate Section 202(a) of the Communications Act, as well as the rate integration policy. As the State has previously commented:

---

[4] The $70 million of costs AT&T has put at issue would presumably still need to be recovered. They are costs incurred in providing interstate service, and therefore could not be recovered from the intrastate jurisdiction. Were it otherwise, intrastate revenue requirements would be increased so dramatically, and intrastate rates would have to be increased to such a high level, universal service would be seriously impaired. (It should be noted that a $70 million revenue shortfall would, if passed through to intrastate rate payers, result in a $ 23.33 increase per Alaska ratepayer per month ($70 million divided by 250,000 Alaska main stations divided by 12).)

The Commission has repeatedly recognized that changes in intrastate rates could adversely affect universal service. See, e.g., Memorandum Opinion and Order, FCC 84-616 at ¶ 4 (expressing the Commission's desire to avoid "churning of intrastate rates" and putting "at risk the intrastate communications that are essential to many subscribers in remote areas of Alaska")(released December 11, 1986); Memorandum Opinion and Order, FCC 84-512 at ¶ 20 (expressing concern for "adverse effects on Alaskan ratepayers")(released December 11, 1984); Notice of Proposed Rulemaking, FCC 85-520 at ¶ 19 ("[The Joint Board] should also consider the impact on intrastate rates for Alaska as a consequence of changes in traffic patterns associated with the structure under consideration")(released September 27, 1986); Memorandum Opinion and Order, FCC 86-602 at ¶ 26 (permitting implementation of the final step of rate integration, in part to "prevent the separations procedures from increasing the allocation of costs to the intrastate jurisdiction, thereby reducing upward intrastate rate pressures . . . which might result in intrastate rate increases")(released January 1, 1987).

> The Commission's rate integration policy requires that, with respect to interstate rates, Alaska be treated no differently than other states. Both the rates charged for service to and from Alaska and the manner in which those rates are calculated should be no different than they are for other states . . . . [T]he essence of rate integration is that geographically averaged rates are set at levels necessary to generate sufficient revenue to cover the cost of providing service (including a reasonable rate of return) to all portions of the United States, not each and every portion by itself. The Commission has said its rate integration policy "should be interpreted as implicitly recognizing that a rate structure which averages rates in 48 states and de-averages rates in two states may subject the residents of those two states to an unreasonable prejudice or disadvantage within the meaning of Section 202(a) [of the Communications Act]."
>
> Alaska is not, and should not be considered, a separate interstate interexchange market. Differences between revenues derived from and costs allocated to interstate service to and from Alaska have been, and should continue to be, built into nationally averaged rates established pursuant to the Commission's rate integration policy. They have been, and given the mandates of the Communications Act and Commission policy, must continue to be, treated the same as differences for service to and from other locations which are costly to serve.
>
> Notwithstanding AT&T's protestations to the contrary, it is proper to require carriers charging rate integrated rates to be responsible for the costs of Alaska service. AT&T, for example, is permitted to charge rates that are higher than costs for low cost routes because it charges the same rates, which are lower than costs, for high cost routes of comparable length. To allow AT&T to derive excess profits (<u>i.e.</u>, profits above a reasonable rate of return) from serving low cost routes and not use those profits to cover the costs of service on high cost routes would likely raise its rate of return above allowed levels. Such a practice would be contrary to the rate integration policy and would involve de-averaging, in a manner which the Commission has said would violate Section 202(a) of the Communications Act.

<u>Reply Comments of the State of Alaska</u> at 8-10 (filed March 27, 1987)(footnotes omitted).

Accordingly, for the reasons discussed above, the State of Alaska strongly urges the Commission to deny AT&T's Petition, and to permit the Alaska Joint Board process to go forward.

Respectfully submitted,

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November 16, 1987

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Office of the Secretary

December 1, 1987

Mr. William J. Tricarico
Secretary, Federal Communications
Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20054

Re: CC Docket No. 83-1376; RM 4436

Dear Mr. Tricarico:

Transmitted herewith on behalf of the State of Alaska for filing with the Alaska Joint Board in the above-captioned proceeding, pursuant to the Commission's November 16, 1987 Public Notice (DA 87-1664), are six copies of the "Comments" of the State of Alaska originally filed on November 17, 1987 in connection with AT&T's application for Section 214 authorization with respect to Alaska-Hawaii service (W-P-C-6136). These "Comments" are being submitted to assist the Alaska Joint Board in its consideration of the matters discussed in the Public Notice and to ensure that the "Comments" are made part of the record in this proceeding.

If there are any questions in connection with this matter, please communicate with this office.

Very truly yours,

Linda K. Smith

Linda K. Smith

Enclosure

cc: All Parties on CC Docket No. 83-1376 Service List
Mr. Douglas Slotten
Ms. Cynthia Work
Policy and Program Planning Division, Common Carrier Bureau
International Transcription Service

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

In the Matter of	)	
	)	
American Telephone and Telegraph Company	)	
	)	
Application under Section 214(a) of the Communications Act for authority to acquire digital transmission capacity from General Communication Incorporated for services from Honolulu, Hawaii to various points in Alaska.	)	W-P-C-6136

COMMENTS

The State of Alaska (Alaska or the State), by its attorneys and pursuant to Section 63.52(c) of the Commission's Rules, hereby comments on the Application of American Telephone and Telegraph Company (AT&T) to acquire digital transmission capacity from General Communication Incorporated (GCI) from GCI's point of presence in Honolulu, Hawaii, to various points in Alaska, filed November 3, 1987 (AT&T Application).[1]

1/ The State of Alaska has been an active participant in the Alaska Joint Board proceedings (CC Docket No. 83-1376, RM 4436) in which the Commission directed that Joint Board "to consider the issues relating to Alaska-Hawaii rate integration and competition in connection with its consideration of the issues relating to service between Alaska and the contiguous states." Supplemental Notice of Proposed Rulemaking, CC Docket No. 83-1376, RM 4436 (released January 9, 1987; FCC 86-600) at ¶ 4. The AT&T Application directly raises these issues.

These Comments are based on matters of public record at the Commission, of which official notice may be taken.

Historically, Alaska-Hawaii service rates have not been rate integrated. While the AT&T Application appears to propose rates somewhat lower than those under which service is now being provided (AT&T Application, Attachment A), the rates proposed are still higher than rate-integrated rates would be. The Commission has decided, however, that the Alaska-Hawaii route, like all other routes, should be rate integrated.[2] Rate integration between Alaska and the lower 48 states has finally been accomplished.[3] The time has come to integrate fully Alaska-Hawaii rates as well.

Rate integration for all routes is needed if Alaska is to be part of the national telecommunications network. The State supports rate integration for <u>all</u> routes, and believes that Alaska-Hawaii service, like all other service between Alaska and other states, must be provided at rate-integrated rates. The

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2/ As the State noted in its March 10, 1987 Comments in the Alaska Joint Board proceeding, the Commission has, in no fewer than three separate decisions, addressed the question of rate integration between off-shore points, and consistently concluded that " . . .the public interest would be best served by integrating the rates for service to the off-shore states." <u>Memorandum Opinion</u>, <u>Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the United States Mainland and Hawaii, Alaska and Puerto Rico/Virgin Islands</u>, 62 FCC 2d 693, 694-95 (1976). <u>See also AT&T Co., Long Lines Department</u>, 66 FCC 2d 3, 57 n.70 (1978) ("See also, <u>Rate Integration</u>, 62 FCC 2d 693 (1976) wherein we held our rate and service integration requirement applies <u>between and among</u> Puerto Rico, the U.S. Virgin Islands, Alaska, Hawaii and the U.S. Mainland.")(emphasis in original); <u>Common Carrier Separation Procedures</u>, 72 FCC 2d 715, 717 (1979)("[T]he carriers are also required to integrate rates between other off-shore points, <u>i.e.</u>, Alaska and Hawaii. 62 FCC 2d 693 (1976).")

3/ <u>Memorandum Opinion and Order</u>, CC Docket No. 83-1376, RM 4436, FCC No. 86-6021 (released January 2, 1987); <u>appeal pending</u>, <u>General Communication, Inc. v. FCC</u>, No. 87-1112 (D.C. Cir.).

State agrees with its sister State of Hawaii that "there is absolutely no basis for treating services between Alaska and Hawaii any differently from services between Alaska and the 'lower 48' states." Comments of the State of Hawaii in CC Docket No. 83-1376, RM 4436, filed February 10, 1987, at 5.

Accordingly, Alaska urges that Alaska-Hawaii service be required to be furnished at rate-integrated rates, in accordance with prior Commission decisions.

Respectfully submitted,

THE STATE OF ALASKA
Grace Berg Schaible
Attorney General

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November 17, 1987

CERTIFICATE OF SERVICE

I, Linda K. Smith, do hereby certify that, on November 17, 1987, I have caused to be sent a copy of the foregoing Comments by United States Mail, postage prepaid, to the following:

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