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

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Federal Communications Commission
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 Islands

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CC Docket No. 83-1376
RM 4436

COMMENTS OF THE STATE OF ALASKA

THE STATE OF ALASKA

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SUMMARY

Resolution of this proceeding should be guided by the policy objectives identified by the Joint Board in its 1989 Supplemental Order Inviting Comments. The primary objectives are: (1) rate integration; (2) universal service; and (3) revenue requirement neutrality. Other objectives are: (4) market based competitive entry; and (5) increased efficiency.

The State of Alaska ("State") opposes grant of the Joint Petition of American Telephone and Telegraph Company ("AT&T"), Alascom, Inc., and Telephone Utilities of Alaska ("TUA"). It does so because the market structure envisioned by the these Joint Petitioners is inconsistent with the primary objectives identified above in several important respects. Principally, the Master Agreement among those carriers, though advantageous to the agreeing parties, is disadvantageous to state ratepayers as it would cause significant upward pressures on a variety of local and intrastate service rates, in violation of the universal service and revenue requirement neutrality policy objectives.

The State is no less desirous of a permanent solution to the vexing market structure issues facing the Joint Board and Commission than the affected carriers. The State recognizes that the joint services agreement between AT&T and Alascom is no longer viable in the long run. It, therefore, has no objection to phasing-out that arrangement and AT&T's assumption of Alascom's interstate service obligations (including rate integration and interstate carrier of last resort obligations).

However, the market structure the Joint Petitioners propose would create substantial and unacceptable increases in intrastate revenue requirements. These increases would occur because of the proposed transfer of most of Alascom's telecommunications assets to TUA. Under the Commission's separations rules, TUA, as a local exchange carrier, must allocate a greater proportion of the costs of jointly used plant and equipment to the intrastate jurisdiction than Alascom, an interexchange carrier, did.

It appears that a major reason for this asset transfer is to negate decisions made five years ago by a sister Joint Board and the Commission in CC Docket No. 80-286. In that docket, AT&T sought to change the separations treatment of certain assets of Alascom. It wanted those assets to be separated in the same manner as local exchange company assets. AT&T argued that this separations change was necessary to save it \$40 million which, in its view, was improperly being charged to the interstate jurisdiction. The Joint Board and the Commission rejected AT&T's arguments. Now, after having been unsuccessful in getting another Joint Board and the Commission to treat Alascom as a local exchange carrier, AT&T still insists on accomplishing its objective, this time through the Master Agreement. The consequences, however, are as unacceptable today as they were five years ago in CC Docket No. 80-286.

The revenue requirement shifts created by the Alascom/TUA asset shifts transfer are very significant. According to the Joint Petitioners' own numbers, intrastate toll revenue

requirements would increase by \$22 million a year in 1998 (and presumably thereafter). This amount translates into cost increases of approximately \$88 per access line per year. Moreover, Alaska intrastate rates are not now inordinately low, making the unfairness of such a shift even greater. Further, revenue requirements for TUA's local exchange customers would increase by at least \$870,000 a year, or approximately \$35 per access line. Local private line costs would also increase significantly.

These numbers are based on certain assumptions and interpretations of the Commission's separations rules made by Alascom and TUA. One such interpretation involves Alascom's/TUA's use of the Conversation Minutes allocator. The State requests that the Commission confirm the correctness of Alascom's/TUA's use of that allocator. Actual revenue requirement shifts could be much greater than forecast if Alascom's/TUA's assumptions and interpretations are incorrect.

The Joint Petitioners' attempts to minimize the significance of the revenue requirement shifts are not persuasive. TUA says that it will not seek to increase intrastate toll rates due to the increased revenue requirements for five years. It is, however, unwilling to promise not to seek to raise rates due to these increased costs at that time. Moreover, it provides no assurances that it will not, for any reason, seek to increase local exchange and private line rates at any time.

TUA says that intrastate toll rates are not likely to increase after five years because of competition, increased efficiencies, and continued state rate regulation. Competition from one facilities-based carrier is insufficient to limit possible future rate increases. Oligopolistic or monopolistic pricing is possible. No significant increased efficiencies resulting solely from the Alascom-TUA asset transfer have been identified. State rate regulation cannot protect ratepayers from rate increases caused by revenue requirement shifts approved by the FCC.

Moreover, the Joint Petitioners' assertion that intrastate toll rates should not increase belies the fact that rates should be decreasing. Alascom's/TUA's own data reveal that intrastate toll rates should decline by a total of approximately \$66 million between 1993 and 1998, a period in which Alascom/TUA propose merely not to seek a rate increase. By 1998, intrastate toll rates should have decreased by approximately 20 percent from current levels, but those decreases are not likely to materialize if the Alascom-TUA asset transfer occurs.

The State proposes certain changes to the Master Agreement and related arrangements. Several alternative changes are proposed to eliminate the revenue requirement shift that would otherwise be created if the Master Agreement and related arrangements are approved in full. One such change, for example, is freezing intrastate cost allocations. Other possible changes

are requiring TUA to take accelerated depreciation or an immediate write-down of the transferred assets.

The State also believes that participation in NECA cost pools by the intrastate transport carrier (Alascom or TUA) is not in the best interests of state ratepayers in the long run. Such participation minimizes incentives for the transport carrier to be efficient. The State proposes that such NECA participation be limited to a transition period.

The proposal of General Communication, Incorporated ("GCI") to institute a new proceeding and to remove certain issues from the purview of the Joint Board does not appear appropriate at this time. Although certain aspects of GCI's market structure proposal have merit (for example, the proposal that cost allocations be frozen), others do not. Specifically, the State believes that GCI's reliance on competition alone to achieve universal service is not sufficient.

The State notes that the Joint Board and Commission may lack all information necessary to resolve these issues and raises certain questions that it believes require answers.

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Common Carriers between the	)	RM 4436
Contiguous States and Alaska,	)	
Hawaii, Puerto Rico and the	)	
Virgin Islands	)	

COMMENTS OF THE STATE OF ALASKA

The State of Alaska ("Alaska" or "the State") hereby submits its comments on (1) the Joint Petition to Approve Master Agreement, Terminate Joint Service Arrangement, Continue NECA Participation, and for Limited Waiver of Separations Rules and Resolution and Termination of Regulatory Proceedings, filed on January 29, 1992, by American Telephone & Telegraph Company ("AT&T"), Alascom, Inc. and Telephone Utilities of Alaska ("TUA") ("Joint Petition") and (2) the Petition of General Communication, Inc. ("GCI"), filed on the same date ("GCI Petition").¹

I. INTRODUCTION

Almost nine years ago, the State urged the Commission to examine the market structure for interstate telecommunications

¹ These comments are submitted in accordance with the Commission's Public Notice with respect to the Joint Petition and the GCI Petition and the various related proceedings (DA 92-236, released March 4, 1992).

services in Alaska and to construct a market structure that would be consistent with the public interest given the economic and industry changes that were then occurring.² Protracted regulatory proceedings have followed in which the Commission and a Federal-State Joint Board have wrestled with -- but so far have not been able to resolve -- the difficult issues presented. Now, AT&T and Alascom, two of the major parties in these proceedings, have reached an agreement (along with TUA) which, they believe, both resolves their previously significant disagreements and establishes an appropriate market structure for the provision of interstate and intrastate interexchange telecommunications services for Alaska.

GCI, which has long contended that the present Alaska market structure involves anti-competitive elements and is contrary to the public interest, argues that the proposed arrangements set forth in the Joint Petition will perpetuate the problems existing in the current market structure. It has petitioned that another regulatory proceeding be undertaken leading to a different market structure solution.

AT&T and Alascom seek comprehensive approval of their proposed arrangements, which, once given, by their lights, would resolve these protracted regulatory proceedings permanently. The Master Agreement between AT&T, Alascom and TUA provides that any failure by a cognizant federal or state regulatory body to approve

² State of Alaska Petition for Rulemaking, RM-4436, filed April 11, 1983.

the proposed arrangements in their entirety will be grounds for termination of the entire series of proposed transactions. That position by the Joint Petitioners creates (as intended) a false incentive to approve all aspects of the Joint Petition without the slightest modification in order to resolve, once and for all, the complex and difficult issues presented.

The Commission has impaneled a Joint Board to consider Alaska market structure issues and to recommend a solution. The reasons for seeking the involvement of state regulators through the Joint Board are no less valid today than they were when the Joint Board was formed. The Commission should, therefore, continue to seek Joint Board recommendations in this matter.

Thus, it is the duty of the Joint Board to recommend and the duty of the Commission to promulgate, respectively, a solution to the Alaska market structure issues that maximizes the public interest. To take all of the actions requested in the Joint Petition without examining whether changes to the requested actions would enhance and protect the public interest would constitute an abdication of their legal responsibilities to those they are required to oversee and to regulate.

The State is no less desirous of a long-run solution to the issues presented in this proceeding than any of the other parties involved, but that solution must be one that maximizes the public interest, not simply the private interests of affected carriers. The State has consistently taken the position that market structure changes should not create upward pressure on intrastate

rates and should promote universal service and rate integration. A solution that does not have these characteristics would significantly disadvantage Alaska telephone users.

The State urges the Joint Board and Commission to examine carefully all aspects of the Joint Petition. That examination will reveal that changes to the Master Agreement and related arrangements must be made if the public interest is to be served. Specifically, changes must be made to remove upward pressures on intrastate rates that would be created by the arrangements the Joint Petitioners propose. The Master Agreement might be beneficial to the parties to it; it is not beneficial to the ratepayers of Alaska or the public interest.

II. THE PETITIONS

A. The Joint Petition

AT&T, Alascom and TUA seek the Commission's blanket approval of a complex Master Agreement. The Master Agreement has seven essential components. First, AT&T and Alascom would terminate their joint service arrangement for MTS/WATS service between Alaska and the "lower 48" states. Second, AT&T would acquire Alascom's interstate and international MTS/WATS services and operate by itself the services now jointly provided with Alascom.³ Over a five-year period, AT&T would pay Alascom \$255.3 million for terminating the joint service arrangement and for transferring to

³

AT&T would not assume responsibility for, and Alascom would continue to provide, international service between Alaska and the Magadan region of the Russian Republic.

it customer records and other information necessary to allow AT&T to assume Alascom's interstate and international MTS/WATS business. No equipment or facilities are being transferred in these transactions.

Third, AT&T will acquire from Alascom capacity in the Alaska Spur, an undersea fiber optic cable connecting Seward, Alaska and Pacific City, Oregon, and certain related ground facilities. This acquisition will permit AT&T to establish points of presence ("POPs") in Alaska. AT&T will pay Alascom \$75 million over five years for these facilities.

Fourth, Alascom will transfer to TUA, a corporate affiliate,⁴ virtually all of its other telecommunications assets.⁵ TUA will then provide access transport services to AT&T (and other interexchange carriers wishing to purchase such services) in Alaska.⁶

Fifth, TUA, a local exchange carrier ("LEC") and member of the National Exchange Carrier Association ("NECA"), would be required for ten years to remain a NECA member, to participate in

⁴ Both Alascom and TUA are subsidiaries of Pacific Telecom, Inc. ("PTI").

⁵ Alascom would not transfer to TUA those telecommunications assets necessary to provide service between Alaska and the Magadan region, nor would it transfer its interests in the Alaska Spur or those assets necessary to provide interstate and international private line service.

⁶ Thus, for example, TUA would transport northbound interstate calls from AT&T's POP to the central office of the local exchange carrier serving the called number. Conversely, TUA would transport southbound interstate calls from the local exchange carrier central office to the AT&T POP.

NECA's cost sharing pools, and to charge to interexchange carriers (including AT&T) NECA rates for these access transport services. NECA's nation-wide access charge revenue requirements, the Joint Petitioners estimate, would increase by about \$55 million a year due to the transfer of facilities from Alascom (an interexchange carrier) to TUA (an LEC). Because AT&T is the largest purchaser of interstate access services, it would pay the largest percentage of this \$55 million. The Joint Petitioners estimate that other common carriers (including GCI, MCI and Sprint) would pay approximately 15 percent of this cost, or \$8 million a year.

Sixth, in addition to becoming an interstate access carrier, TUA would succeed to Alascom's responsibility to provide intrastate toll service (pending approval of the Alaska Public Utilities Commission ("APUC")).⁷ TUA would also succeed to Alascom's obligations to provide service (presumably both interstate access service and intrastate toll and access services) to any community in which at least 25 people want service.⁸

Seventh, the transfer of telecommunications assets used for both interstate access and intrastate purposes from Alascom to TUA creates increased intrastate revenue requirements. A different formula is used by LECs to allocate to each jurisdiction the costs

⁷ TUA would also provide access transport for intrastate calls, as well as intrastate interexchange service.

⁸ TUA thus would appear to be the in-state carrier of last resort. This responsibility, as well as AT&T's responsibility to serve the entire state and serve as a carrier of last resort for interstate toll service, must be made explicit to ensure universal service.

of equipment used for both interstate and intrastate purposes than the formula used by interexchange carriers.⁹ As a result, the Joint Petitioners estimate, intrastate revenue requirements would increase approximately \$32 million in 1993 when the same assets are "separated" by TUA rather than Alascom. The quantification of the cost shift at \$32 million is based on certain assumptions concerning market growth and certain interpretations of the Commission's separations rules. If those assumptions and interpretations are not correct, the cost shift could be much greater.

The Joint Petitioners recognize that adding \$32 million a year to intrastate revenue requirements is unacceptable. They therefore propose a solution -- called the Alaska Market Adjustment -- that would make this shift gradually over a five-year period. This solution requires a waiver of Part 36 of the Commission's rules, which would otherwise require that all of these costs be shifted immediately to the intrastate jurisdiction.¹⁰ TUA has agreed that, during the five-year transition period, it would not seek to raise intrastate toll

⁹ Alascom currently separates those assets using the "frozen allocator" factor found in Section 36.126(d)(3) of the Commission's rules. TUA would be required to separate those assets pursuant to the different factors found in Section 36.126(e)(3).

¹⁰ The Joint Petitioners also request that special Part 69 procedures be applied during the five-year transition period to allow TUA to remove from its interstate access charge calculations all additional interstate costs resulting from the Part 36 waiver.

rates based on this cost shift.¹¹ TUA is unwilling to agree not to seek an intrastate rate increase based on the cost shift after the five-year transition. The Joint Petitioners forecast that intrastate toll revenue requirements at the end of the transition period (in 1998) would increase by approximately \$22 million (if their assumptions and interpretations are correct).¹²

B. The GCI Petition

GCI petitions the Commission to commence a new proceeding to establish a new market structure for the provision of interstate MTS/WATS service to and from Alaska. Like the Joint Petitioners, GCI urges that the joint service arrangement between AT&T and Alascom be terminated. It does not, however, agree with the market structure proposed by the Joint Petitioners to replace the present arrangements.

GCI recommends that the joint service arrangement be phased out over five years, and that AT&T be given control of Alascom's MTS/WATS costs during that period. By the end of the transition period, GCI suggests that Alascom will have been compensated by AT&T for all investments made in reliance on the joint service arrangement. At that point, AT&T would be given authority and responsibility for interstate MTS/WATS service to and from Alaska. AT&T and Alascom would be required to provide to all on a

¹¹ This agreement does not apply to rate increases necessitated by or resulting from any other development.

¹² No forecast is given of what the increase in intrastate toll revenue requirements would be in succeeding years.

nondiscriminatory basis any service which either carrier provides to the other.

One of the major differences between the market structure envisioned by GCI and that set forth in the Joint Petition is that GCI urges that there be no combination of existing interexchange and local exchange revenues, costs, entities, or operations. Thus, GCI objects to the transfer of Alascom's telecommunications assets to TUA, TUA's provision of interstate access transport services, and TUA's charging of pooled NECA access rates. GCI believes that interstate MTS/WATS services can be provided throughout Alaska without cost support -- whether that support be in the form of the joint service arrangement or NECA cost pooling.

GCI states that interstate and intrastate cost allocations for Alascom's assets should be frozen.¹³ Alascom's intrastate investment and expenses, it suggests, should be viewed as a "watertight compartment as of the last day of the five-year transitional period."¹⁴

GCI suggests that the Commission take back from the Joint Board the market structure issues which were subject to a discretionary referral to the Joint Board, and that the Commission resolve those issues itself. In resolving the market structure

¹³ This approach would make adoption of the Alaska Market Adjustment and related Part 69 measures unnecessary.

¹⁴ GCI Petition at 38. Ultimately, GCI anticipates the day when interstate and intrastate interexchange services will be sufficiently competitive that rate of return regulation will no longer be necessary and Alascom's cost separations, therefore, no longer relevant.

issues, the Commission would undoubtedly identify separations issues that would need to be resolved. Those issues could then be addressed by the Joint Board in the context of the market structure the Commission has adopted.

**III. THE COMMISSION MUST TAKE STEPS TO ASSURE
THAT THE MARKET STRUCTURE IT APPROVES FURTHERS
THE PRIMARY PUBLIC INTEREST OBJECTIVES
IDENTIFIED IN THIS PROCEEDING.**

In 1989, the Joint Board issued a Supplemental Order Inviting Comments¹⁵ in which it identified five objectives to guide resolution of this proceeding: (1) continuation of rate integration, a Commission policy that provides that rates for MTS/WATS service to and from domestic off-shore locations should be calculated in the same manner and be at the same levels as comparable calls between locations in the continental United States;¹⁶ (2) market based competitive entry; (3) preservation of universal service; (4) jurisdictional revenue requirement neutrality; and (5) increased efficiency.

The Joint Petitioners and GCI appear to accept these objectives and seek to package their respective proposals as maximizing them. The question which must be addressed, therefore,

¹⁵ Supplemental Order Inviting Comments, 4 FCC Rcd. 395 (January 4, 1989) ("Supplemental Order").

¹⁶ See Integration of Rates and Services, 96 F.C.C.2d 567 (1984); Domestic Communications Satellite Facilities, 35 F.C.C.2d 844 (1972), aff'd sub nom. Network Project v. F.C.C., 511 F.2d 786 (D.C. Cir. 1975). See also Supplemental Order at ¶ 25.

is not what are the objectives of this proceeding, but rather what is the best way to achieve them.

A. The Primary Objectives to be Followed
are Universal Service, Rate Integration,
and Revenue Requirement Neutrality.

The first step in resolving this question is recognizing that these objectives are somewhat in conflict and that they must be prioritized. The Joint Board has already done so:

[W]e emphasize that measures to increase efficiency and promote market based competitive entry should not be implemented at the expense of universal service, rate integration, or revenue requirement neutrality.¹⁷

This prioritization of objectives is not only correct, but compelled by the Communications Act and fundamental national communications policy.¹⁸

Universal service is a policy objective mandated by Congress,¹⁹ as the Joint Board has recognized.²⁰ It is particularly important in Alaska because telephone service plays a special role "in eliminating the problem of distance and isolation," in facilitating "citizen participation in education and the political process," in receiving "health care and entertainment" and in providing "the necessary structure for

¹⁷ Supplemental Order at ¶ 24.

¹⁸ See generally Comments of the State of Alaska in Response to the Supplemental Order Inviting Comments at 4-20 (April 13, 1989).

¹⁹ 47 U.S.C. § 151.

²⁰ "Nationwide universal service is one of the objectives of the Communications Act." Supplemental Order at ¶ 28.

Alaska's economic development."²¹ The extraordinary reliance in Alaska on telecommunications services has been recognized by the Commission in this proceeding and it must continue to be recognized.²²

Rate integration is a logical consequence not only of universal service, but also of the Communications Act's mandate of non-discrimination.²³ As the Joint Board stated, "continued rate integration is necessary to ensure that all Alaska residents are able to participate fully in the social, economic, and political life of our nation."²⁴

Universal service includes recognition of the impact of national policies on intrastate rates and services.²⁵ For this reason, the Joint Board and Commission must make certain that the steps taken in this proceeding do not make the provision of local exchange and intrastate toll services throughout Alaska more difficult to achieve or more expensive to ratepayers. The Joint Board's conclusions in the Supplemental Order that a carrier of last resort be designated and that intrastate services not be made

²¹ State of Alaska House of Representatives, Special Committee on Telecommunications, Interim Report at 2, 8 (1986).

²² Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-616 (December 11, 1984) at 2; Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-512 (December 11, 1984) at 7.

²³ MTS and WATS Market Structure, 81 F.C.C. 2d 177, 192 (1980).

²⁴ Supplemental Order at ¶ 25.

²⁵ See NARUC v. F.C.C., 737 F.2d 1095, 1108 & n.6 (D.C. Cir. 1984), cert. denied, 469 U.S. 1227 (1985).

more expensive through cost shifts to the intrastate jurisdiction²⁶ should be reaffirmed.

In this regard, it is worth noting that Alascom (which now seeks approval to increase intrastate revenue requirements by at least \$22 to \$32 million a year) has stated:

The massive record accumulated to date leaves little doubt as to the critical importance of universal service, continuation of rate integration and avoidance of jurisdictional cost shifts for the Alaska market.²⁷

B. The Market Structure Advocated in the Joint Petition Contains Features that are Contrary to The Primary Objectives.

The State appreciates the work embodied in and the significance of the Master Agreement to AT&T, Alascom and TUA. If that agreement were wholly consistent with the primary objectives identified by the Joint Board in this proceeding, the State would have no objection to it. Unfortunately, the Master Agreement and the actions the Joint Petitioners request be taken are not consistent with those objectives.

1. Approval of the Master Agreement Would Cause Significant Increases in Intrastate Revenue Requirements.

The State is desirous of a long-term solution to the issues presented in this proceeding. It realizes that continuation of the joint service arrangement is not viable in the long run, given the unanimous opposition to it by the relevant interexchange

²⁶ Supplemental Order at ¶¶ 29-31.

²⁷ Comments of Alascom, Inc. at 4 (April 13, 1989).

carriers. The State's concerns, therefore, are not with the phase-out of that arrangement but rather with the specific manner in which the Joint Petitioners propose that it be accomplished.

The State has no objections to the purely interstate aspects of the Master Agreement. The proposed transactions, however, cannot be evaluated through a myopic interstate-only perspective. The adverse impact of the transactions on intrastate ratepayers is significant. For the reasons described below, the actions described in the Joint Petition, if approved, would cause unacceptable jurisdictional cost shifts and place significant upward pressures on a variety of local and intrastate rates.

It has long been the objective of AT&T, both in this proceeding and elsewhere, to change the manner in which Alascom "separates" the costs of its jointly used telecommunications assets. In CC Docket No. 80-286, AT&T claimed that Alascom's separations practices were improperly inflating interstate cost allocations by as much as \$40 million a year. AT&T therefore sought to obtain rule changes that would force Alascom to separate costs in Central Office Equipment category 8.23 (now category 4.23) using the formula now used by LECs. A Federal-State Joint Board carefully studied AT&T's arguments and properly rejected them.²⁸ The Commission agreed, stating that the changes AT&T

²⁸ Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, FCC 87J-3 (released April 8, 1987).

sought would create adverse revenue requirement impacts.²⁹

Having been unsuccessful in persuading a sister Joint Board and the Commission to order Alascom to separate its jointly used equipment in the same manner as LECs, AT&T now seeks to circumvent those decisions. In short, it could be said that if the Commission would not make Alascom separate its costs as if it were an LEC, AT&T will make Alascom into an LEC through the Master Agreement. Thus, in the end, AT&T would accomplish its long sought goal -- a change in Alascom's separations practices.

Such a cavalier attempt to avoid Commission policy must be rejected. Service users as well as carriers are entitled to rely on Commission decisions as being final once the time for appeal has run. Neither AT&T nor any other party filed an appeal concerning the 1987 decision in CC Docket No. 80-286.

The 1987 decision is not only final, but also correct, as the Joint Board in this proceeding has recognized. In its Supplemental Order, the Joint Board found that the extensive record evidence in this proceeding established that Alaska intrastate cost assignment was not disproportionately low and should not be increased.³⁰ It therefore concluded:

resolution of the issues in this proceeding,
including adoption of any changes in the
Alaska interstate market structure, should be

²⁹ MTS and WATS Market Structure and Amendment of Part 67 (New Part 36) of the Commission's Rules, 2 FCC Rcd. 2639 (1987).

³⁰ Supplemental Order at ¶ 31.

accomplished without any material increase in intrastate revenue requirements.³¹

No one has suggested that this conclusion is erroneous; indeed, it should be reaffirmed.

The Joint Petitioners propose that a very significant amount of costs -- at least \$22 to \$32 million a year -- be shifted to the intrastate jurisdiction. Intrastate MTS revenue requirements would increase by approximately \$22 million. Alascom's current intrastate MTS revenue requirement is less than \$90 million.³² The Joint Petitioners propose to increase that requirement by approximately one-quarter. From another perspective, given that there are approximately 250,000 access lines in Alaska, the intracorporate transfer of assets from Alascom to TUA will add approximately \$88 per line per year to the cost of intrastate MTS. Even if the cost shift were "only" of this magnitude, it would not be consistent with the objectives set forth for resolving this proceeding.

Moreover, questions have been raised concerning whether the increase in intrastate revenue requirements would be much greater than the \$22 to \$32 million the Joint Petitioners suggest. One question concerns computation of the Conversation Minutes ("CM") factor under Section 36.126(e)(3)(i) of the FCC's rules. This factor allocates between jurisdictions LEC interexchange circuit equipment that is used for message toll service.

³¹ Id.

³² Joint Petition, Appendix IV.

The question regarding Alascom's/TUA's CM factor arises from the treatment of call minutes transported over the facilities leased to AT&T to establish POPs in Anchorage, Juneau and Fairbanks. The interstate conversation minutes over these facilities -- interstate minutes that originate or terminate in Anchorage, Juneau, or Fairbanks over the facilities leased to AT&T -- are included in Alascom's/TUA's CM factor. This factor is then used to allocate all of Alascom's/TUA's non-leased message circuit equipment, including the satellite used primarily for locations other than these three cites.

The State agrees with this application of Part 36 for two reasons. First, investment and related costs of these leased facilities are included in Alascom's/TUA's separations cost studies under Parts 36 and 69 and are assigned to the interexchange circuit equipment category. This cost treatment is proper. If these costs are properly included in the cost studies, they must be "separated" under the Part 36 rules and that is all Alascom/TUA is doing. Second, Alascom/TUA states that it will still have facilities in Anchorage, Fairbanks, and Juneau that are used to transport calls from AT&T's POP to the LEC central office. The costs of those facilities are also properly included in the interexchange circuit equipment category. Separation of all costs in that category using the CM factor is, therefore, appropriate.

It is vitally important to the State that Alascom's/TUA's interpretation and computation of the CM factor be reviewed and approved by the appropriate regulatory authorities at this time.

If Alascom's/TUA's interpretation is incorrect, the jurisdictional cost shift will be much greater than forecast.³³

Also, although it is not mentioned in the Joint Petition, the Alascom-TUA asset transfer would increase local exchange and private line costs. Data provided by Alascom and TUA to the state members of the Joint Board demonstrate that LEC costs would increase by approximately \$540,000 to \$560,000 annually³⁴ and that the accompanying request to use a single study area for separations purposes would cause a decrease in support from the Universal Service Fund of approximately \$330,000 annually.³⁵ Given that there are approximately 25,000 access lines in TUA's local exchange area,³⁶ the effective increase in costs of at least \$870,000 a year translates into possible rate increases in the range of \$35 per year.³⁷

³³ The State requests that Joint Board, Commission, and/or NECA staff thoroughly review the separations studies submitted in this proceeding and come to a conclusion about the precise amount of the jurisdictional shift, if any. This review will require full access to the books and records of PTI, Alascom, and TUA, including all workpapers to support the separations studies (Part 36 and 69) and all special studies, such as traffic factor development.

³⁴ Responses of PTI to Questions of State Members of the Joint Board, Volume 1, Tab 4 (February 7, 1992).

³⁵ Responses of PTI to Questions of State Members of the Joint Board, Primary Volume, Tab D at p.6 (February 7, 1992).

³⁶ Id. at p. 5.

³⁷ See Tables 1 and 2. These (and subsequent) tables were prepared by Karl Korsmo of Ernst & Young. Mr. Korsmo's curriculum vitae is attached as Exhibit 1.

TABLE 1

INCREASED COST PER ACCESS LINE TO TUA CUSTOMERS RESULTING FROM PROPOSED MASTER AGREEMENT	
1. PROJECTED 1993 DECREASE IN USF SUPPORT FOR CUSTOMERS OF JUNEAU- DOUGLAS AND FORT WAINWRIGHT ^{1/}	\$327,834
2. PROJECTED 1993 COST SHIFT TO MESSAGE TOLL-EXCHANGE ^{2/}	<u>\$537,493</u>
3. TOTAL 1993 COST SHIFT (EXCLUDING LOCAL PRIVATE LINE) (1+2)	<u>\$865,327</u>
4. PROJECTED 1991 TOTAL ACCESS LINES FOR JUNEAU-DOUGLAS AND FORT WAINWRIGHT ^{1/}	<u>24,981</u>
5. ANNUAL COST SHIFT (INCREASE) PER ACCESS LINE (3-4)	<u>\$34.64</u> =====

Prepared by Ernst & Young

- 1/ "Projected Loss in 1993 USF Support Resulting from Consolidated Alaska Study Area," prepared by Ernst & Young.
- 2/ Responses of Pacific Telecom, Inc. to Questions of the State Members of the Federal-State Joint Board, FCC No. 83-1376 posed October 4, 1991, Volume 1, Tab No. 4--Jurisdictional Shifts Due to Frozen vs. Terms.

TABLE 2

PROJECTED LOSS IN 1993 USF SUPPORT RESULTING FROM CONSOLIDATED ALASKA STUDY AREA				
	(1)	(2)	(3)	(4)
Study Area ^{1/}	Projected 1991 Access Lines	Unconsolidated Projected 1993 USF Support	Consolidated Projected 1993 USF Support	Difference (3) - (4)
Juneau-Douglas	20,401	\$530,257	\$202,423	<\$327,834>
Fort Wainwright	<u>4,580</u>	<u>0</u>	<u> </u>	<u> </u>
	<u>24,981</u>	<u>\$530,257</u>	<u>\$202,423</u>	<u><\$327,834></u>

Prepared by Ernst & Young

1/ Responses of Pacific Telecom, Inc. to Questions of the State Members of the Federal-State Joint Board, FCC No. CC 83-1376 posed October 4, 1991, Primary Volume, Tab D.

Other data show that local private line costs would increase by approximately \$1 million per year.³⁸ Local private line customers are captive customers of TUA and would either have to pay increased rates resulting from this cost shift or discontinue service.

These significant cost increases are not the result of additional prudent investments to add, improve, or extend services in Alaska. Were those the causes of increased costs, the public would receive additional benefits for the increased costs of providing service. Here, the only cause of the dramatic increase in intrastate toll, local exchange, and local private line revenue requirements is a transfer of assets from one member of a corporate family to another, a transfer designed to circumvent a Commission decision.

This transfer is contrary not only to the objective of revenue requirement neutrality, but also to the statutorily mandated objective of universal service. The potential increase in TUA's local exchange and local private line rates could be substantial and cause decreases in subscribers and usage. An increase in intrastate toll rates of one-quarter would also make attainment and maintenance of universal service much more difficult.³⁹

³⁸ Responses of PTI to Questions of State Members of the Joint Board, Volume 1, Tab 4.

³⁹ The Joint Board has noted Alascom's statements that the concept of universal service must encompass access to toll services if it is to be meaningful for Alaska. See Supplemental Order at ¶ 28.

The consequences of intrastate toll increases are particularly harmful in Alaska. The vastness of its geography makes calls that would be "local" in the lower 48 states -- including calls to the nearest educational or medical facilities -- toll calls in Alaska.

2. The Arguments That Intrastate Rates Will Not Increase Are Not Persuasive.

The Joint Petitioners suggest that intrastate toll rates will not need to increase to cover these increased intrastate costs even at the end of the five-year transition period. They contend that TUA's pricing of intrastate toll services will be constrained by the marketplace. Given that competition exists for intrastate toll services, TUA, it is said, will not be able to raise its rates to recapture these costs without losing market share. They also contend that increasing efficiencies (through either lower costs or higher call volumes) will allow TUA to reduce unit costs. And lastly, were neither of these constraints to rate increases available, AT&T and Alascom contend that any rate increase would have to be approved by the APUC.

The State hopes that the Joint Petitioners' optimism is correct, but notes that neither AT&T nor the PTI companies are willing to accept the risk that intrastate toll rates will not need to be increased to cover the significant increase in intrastate cost allocations created by the arrangements they wish to have approved. Regardless, under the status quo, those same factors would provide rate relief, not just a quasi-guarantee of no rate increases. TUA has agreed not to seek an increase in

intrastate toll rates for five years to cover the cost shift (while the cost shift is occurring and while payments from AT&T to terminate the joint service arrangement and to acquire Alascom's interstate MTS/WATS business are being received). It is unwilling to promise more. No promises of any kind are offered with respect to LEC rates or local private line rates.

The State does not understand why local and intrastate ratepayers should be asked to absorb the very substantial cost of the proposed intracorporate asset shift. The suggestion that intrastate toll rates may be constrained from increasing by the existence of competition ignores the fact that there is only one facilities-based competitor for intrastate toll services (GCI). It is not clear that competitive pressures would keep rates from increasing when there are only two facilities-based carriers, especially when one of them claims that its ability to continue to compete is jeopardized by this proposal. Further, the barriers to additional facilities-based entry into the intrastate toll market are significant. Even were there to be more than one facilities-based competitor, the environment is ripe for oligopolistic pricing or conscious parallelism. Moreover, competition in the local exchange area (either private line or basic service) is both nonexistent and unlikely.

The hoped-for development of increased efficiencies also does not assuage the State's concerns. Alascom and TUA have not pointed to any significant cost savings that would result directly from the asset transfer between them. Thus, the hoped-for

efficiencies are not related to, and therefore cannot be used to justify, the transaction.

Even if increased efficiencies do develop (which is by no means assured)⁴⁰ and intrastate rates do not increase despite the significant increase in intrastate revenue requirements, then the conclusion is inescapable that intrastate rates should have decreased but will not do so because of the asset shift.

In fact, data submitted by PTI show that, under its own assumptions, intrastate toll rates should decrease by a total of approximately \$66 million during 1993-1998 if no increase in intrastate revenue requirements as a result of this transaction occurs.⁴¹ By 1998, intrastate toll rates should drop by approximately 20 percent, to 26.75 cents per minute, compared to the 33.22 cents per minute Alascom currently charges and projects to charge through 1998. Given Alascom's forecast of utilization, the total savings to ratepayers in that year alone would be approximately \$17.5 million.

This analysis showing the extent to which intrastate toll rate reductions will not occur puts into perspective TUA's agreement not to include in revenue requirements for the next five years the Alaska Market Adjustment amounts. The intrastate toll revenue "forgone" as a result of the Alaska Market Adjustment

⁴⁰ The efficiencies arise largely out of traffic growth, estimated at 4.5 percent annually. Joint Petition, Appendix IV. Given the lack of population growth and the state of the economy, that estimate may be overly optimistic.

⁴¹ See Table 3.

TABLE 3

**CALCULATION OF LOSS TO ALASKAN RATEPAYERS
OF POTENTIAL INTRASTATE MTS RATE REDUCTIONS**
(\$ in thousands)

	1993	1994	1995	1996	1997	1998
1. State MTS Rev Req (Frozen CMM/Ckt. Mi.) <u>1/</u>	\$37,936	\$38,572	\$39,013	\$39,906	\$40,258	\$41,084
2. Alascom Con. Minutes <u>2/</u>	232,396	239,740	247,274	255,002	262,923	271,042
3. Cost Per Min(1/2)	16.32¢	16.09¢	15.78¢	15.65¢	15.31¢	15.16¢
4. Cost Per Min Of Access Paid <u>2/</u>	14.95¢	14.21¢	13.50¢	12.83¢	12.20¢	11.59¢
5. Total Cost Per Min(3+4)	31.27¢	30.30¢	29.28¢	28.48¢	27.51¢	26.75¢
6. Alascom Projected Avg Rev Per Min <u>2/</u>	33.22¢	33.22¢	33.22¢	33.22¢	33.22¢	33.22¢
7. Difference (6-5)	1.95¢	2.92¢	3.94¢	4.74¢	5.71¢	6.47¢
8. Difference x Alascom Con. Min (7*2)	\$4,532	\$7,000	\$9,743	\$12,087	\$15,013	\$17,536

Total 1993-1998 = \$65,911/250,000 Access Lines = \$264
 \$264/6 periods = \$44
 \$44/12 months = \$3.67/line/month

Prepared by Ernst & Young

1/ Responses of Pacific Telecom, Inc. to Questions of the State Members of the Federal-State Joint Board, FCC No. CC 83-1376 posed October 4, 1991, Volume 1, Tab No. 2--Summary of Revenue Requirements on Frozen Factors--Section 36.126(d)(3).

2/ Responses of Pacific Telecom, Inc. to Questions of the State Members of the Federal-State Joint Board, FCC No. CC 83-1376 posed October 4, 1991, Primary Volume, Tab A--INTRASTATE MTS.

amounts to \$63.7 million over the 1993-1998 period, according to Alascom,⁴² less than the amount by which intrastate toll rates should be decreasing.

Alaskans are entitled to the benefits of modernized telecommunications equipment and services to the same extent as other Americans. If increased efficiencies hold the promise of lower rates, that promise should not be broken by increased intrastate revenue requirements born of intracorporate transactions designed to avoid Commission determinations.

Approving arrangements which increase intrastate revenue requirements also unfairly and inappropriately shifts regulatory responsibility for these matters to the APUC. The State has no doubts concerning the ability of the APUC to perform its regulatory responsibilities to the fullest extent possible, but the APUC lacks the authority to deal with all market structure issues. Only the FCC, for example, can resolve the critical jurisdictional cost shift issues, because those issues involve application of FCC rules. If this Commission approves of arrangements that increase intrastate revenue requirements, the APUC would not be able to reverse that determination. To authorize increases in intrastate revenue requirements and leave the consequences of that authorization to the APUC is neither efficient nor fair. It would merely leave the APUC with the dilemma of how to handle a fait accompli -- federally approved intrastate cost shifts.

⁴² See Table 4 and Joint Petition at 21.

TABLE 4

INTRASTATE REVENUE REQUIREMENT "FORGONE" BY ALASCOM
(\$ in millions)

TOTAL	<u>Total Shift to Intrastate1/</u>	<u>Amount Included in Intrastate Rev Req1/</u>	<u>Difference "AMA"</u>
1993	\$32.3	\$3.2	\$29.1
1994	\$31.5	\$9.5	\$22.0
1995	\$31.4	\$15.7	\$15.7
1996	\$31.2	\$21.8	\$9.4
1997	\$29.7	\$26.7	\$3.0
1998	\$28.7	\$28.7	\$0.0
TOTAL	\$184.8	\$105.6	\$79.2
	=====	=====	=====

Intrastate MTS

	<u>Total Shift to Intrastate1/</u>	<u>Amount Included in Intrastate Rev Req</u>	<u>Difference "AMA"</u>
1993	\$26.4	\$2.6	\$23.8
1994	\$25.3	\$7.6	\$17.7
1995	\$25.0	\$12.5	\$12.5
1996	\$24.7	\$21.0	\$7.4
1997	\$23.3	\$21.0	\$2.3
1998	\$22.2	\$22.2	\$0.0
TOTAL	\$146.9	\$83.2	\$63.7
	=====	=====	=====

Prepared by Ernst & Young

1/ Joint Petition To Approve Master Agreement, Terminate Joint Service Arrangement, Continue NECA Participation, And For Limited Waiver of Separations Rules and Resolution and Termination of Regulatory Proceedings, FCC No. 83-1376, dated January 29, 1992, page 21.

The Joint Petitioners' proposal also raises concerns about another public interest objective in this proceeding, market based competitive entry. The Joint Petitioners state that NECA pooled access charges for interstate interexchange carriers other than AT&T will increase by about \$8 million annually. They contend that these other common carriers currently pay about \$1.5 billion a year in access transport expenses and that the additional \$8 million is an insignificant addition to the current payments.⁴³ GCI has expressed concerns that NECA pooling of Alascom's (or TUA's) interstate transport access charges will greatly increase its own access charge expenses. GCI will have to pay access transport charges that are higher than current NECA rates not only to reach those access lines in Alaska that it does not currently serve, but it will also have to pay the same higher access charges to those local exchange carriers in the lower 48 states which charge NECA access rates. If the actions requested in the Joint Petition increase GCI's costs to the level which makes it impossible for GCI to compete, the public interest benefits of the Master Agreement would be further called into question.⁴⁴

⁴³ Joint Petition at 14.

⁴⁴ Similarly, if GCI has to raise its intrastate rates as a result of this increase in its total operating costs, the concerns expressed on page 23, above, that competition will be inadequate to prevent TUA from raising its intrastate toll rates, are heightened.

C. Adjustments Must Be Made To The Market Structure Proposed In The Joint Petition.

The State believes that adjustments to the market structure proposed in the Joint Petition must be made if the Alaska market structure is to be consistent with the public interest objectives set forth in this proceeding. Steps must be taken to insure that Alaska ratepayers do not pay for the intracorporate asset shift AT&T and the PTI companies have decided is in their best interest.

There are several steps that could be taken to remove from Alaskan ratepayers the costs that they would otherwise bear if the Master Agreement were approved. Those steps would change the Master Agreement (and related arrangements) to eliminate revenue requirement shifts and to increase Alascom's/TUA's incentives to be cost-efficient.

First, Alascom's/TUA's intrastate cost allocations should be frozen, as GCI suggests. Alascom today uses certain telecommunications equipment to provide both interstate and intrastate telecommunications services. If the Master Agreement were implemented, those assets would be transferred to TUA, which would use those exact same assets for the same purposes. There is no reason to expect that the relative proportions of interstate and intrastate use of those assets will change as a result of their transfer from Alascom to TUA. There is, therefore, no economic (or public policy) reason why the intrastate cost allocation of those assets should increase.

For these reasons, TUA should be permitted to "separate" the costs of those assets in the same manner as Alascom. That

permission could be given as a permanent waiver to allow TUA to apply the factors set forth in Section 36.126(d)(3), rather than the allocators set forth in Section 36.126(e)(3). The same result could also be achieved by freezing the relative cost allocations of those assets (and replacement assets) at today's levels.

Alternatively, TUA should be required to take accelerated depreciation of all assets to be transferred from Alascom. TUA could be required to depreciate all assets received from Alascom in full during the five-year transition period. Because TUA has pledged not to seek an intrastate MTS rate increase based on the asset transfer during the five-year transition, this accelerated depreciation would not affect intrastate toll rates. This accelerated depreciation is not unfair or unduly burdensome because the PTI companies will be receiving significant payments from AT&T during the five-year transition period for nothing more than customer records and related information. Moreover, it is justified by the increase in competition and the demise of the joint service arrangement. Those two developments (should both occur) make Alascom's/TUA's interexchange assets less productive and less valuable.

A variant of this proposal is that TUA be required to write-down the assets being transferred to it to negate an increase in intrastate cost allocations. Once again, there is no reason why intrastate ratepayers should bear a higher percentage of the costs of jointly used equipment merely because of a voluntary intracorporate transfer, particularly given the decrease in

productivity and value of those assets. If Alascom and TUA wish to engage in an asset transfer between them at their own or at AT&T's behest, they -- not Alaska ratepayers -- should pay the price.

Second, the impact of the proposed transaction on intrastate revenue requirements might also be mitigated if Alascom/TUA is not permitted in the long run to obtain NECA cost support for assets currently used to provide interexchange service. If TUA is part of the NECA pool, its access rates would be based on the average cost of all carriers in the NECA pool and not on its own costs. Participation in NECA, therefore, to some extent minimizes its incentive to be cost efficient. Thus, TUA has an incentive to make inefficient investments and to incur unnecessary expenses in assets to be used to provide both interstate access and intrastate toll services.

For this reason, while cost pooling might be necessary in the short run, the State believes that participation in NECA will likely have the undesirable effect of contributing to a long-run increase in intrastate toll revenue requirements. The State therefore proposes that the cost of assets to be transferred to TUA should be included in NECA cost pooling only for an interim period, for example, five years.⁴⁵

⁴⁵ The Joint Petitioners may conclude that if NECA cost pooling is not available in the long-term, there is no reason to shift assets from Alascom to TUA. If that transfer does not occur, the problems identified above concerning increases in intrastate revenue requirements might not occur.

D. Institution of New Proceedings As Requested By GCI Does Not Appear Appropriate At This Time.

GCI suggests that the Commission institute a new proceeding aimed at setting the ground rules for the transition to a new market structure to replace one based on the joint service arrangement. GCI urges that interexchange and local exchange revenues, costs, entities and operations be separated, thus prohibiting TUA from providing both exchange access service and intrastate interexchange services. GCI also objects to any cost support for Alaskan telecommunications services, whether that support be through NECA cost pooling or otherwise. It believes that any cost support improperly skews the marketplace and disrupts competition.

Aspects of GCI's proposal have merit. GCI offers a solution to the intrastate cost shift problem. Its suggestion that Alascom/TUA not receive NECA cost support for interstate access services also has merit in the long-term. Other aspects of the GCI proposal, however, cause concern.

Most importantly, GCI's proposal fails adequately to promote and protect universal service. GCI is willing to trust attainment and maintenance of universal service solely to competitive forces. "Ultimately," it says, "universal service will be ensured through competition."⁴⁶ GCI also says that "each carrier will have an

⁴⁶ GCI Petition at 36.

incentive to extend its network as far as possible to maximize its own revenues and to minimize its reliance on other carriers."⁴⁷

Although the State supports competition and believes it can bring discipline to the marketplace, competition is not a panacea in the Alaska market context. It cannot guarantee universal service. Competition motivates carriers to maximize profits, not revenues. An economically rational carrier in a competitive market will not invest to expand its network if the capital and operating costs of that expansion are greater than the expected revenues. Thus, competition and economic forces alone are not sufficient to ensure universal service.

The Joint Board tentatively concluded in the Supplemental Order that designation of carrier of last resort responsibility in this proceeding would be prudent.⁴⁸ The State strongly urges that carrier of last resort obligations be specifically designated and explicitly imposed. GCI's entry into the intrastate toll market does not change the validity of that conclusion. GCI does not serve the entire state nor is it obliged to do so. There is nothing about GCI's current ability to serve 88 percent of the state's access lines⁴⁹ that provides service to the other 12 percent or to others in rural parts of the State who do not

⁴⁷ Id.

⁴⁸ Supplemental Order at ¶ 29.

⁴⁹ GCI Petition at 35.

currently have, but wish to obtain, service. Competitive forces cannot guarantee universal service to those people.

E. Additional Information is Needed From the Carriers Before A Final Market Structure Can Be Adopted.

The Joint Petition and GCI Petition raise numerous questions that the State believes require answers before the Joint Board and Commission can rule on their requests. Among other things, the State believes the following information is essential.

First, the State presumes that TUA would assume Alascom's carrier of last resort responsibility for interstate access services as well as intrastate toll services. Is this correct? Would AT&T have any carrier of last resort responsibilities under the market structure envisioned by the Joint Petitioners?

Second, if the Master Agreement is approved and the Commission takes all of the actions requested in the Joint Petition, would the intrastate cost shift be greater than forecasted by the Joint Petitioners? Is Alascom's/TUA's use of the CM factor appropriate?

Third, how much would GCI's annual access charge costs increase if TUA becomes an interstate transport access carrier and its costs are included in the NECA pool?

Fourth, does Alascom currently have facilities or equipment that are used to provide both private line and toll services? If so, what is to become of those assets? How will they be divided between Alascom and TUA? What effect will that treatment have on

revenue requirements for private line and intrastate toll services?

Fifth, the Joint Petition states that approval of the Master Agreement "will result in the application of AT&T's nationwide averaged rates to Alaska domestic interstate MTS/WATS service to the same extent that rate averaging continues for AT&T's domestic rates generally."⁵⁰ What are AT&T's plans concerning continuation of geographic rate averaging for domestic rates generally? Under what circumstances will AT&T seek to deaverage domestic MTS/WATS rates?

Sixth, does AT&T foresee competing for interstate private line service in Alaska? If so, are private line services to be rate integrated? Can AT&T commit to rate integration for private line services to the same extent it commits to rate integration for MTS/WATS? If not, why not?

Seventh, what is the basis for Alascom's/TUA's projected 4.5 percent annual increase in intrastate toll call volumes? Is that projection reasonable? How does that projection compare with the projections of GCI? How does it compare to the projections of other carriers for the lower 48 states?

Eighth, what specific efficiencies are to be created by the transfer of Alascom's telecommunications assets to TUA that would not otherwise be created by, for example, improvements in technology?

⁵⁰ Joint Petition at 15.

Ninth, what jurisdictional cost shifts would occur if Alascom, rather than TUA, is the provider of interstate access and intrastate toll services and none of its assets is transferred to TUA? How would Alascom's interstate access rates compare to what NECA's rates would be if the asset transfer occurred and TUA remained part of NECA?

The State submits that the answers to these questions will assist the Joint Board and Commission in resolving the issues presented.

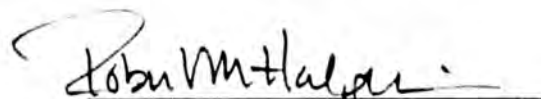
V. CONCLUSION

For the reasons set forth above, the State of Alaska urges the Joint Board and Commission not to grant blanket approval of the Master Agreement and the other actions requested by the Joint Petitioners because they are inconsistent with the primary public interest objectives adopted for this proceeding. The State urges the Joint Board to recommend, and the Commission to adopt, changes to the Master Agreement and other actions requested to promote

universal service, rate integration and revenue requirement
neutrality, while taking cognizance of competition and efficiency.

Respectfully submitted,

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EXHIBIT 1

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PRESENT POSITION

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EDUCATIONAL BACKGROUND

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B.A., Economics, University of Washington

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EXPERIENCE WITH ERNST & YOUNG

Cost Studies of Telecommunications Services

- Directed an incremental cost study for a large cellular telephone carrier.
- Performed embedded direct cost of service studies for several Independent telephone companies throughout the U.S. in support of rate filings at state regulatory commissions.
- Developed embedded direct cost study methodology for a Tier 1 exchange carrier, and calculated contribution margins by product line (business and residence access and usage, Centrex, private line, coin telephone, etc.).
- Designed a profitability reporting system for an exchange carrier that reports contribution by business unit and product line. The system includes methods for internal transfer pricing and special studies of key activities that generate costs.
- Directed jurisdictional cost separations and access charge cost studies for several Independent telephone companies in support of settlement payments and access tariff filings at the FCC.
- Developed a cost allocation manual to be used by a major communications carrier in allocating parent company costs to its numerous subsidiaries.

Strategic and Business Unit Planning

- Directed strategic planning studies for senior managements of two of the largest Independent telephone companies in the U.S.
- Performed business valuations for two regional long distance carriers in the eastern United States.

EXPERIENCE WITH ERNST & YOUNG (CONTINUED)

- Assessed the potential for growth and profitability of several intercity digital private line services during an assessment of acquisition candidates in the intercity private line business.
- Performed an evaluation of long-term pricing trends and sustainable competitive advantages for regional long distance carriers.
- Assisted a major intercity fiber-optic carrier in the U.S. to develop strategy for long-term growth and product development.
- Evaluated the strategic plan of a major U.S. power company with respect to its proposed entry into long distance telecommunications, and presented recommendations to the president and chairman of the board.
- Developed acquisition strategy for an Independent telephone company.

Consulting in Regulatory Policy and Strategy

- Advised a large independent telephone company on regulatory strategy for provision of interstate and state long distance services.
- Advised an international telecommunications company on FCC proceedings on international competition.
- Directed studies for major intercity carriers on regulatory strategy with respect to access charges.
- Recommended local exchange interconnection strategy to a large multistate cellular radio carrier.
- Developed strategies for several telephone companies toward deregulation of long distance and other services at the state level.
- Developed recommended regulatory strategies for a new entrant in the data communications market.
- Assisted a large overseas telephone company to develop policies for dealing with interconnecting international carriers.
- Directed an econometric analysis of the effect of rate increases on local telephone service demand and prepared testimony for presentation to the Public Utilities Commission of Ohio.

EXPERIENCE WITH ERNST & YOUNG (CONTINUED)

Testimony

Arbitration Panel, New York (Costs of Intercity Fiber Optics and Digital Microwave Transmission Capacity)

Arbitration Panel, Washington, D.C. (Costs and Prices of Aeronautical Communications Services)

Michigan Public Service Commission (Jurisdictional Costs of Exchange Access Services)

Public Utilities Commission of Ohio (Unregulated Activities of a Regulated Telephone Company)

Federal Communications Commission (Regulation of Interstate Long Distance Services)

South Carolina Public Service Commission (Access Charges)

Joint Economic Committee of the United States Congress (Access Charges and the Universal Service Fund)

Superior Court of Maricopa County, Phoenix, Arizona (Calculation of Damages for a Mobile Telephone Company)

Publications

"Investment and Market Opportunities in New Wireless Communications Services," Telecommunications Reports/Telocator Conference on Wireless and Mobile Communications, 1991.

"Extended Area Service and Economic Development: A Study of IntraLATA Pricing and Economic Development in Ohio," Ohio Telephone Association, 1989.

"An Evaluation of AT&T's Study of Interstate Access Charges Under Price Cap and Rate of Return Regulation," U.S. Telephone Association, 1989.

"Implications of Demand Growth and Technological Change for Productivity Gains By Small Telephone Companies," U.S. Telephone Association, 1988.

"An Evaluation of AT&T's Study of Local Exchange Carrier Productivity," U.S. Telephone Association, 1988.

"Evaluating Telephone Access Charge Proposals," Proceedings of the Second NARUC Biennial Regulatory Information Conference, 1980.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Comments filed on behalf of the State of Alaska was served by first-class, U.S. mail, postage prepaid this 20th day of April, 1992 upon the parties listed on the attached Service List.


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May 1, 1992

EX PARTE LETTER

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on April 30, 1992, undersigned counsel for the State of Alaska and Mark K. Dinneen, Associate Director for Commerce, Finance, and Transportation, Office of the Governor of the State of Alaska, met with Diane J. Cornell and Joel Timmer to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith

Linda K. Smith

cc: Diane J. Cornell
Joel Timmer

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MAY - 1 1992

Federal Communications Commission
Office of the Secretary

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May 1, 1992

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Secretary
Federal Communications Commission
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Washington, DC 20554

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Office of the Secretary

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on April 30, 1992, undersigned counsel for the State of Alaska and Mark K. Dinneen, Associate Director for Commerce, Finance, and Transportation, Office of the Governor of the State of Alaska, met with Linda L. Oliver to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith

Linda K. Smith

cc: Linda L. Oliver

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May 1, 1992

EX PARTE LETTER

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MAY - 1 1992

Federal Communications Commission
Office of the Secretary

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on April 30, 1992, undersigned counsel for the State of Alaska and Mark K. Dinneen, Associate Director for Commerce, Finance, and Transportation, Office of the Governor of the State of Alaska, met with Chairman Alfred C. Sikes, Robert L. Pettit, and Kenneth C. Robinson to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith

Linda K. Smith

cc: The Honorable Alfred C. Sikes
Robert L. Pettit
Kenneth C. Robinson

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May 1, 1992

EX PARTE LETTER

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on April 28, 1992, undersigned counsel for the State of Alaska and Mark K. Dinneen, Associate Director for Commerce, Finance, and Transportation, Office of the Governor of the State of Alaska, met with James D. Schlichting, James Spurlock, Patrick J. Donovan, Kent R. Nilsson, and Douglas L. Slotten to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith

Linda K. Smith
Robert M. Halperin

cc: James D. Schlichting
James Spurlock
Patrick J. Donovan
Kent R. Nilsson
Douglas L. Slotten

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May 1, 1992

EX PARTE LETTER

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on April 28, 1992, undersigned counsel for the State of Alaska and Mark K. Dinneen, Associate Director for Commerce, Finance, and Transportation, Office of the Governor of the State of Alaska, met with Commissioner Andrew C. Barrett and Madelon A. Kuchera to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings. The State also is providing a copy of portions of its 1986 and 1989 Data Submissions, previously filed in CC Docket No. 83-1376, RM 4436.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith

Linda K. Smith

Enclosure

cc: The Honorable Andrew C. Barrett

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MAY - 1 1992
Federal Communications Commission
Office of the Secretary

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

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

To: The Federal-State Joint Board

RESPONSE OF THE STATE OF ALASKA TO
ORDER REQUESTING DATA AND INVITING COMMENTS

The State of Alaska, by its attorneys and pursuant to the
Order Requesting Data and Inviting Comments (Order) issued by the
Federal-State Joint Board for this proceeding (FCC 86J-2, released
May 9, 1986), hereby submits its response.

Respectfully submitted,

THE STATE OF ALASKA
Harold M. Brown
Attorney General

By:

Linda K Smith

Victor E. Ferrall, Jr.
Linda K. Smith
John T. Scott, III
Steven J. Gorosh

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Its Attorneys

July 15, 1986

SUMMARY

Alaska, which covers 591,000 square miles, is two and one-half times larger than the next largest state, and larger than 21 states combined. Its population, about 500,000, is the smallest of the 50 states. Alaska's population density is the lowest of any state, less than one person per square mile, compared with 5 persons per square mile in Wyoming, the next least densely populated state, and 67 persons per square mile in the United States as a whole.

Almost half of all Alaskans live in Anchorage. Only two other communities, Fairbanks and Juneau, have more than 10,000 residents. Seventy-seven percent of all communities in Alaska have populations of 500 or less, and about one-third have fewer than 100 residents.

Alaska's population growth rate from 1980 to 1985 was five times greater than the national average. Most of the state's population increase, however, resulted from in-migration, not new births. In-migration has been subject to dramatic fluctuations.

Alaska's geography is unique. Alaska is only 2.5 miles from Russia, 663 miles from Seattle, the closest large city in the continental United States, and only 800 miles from the North Pole. It is the site of the tallest mountain in North America and 17 of the 20 highest peaks in the United States, and contains a glacier larger than Rhode Island. A significant part of its land is covered by ice fields or permanently

frozen. Ten percent of the world's volcanoes are located in Alaska; one erupted this year.

The six distinctive climate zones in Alaska are all characterized by weather extremes. In one, it rains or snows about 200 inches annually. In another, 100-plus mile winds are common. Other climate zones feature coastal flooding, a record snowfall of 62 inches in 24 hours, temperatures as low as 80° below zero, and no sun two months each year.

Although Alaska's communities are separated by vast distances, there are less than 9,000 miles of "highways" in the state, only a quarter of which are paved. There are six times as many miles of paved road in Los Angeles County as in all Alaska. Most communities in the state, including Juneau, its capital, cannot be reached by road. Alaskans must rely on planes and boats, methods of transportation that are costly, time-consuming, and frequently impossible due to weather or other conditions.

Historically, education levels in the state had been low for many groups. Alaska is committed to redressing this situation and to providing an education in such a way so that children are not forced to leave their homes to get it, as many have been in the past. This is an expensive undertaking. Alaska relies heavily on telecommunications to deliver educational services at the primary, secondary and college levels. In the many, remote, small Alaskan communities, even minimal cost efficiency in providing educational services is difficult. The diversity of the communities and the distance between them, which make any standardization complex, and growth

of the school-age population have compounded the problem. As a result, expenditures on public education have been high.

Alaska's climate and geography bring with them special health and public safety challenges. The state suffers the highest rate for death by accident in the nation, as well as high rates of alcoholism, suicide (50% higher than the national average) and infant mortality. With relatively few doctors serving such a large area, the state must rely to a large extent on emergency medical technicians in rural communities, linked by telecommunications to professional medical assistance. Telecommunications are also particularly vital to public safety in the state.

Alaska's economic history, both as a territory and as a state, is one of boom and bust. The overwhelming majority of the State's revenues presently come from oil and gas. Between the fiscal years 1980 and 1985, petroleum accounted for 83-90% of all of the State's Unrestricted Revenues. With Alaskan North Slope crude oil now selling at prices two-thirds lower than in 1981, the state has entered a deep bust cycle. Even prior to the dramatic decline in oil prices that began in late 1985, the State had projected a 59% decline in daily oil production between 1985 and 1998, and an oil and gas employment decline of 10-30% between fiscal years 1986 and 1987 alone. Given the projected decline in oil production in the state, even if oil prices were to go up, state revenues will not increase correspondingly.

During the 1980's, other Alaskan industries, such as lumber, mining, construction and some elements of the fishing industry, also suffered declines, those in lumber and housing construction being particularly severe. The state's economy has benefitted, however, from tourism, which has been strong. The economy is heavily dependent on federal, state and local government employment and expenditures. Nearly 30% of all workers in the state in 1983 were employed by federal (excluding military), state or local government.

From 1980 to 1985, the unemployment rate in Alaska exceeded the national average by about one-third. Further, Alaska's unemployment rate is increasing. It was 11.4% in April, 1986, up from 10.7% in April, 1985. In many areas of the state, unemployment is much higher, and higher still among some groups, particularly Native Americans.

While Alaska's per capita personal income was the highest of any state in 1985, its cost of living was even higher. In the last quarter of 1985, for example, the cost of living in the state exceeded the national average by about 50%. As a result, Alaskans' real per capita income, adjusted to take account of the higher cost of living in Alaska, was below the national average.

There are substantial differences in income and cost of living among Alaska's 23 census areas. Twelve census areas, which include almost one-third of the state's population, have had real per capita personal income more than 15% below the national average.

Dollar per capita personal income in Alaska is increasing at only about a quarter of the national rate. Even prior to the recent acceleration in the oil bust, growth in personal income in Alaska was projected to be zero in 1985, and to decrease significantly in 1986.

The historic pattern of boom-bust in Alaska, and the State's heavy dependence on petroleum-based revenues, have required the State to devise extraordinary means to provide a measure of economic stability for its residents. These include investment, tax incentives, loan programs and creation of the Permanent Fund, a constitutionally-based fund to provide revenue to replace non-renewable and declining oil revenues. Nonetheless, over the next two or three fiscal years, a 50% decline in the State's Unrestricted Revenues was projected, and the Alaska legislature has begun making deep cuts in appropriations. Because of additional revenue shortfalls caused by the continuing decline in the price of oil, the State of Alaska is, at the time of this submission, contemplating further drastic budget cuts and other measures to deal with the situation.

Telecommunications services provided by the State include video (instructional and entertainment), microwave, emergency, medical, legislative and instructional teleconferencing, and two-way radio. The State does not provide telephone service. Each State department contracts for its own telecommunications equipment and services.

SECTION A
DEMOGRAPHIC INFORMATION

The demographics of the State of Alaska start with the State's size and its relationship to the State's population. Alaska encompasses an area of 591,004 square miles, one-fifth of the total land area of the continental United States and more than the combined land areas of the three next largest states (Texas, California and Montana).¹ If superimposed on the lower 48 states, Alaska would stretch across the nation:²



The United States Bureau of the Census estimates the population of the State as of July 1, 1984, to be 500,000 people, fewer

-
- ¹ United States Department of Commerce, Bureau of the Census, Statistical Abstract of the United States 1986 (1985) at 194 ("Statistical Abstract").
 - ² Alaska Statewide Health Coordinating Council, State Health Plan for Alaska (1984) at 2-2.

than in any other state or the District of Columbia.— As of the same date, the Alaska Department of Labor, which compiles population data for the State, estimates the State's population to be 523,048.^{1/} Alaska's residents comprise 0.2 percent of the total United States population of 236,158,000.^{2/}

Alaska's population density is one person per square mile, the sparsest of any state.^{3/} If the population of Anchorage, Alaska's largest community, is excluded, Alaska has an average density of less than one person for every two square miles.^{4/} Wyoming, the state with the next least density, has five persons per square mile. The average density in the United States is 67 people per square mile.^{5/}

Unlike other States, Alaska is not divided into counties. Substate governmental units known as "organized boroughs" are the closest equivalent to counties. There are 12 such boroughs. They possess many of the powers common to local governments (e.g.,

^{1/} Statistical Abstract at 12. The most recent federal estimate of the State's population is 516,000 as of July 1, 1985, smaller than the population estimates for all states except Wyoming. United States Department of Commerce, Report on 1985 State Per Capita Personal Income (May 6, 1986, Table 4) ("Commerce Report").

^{2/} State of Alaska, Department of Labor, Alaska Population Overview (1985) at 63 ("Population Overview"). This is the Department of Labor's most recent published estimate.

^{3/} Statistical Abstract at 12 (July 1, 1984 estimate).

^{4/} Id.

^{5/} Population Overview at 63; Statistical Abstract at 12.

^{6/} Statistical Abstract at 12.

taxation, public safety and zoning). They cover, however, less than one third of the land area of Alaska. The remainder of the state is collectively known as the "unorganized borough." No governmental bodies exist in this vast area outside of local cities and rural school districts; governmental functions for the unorganized borough are handled by State government. The development of internal political boundaries in Alaska is an ongoing process.¹⁷

Local governmental powers are also exercised by 146 legally incorporated "cities" (so designated without regard to size) across the state. Although each borough contains one or more incorporated cities, not all incorporated cities are within one of the twelve organized boroughs.¹⁸

In addition, there are approximately 150 small, unincorporated communities, which have no local governmental powers. The Census Bureau and the Department of Labor label these communities as "census designated places" (CDP's) for purposes of compiling demographic data. A few other concentrations of population, such as Eielson Air Force Base outside Fairbanks or College at the edge of Fairbanks, are also counted as CDP's.

Attachment A-1 lists the Alaska Department of Labor's 1984 and 1983 population estimates and the 1980 U.S. Census figures for

¹⁷ State of Alaska, Department of Education, Division of State Libraries, Alaska Blue Book 1985 (1985) at 155-56 ("Blue Book"); State of Alaska, Department of Labor, Alaska Planning Information (1985) at 3 ("Planning Information"). Indeed, the twelfth borough was established this year.

¹⁸ Id.

each community in the state in alphabetical order. Attachment A-2 provides these estimates and figures for each community in order of population size. These attachments identify the twenty largest communities and their populations as of July 1, 1984 as follows:

1.	Anchorage City	243,829
2.	Fairbanks City	27,103
3.	Juneau City	23,729
4.	Eielson AFB (CDP)	7,837
5.	Ketchikan City	7,633
6.	Sitka City	7,611
7.	Kenai City	6,072
8.	Kodiak City	6,069
9.	College (CDP)	4,498
10.	Valdez City	3,687
11.	Bethel City	3,681
12.	Soldotna City	3,538
13.	Wasilla City	3,459
14.	Homer City	3,373
15.	Nome City	3,184
16.	Adak Station (CDP)	3,169
17.	Petersburg City	3,137
18.	Barrow City	2,943
19.	Palmer City	2,772
20.	Kodiak Station (CDP)	2,420

Attachments A-1 and A-2 show the uneven population distribution of Alaska. Almost half of all Alaskans (47%) reside in one city, Anchorage. Another 10% reside in the only other cities with populations larger than 10,000, Fairbanks and Juneau. The remaining 43%, some 200,000 people, are scattered across the state among nearly 300 smaller communities.^{1/} Only five other communities have as many as 5,000 and residents. There is, therefore, great variation in the living patterns of Alaskans, depending on where and in what size community they live, and such other factors as income, history, or ethnic origin. For example, one recent study

^{1/} Id. at 63.

found that while only 7% of households in Anchorage live off the land to obtain all or part of their food, 63% to 93% of households in rural areas rely in whole or in part on subsistence activities.^{12/}

The distribution of Alaska's population by community size is as follows:^{13/}

<u>Population of Community</u>	<u>Number of Communities</u>
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

The Census Bureau and the Department of Labor currently divide Alaska into 23 "census areas" for collecting demographic and labor market information, which are based in part on political boundaries (i.e., the boundaries of the organized boroughs). Those census areas are grouped into six regions: Anchorage/Matanuska/Susitna, Gulf Coast, Interior, Northern, Southeast, and Southwest. Half of Alaska's population, 50.3%, is located within

^{12/} The McDowell Group and Alaska Attitudes, Inc., Alaska Geographic Differential Study (1985), Vol. I at 11. The Study measured these activities by asking respondents, "Do you or anyone in your household hunt, fish or pick berries or greens for subsistence?" The Study concluded, "Districts with low population, low employment and high unemployment are those in which subsistence is an important factor. The degree of dependency and the spending in support of subsistence are surprisingly high in the most rural districts." Id. at 197-200.

^{13/} Population Overview at 49-51, 63-69.

the region with the smallest land area, Anchorage/Matanuska/Susitna region. The remaining 49.7% is spread among the other five regions. Attachment A-3 is a map identifying each census area. Attachment A-4 shows the diffusion of population among the six regions.

U.S. Census Bureau data show that Alaska's population declined during the period from 1900 to 1930, then grew rapidly until the late 1970's. At that time the population leveled off for several years, then resumed its growth in the 1980's:^{14/}

<u>Year</u>	<u>Alaska Population</u>
1900	64,000
1910	64,000
1920	55,000
1930	59,000
1940	73,000
1950	129,000
1960	226,000
1970	303,000
1977	403,000
1978	405,000
1979	403,000
1980	402,000
1981	416,000
1982	444,000
1983	481,000
1984	500,000
1985	516,000

Although Alaska's population growth continues, it is slowing down.^{15/} While the average annual rate of growth for the period

^{14/} Statistical Abstract at 12; United States Department of the Interior, ANCSA 1985 Study (1984 Draft) at E-5 ("ANCSA Study"); Commerce Report.

^{15/} The State of Alaska Department of Labor estimates the State's population to have increased as follows: 461,000 as of July 1, 1982; 495,000 as of July 1, 1983; and 523,000 as of July 1, 1984. These figures also indicate a slowdown in the rate of growth. Population Overview at 39.

between the 1980 census and July 1, 1983 was 6.2%, the rate of growth slipped to 4.0% for the year July 1, 1983 to July 1, 1984, and to 3.2% for the year July 1, 1984 to July 1, 1985.^{16/} Alaska's average annual rate of growth for the period 1980-1985 of 5.1% compares to an average annual rate of growth for the United States population over the same period of 1.0 percent.^{17/}

Alaska's growth rates reflect its small population base. Between 1980 and 1984, while Alaska's population growth rate was the highest of the 50 states, 19 states added a greater number of people.^{18/} 57% of the total increase in Alaska's population occurred within one city, Anchorage. 64% occurred in the three largest cities (Anchorage, Fairbanks and Juneau). 90% occurred in five of the 23 census areas: Anchorage, Fairbanks-North Star, Juneau, Matanuska-Susitna, and Kenai Peninsula.^{19/} Attachment A-5 provides demographic data for each census area over the period 1970-1984.

Alaska's growth historically has been dependent on migration from other states. This pattern has continued. Most of Alaska's growth in the 1980's has been due to in-migration. Three-quarters of the growth from 1980 to 1983 was due to in-migration.^{20/}

^{16/} Commerce Report.

^{17/} Statistical Abstract at 7; Commerce Report.

^{18/} Statistical Abstract at 13.

^{19/} Population Overview at 4.

^{20/} Planning Information at 5.

Attachment A-5 demonstrates the substantial impact of in-migration on population change in each census area during this period. Between July 1, 1983 and July 1, 1984, Alaska added 28,000 people, almost two thirds of whom immigrated from other states.^{11/}

The Department of Labor states, "Migration is the most unstable component in Alaska's population change, often changing dramatically from one year to the next."^{12/} Fluctuations in net migration are shown in Attachment A-6. During the oil pipeline construction period of 1974-76, migration to Alaska increased sharply, giving Alaska its fastest rate of growth in decades. When construction ceased, however, so many more people left Alaska than moved in that, from 1978 to 1980, despite non-migratory population increase, Alaska experienced a net loss in total population.

Alaska's population, while aging like that of the rest of the United States, remains relatively young. The median age of Alaskans increased from 26.1 years in 1980 to 27.5 years in 1984. During the same period the median age of all Americans increased from 30.0 to 31.1 years. As of July 1, 1984, 11% of Alaskans were under 5 years old, compared to 7.7% of all Americans. 21% of Alaskans were of elementary and secondary school age (5-17 years old), compared to 18.8% of all Americans.^{13/} There are, therefore, two adult Alaskans (18 or over) for every Alaskan child. In

^{11/} Population Overview at 3.

^{12/} Id. at 12.

^{13/} Id. at 3.

the United States as a whole, there are three adults for every child.

In 1984 there were approximately 22,600 military personnel in the State and 26,800 military dependents, making the population of military and dependents in Alaska approximately 9.5% of the total population.^{24/}

The distribution of Alaskans by race is as follows:^{25/}

<u>Race</u>	<u>1980 Census</u>	<u>1984 (Est.)</u>
White	77.1%	76.1%
Native Alaskan (American Indian/Eskimo/ Aleut)	16.0%	14.4%
Black	3.3%	4.1%
Asian/Pacific Islander/Other	3.6%	5.4%

The term "Native Alaskan," often used to refer to the State's original settlers, masks the significant differences in ethnic origin, language and culture among native groups. Alaska's original settlers dispersed across the vast Alaskan land mass, living in distinct, geographically separated climatic regions, evolving into multiple groups, each with its own territory, language and culture.^{26/} The Alaska Native Language Center of the University

^{24/} Id. at 4.

^{25/} Id. at 17. (Categories are specified by U.S. Census Bureau.)

^{26/} Alaska Geographic, Alaska's Native People (1985) at 15-31 ("Native People"); ANCSA Study at I-10 and I-11.

of Alaska identifies 20 separate languages among natives in the State.^{17/}

Even the usual division of natives into Aleuts, Eskimos and Indians understates the number of distinct and distinctive groups. The Aleuts inhabit the chain of islands extending from southwestern Alaska 1,000 miles across the northern Pacific Ocean. While of common origin, there are several different Aleut dialects, in different locations.^{18/}

Eskimos inhabit lands from Bristol Bay in the southwest, up Alaska's entire west coast, and across its northern coast into Canada. The Eskimos were originally coastal people who fished and hunted marine mammals, but some lived inland, hunting caribou, and evolved their own separate cultures. Two principal Eskimo subgroups, Yupiks and Inupiat, share common origins, but have evolved languages so different that they cannot communicate with each other in their mother tongues. In addition, the southern coast is inhabited by three groups, the Koniag, Sugpiaq, and Chugach, which are related to Eskimos by language and physical type, but have independent cultures.^{19/}

Alaskan Indians are comprised of numerous subgroups. The Athabascan Indians, scattered across Alaska's interior regions, use 11 different languages, grouped into two language families,

^{17/} Attachment A-7 shows the distribution of native languages across Alaska.

^{18/} Native People at 33.

^{19/} ANCSA Study at I-10; Native People at 18-21.

Eyak and Athabascan (see Attachment A-7), and have different cultures. Unlike the Eskimos, who turned to the sea for subsistence and who developed trading, the Athabascans were once exclusively hunters and gatherers who roamed the land in search of food. While trading between Indians and Eskimos existed, rivalries and territorial disputes sometimes led to conflict. Three separate groups of Indians, the Tlingits, Haidas and Tsimshians, settled along the coasts and islands of the southeastern panhandle. While ethnically similar to the Athabascans, these groups lived in a completely different habitat, one conducive to fishing and coastal trade, and evolved separate languages.^{10/}

The 1980 census reported a total of 64,103 native Alaskans (53% Eskimos, 34% Indians and 13% Aleuts).^{11/} While in 1930 natives comprised more than half of Alaska's total population, natives as a percentage of all Alaskans have since been declining:^{12/}

<u>Year</u>	<u>Natives as Percent of Total</u>
1930	50.6%
1940	44.8%
1950	26.3%
1960	19.0%
1970	16.9%
1980	16.0%

While the native population grew at an average annual rate of 2.4 percent from 1970 to 1980, double the national average, Alaska's

^{10/} ANCSA Study at I-11 and I-12; Native People at 24-28.

^{11/} Blue Book at 230.

^{12/} ANCSA Study at E-5.

non-native population grew at the rate of 3.1 percent. The growth in the native population resulted, however, from natural increase, while in-migration contributed heavily to the increase in the non-native population.^{11/}

Attachment A-8 identifies the distribution of Alaska's population by race among census areas as of 1980. Whites are most heavily concentrated in the larger communities, while native Alaskans are dispersed across the State. The most remote areas of the State have the highest percentage of native Alaskans. For example, while the Anchorage census area was 86% white and 5% native, the Kobuk census area, in the northern region, was 14% white and 85% native. (See Attachment A-8.) 72% of native Alaskans live in areas categorized as rural by the U.S. Census Bureau, compared to 24% of non-natives.^{14/} 51% of native Alaskans live in 147 communities which were 75% native or more. On average, these communities were 90% native. All but three of them had populations of less than 1,000. Excluding these three communities, Alaska's predominantly native communities had an average population of 214.^{15/}

^{11/} Id. at IV-3.

^{14/} Id. at E-7, E-8.

^{15/} Population Overview at 49.

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

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

To: The Federal-State Joint Board

DATA RESPONSE OF THE STATE OF ALASKA
TO THE SUPPLEMENTAL ORDER INVITING COMMENTS

The State of Alaska, by its attorneys, hereby submits data in response to the Supplemental Order Inviting Comments ("Supplemental Order") released by the Federal-State Joint Board on January 3, 1989.

The Joint Board requested the State "to update previously provided information that relates to the issues discussed" in the Supplemental Order.¹ While the State believes that all the data it submitted in 1986 "relate to the issues" covered in the Supplemental Order, it is limiting this response in an effort not to burden the Joint Board or its staff. Most of the data about the State submitted in 1986 remain valid. The State, therefore, has focused this response on updating data specifically discussed in the Supplemental Order and reporting other recent data that

¹ Supplemental Order ¶ 86.

relate to the issues discussed in the Supplemental Order.² The State hopes that the Joint Board and its staff will find this data response useful, and even entertaining.

SUMMARY

The fundamental points about Alaska remain unchanged. Alaska remains both the largest state in the nation and the state with the lowest population density. Three-quarters of Alaska's communities continue to have fewer than 500 residents. Alaska's terrain and climate remain harsh. Transportation remains limited. Public health and safety, unemployment and the provision of adequate education remain difficult challenges. The State's unemployment rate, for example, is now approximately twice the national average.

The economy of the State has been rocked by the sharp decline in oil prices. In contrast to the rest of the nation, per capita income in Alaska has been declining. Nonetheless, Alaska continues to have a cost of living that is among the highest in the nation. Despite the need for public service funds, the State has been forced to slash drastically its public spending.

² As it did in its prior data response, the State generally relies on public information, almost all of which is published by federal or state authorities. No special studies have been undertaken. The data presented are the most recent available, either from 1988, or, if necessary, from earlier years. Some of the state reports from which data are taken are so recent that they are still in draft form.

The data are presented in a manner that allows this response to be read in connection with the 1986 data response. References in the headings are to the sections of the 1986 data response to which the new data relate.

Demographic Information (Section A)

The population of Alaska has decreased from approximately 532,000 in 1986 to approximately 525,000 in 1987.³ Alaska continues to have by far the lowest population density in the United States, averaging less than one person per square mile.⁴

The State's population continues largely to be dependent on migration from other states. In the early 1980s, the State's population grew primarily as a result of in-migration.⁵ In 1987, the population decrease was a result of out-migration. Therefore, it is not surprising that the population decrease was centered in Anchorage and Juneau, two communities that had previously experienced substantial in-migration. Population levels in the rest of the State generally were stable or showed small growth.⁶

Almost half of the State's population lives in Anchorage, and only two other communities (Fairbanks and Juneau) have more than

³ U.S. Department of Commerce, Regional Difference in Per Capita Personal Income Continue to Widen in 1987, Table 4 (August 18, 1988). Attachment 1. The State's own estimates show a greater population decrease, from approximately 547,600 in 1986, to approximately 537,800 in 1987. State of Alaska, Department of Labor, Alaska Population Overview, draft copy of 1986 and Provisional 1987 Estimates ("Population Overview"), Table 3.2 (December 1988). Attachment 2.

⁴ Alaska covers 591,004 square miles. See Response of the State of Alaska to Order Requesting Data and Inviting Comments ("1986 Alaska Data Response"), Section A, p. 1 (July 15, 1986). Wyoming, the next least densely populated state, averages 5 persons per square mile. The United States as a whole averages approximately 67 persons per square mile. Id.

⁵ See id., Section A, p. 7.

⁶ Population Overview, Table 3.2. Attachment 2.

10,000 residents.⁷ In 1987, 75 percent of Alaska's communities had a population of 500 or less (77 percent in 1985); 20 percent had a population of 100 or less (33 percent in 1985). Some communities have disappeared altogether.⁸

Climate (Section C)⁹

Alaska remains a land of extreme weather and climate conditions. Alaska's recent record high barometric pressure and resulting record low temperatures illustrate the population's dependence on telecommunications. Record low temperatures of 86 degrees below zero were reported near McGrath,¹⁰ and temperatures of 70 degrees below zero were recorded at Yukon Creek.¹¹ Wind chill factors were calculated at 100 degrees below zero.¹² Fairbanks experienced 40 below zero temperatures lasting over two weeks.

The low temperatures grounded aircraft, leaving many of Alaska's villages without regular food and mail deliveries.¹³ At temperatures of 40 below, propane gas freezes into unburnable liquid, metal cracks, machines stop working, motor oil freezes,

⁷ Population Overview, Table 5.2. Attachment 3.

⁸ Id.

⁹ No update is needed for Section B (Geography). For the convenience of the Joint Board and its staff, however, a map of the State is attached. Attachment 4.

¹⁰ Washington Post, January 29, 1989, at A12, col. 1.

¹¹ Washington Post, January 31, 1989 at A3, col. 4.

¹² Id., col. 1.

¹³ Anchorage Daily News, January 28, 1989, at A8, col. 3.

tires freeze into blocks, and exhaust fumes from engines crystallize into tiny particles.¹⁴

During the crisis, telecommunications served a vital and life saving role. Governor Cowper set up a 24 hour-a-day toll free number to the state emergency services agency for citizens in distress.¹⁵ State officials also relied on telecommunications to keep track of isolated villages in case emergency fuel or food supplies needed to be delivered by special aircraft.¹⁶

The cold weather forced the temporary closure of the oil export facility at Valdez and resulted in a 65 percent reduction in the flow of oil through the trans-Alaska oil pipeline.¹⁷ The one day closure of the Valdez facility cost the State treasury \$3.08 million in lost oil taxes and royalties.¹⁸

Transportation (Section D)

The vastness of the State is difficult to comprehend. Alaska is larger than 21 states combined, and is two and one-half times larger than the next largest state.¹⁹ The State stretches approximately 2,400 miles from east to west and approximately 1,420 miles from north to south.²⁰ If superimposed over the

¹⁴ Anchorage Daily News, January 29, 1989, at D1, col. 2.

¹⁵ Anchorage Daily News, January 28, 1989, at B2.

¹⁶ See AP News Summary, February 1, 1989.

¹⁷ AP News Summary, January 31, 1989.

¹⁸ Id.

¹⁹ See 1986 Alaska Data Response, Section B, p. 1.

²⁰ State of Alaska, Department of Education, Division of State Libraries, Alaska Blue Book 1987, pp. 326-27 (1987).

continental United States, Alaska would stretch from coast-to-coast and from Canada to Mexico.



Despite this vast size, Alaska transportation remains limited. Most communities, including Juneau, cannot be reached by road. In 1987, there were only 12,081 miles in the State's highway system,²¹ less than one-sixth the number of miles of paved road in Los Angeles County alone.

Moreover, maintenance of existing roads has suffered due to decreased funding resulting from the downturn in oil revenues. The State's road maintenance budget fell 27 percent in fiscal year 1987, compared to fiscal year 1984.²² While expected to increase in fiscal year 1989, funding is still estimated at 20 percent

²¹ Letter from R.B. Lind, Director, Alaska Department of Transportation, Division of Plans, Programs and Budget, to S. Moreno, U.S. Department of Transportation (June 14, 1988).

²² C. Kleeschultz, Alaska Transportation Recap 1988, Alaska Public Affairs Journal, Vol. 4, No. 3, p. 19 (Fall 1989).

below needed levels.²³ It is estimated that \$976 million worth of upgrading is needed just for interstate highways.²⁴ Funding for improving Alaska's road system, however, will have to compete with other budget priorities. Alaskans must still rely on other means of transportation (such as air, rail or water) that are expensive or frequently unavailable (due to weather). Telecommunications, therefore, must often take the place of transportation.

Education (Section E)

Historically, education levels in the State have been low for many groups. The State has been committed to redressing this situation and to providing education in a manner that does not force children to live away from home. The diversity of the Alaskan population also makes education an important and expensive undertaking.

For these and other reasons, Alaska leads the nation in the per capita expenditure for public elementary and secondary education, spending about double the U.S. average. During the 1986-87 school year, Alaska spent more than \$6,000 on each student enrolled in the 32 incorporated districts and more than \$11,000 per pupil in the 23 Regional Education Attendance Areas.²⁵ The

23 Id.

24 Id.

25 State of Alaska, Department of Education, Facts & Figures About Education in Alaska 1988, p. 15 (1988). Attachment 6. The U.S. average was less than \$4,000 per student in 1986-87 (\$156,000,000,000 divided by 39,712,000 pupils). See U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States ("Statistical Abstract"), Tables No. 189, 190, pp. 118-19 (1988).

higher per pupil cost in the Regional Education Attendance Area reflects the limited economies of scale and higher costs of delivering education in Alaska's more remote regions.²⁶

Alaska also continues to incur a drastically higher cost per resident for public primary and secondary education due to its relatively large school-age population, higher cost of delivering education services, and small overall population to absorb fixed costs.²⁷ During the 1986-87 school year, the cost for public primary and secondary education amounted to \$1,289 per resident,²⁸ about twice the national average.²⁹

Health and Safety (Section F)

Alaska's harsh climate and geography continue to present special health and safety challenges. Alaska continues to rank first in the nation in deaths from accidents. The accident mortality rate for white Alaskans is twice the U.S. average.³⁰

²⁶ See 1986 Alaska Data Response, Section E, pp. 7-8.

²⁷ Approximately 20.2 percent of the population were of elementary and secondary school age (5-17) compared to 18.8 percent nationwide. Alaska Blue Book 1987, p. 270. The number of identified migrant students alone increased 56 percent from the 1986-87 school year to the 1987-88 school year. Facts & Figures About Education in Alaska 1988, p. 13.

²⁸ Population Overview, Table 3.2; Facts & Figures About Education in Alaska 1988, p. 15. Attachments 2 and 6.

²⁹ The national average is approximately \$640 (\$156,000,000,000 divided by 243,915,000). See Population Overview, Table 3.1; Statistical Abstract, Table No. 190, p. 119.

³⁰ State of Alaska, Department of Health and Social Services, Alaska Vital Statistics 1985 Annual Report ("Vital Statistics"), p. 28 (1988).

Alaskan natives incur an accident mortality rate approximately five times the national average.³¹

Since 1983, Alaska's suicide rate has jumped 21.6 percent.³² In 1985, the suicide rate in Alaska was 21.9 per 100,000 people, almost 50 percent above the national average of 12.0.³³ While only 1.4 percent of all deaths nationwide were from suicide, 5.7 percent of all deaths in Alaska resulted from suicide.³⁴ Alaskan native males between the ages of 20 and 24 have a suicide rate 14 times the national average.³⁵

In light of such statistics, it is not surprising that health care expenditures in Alaska exceed the national average. In 1986 the per capita expenditure was \$2,700 per resident, 40 percent above the national average.³⁶ Telecommunications also continues to play a critical role in connecting Alaskans to medical assistance and public safety care.

31 Id.

32 Id. at p. 122. Attachment 7. See also 1986 Alaska Data Response, Section F, p. 5.

33 Vital Statistics, p. 122. Attachment 7.

34 Id.

35 Alaska Federation of Natives, The AFN Report on the Status of Alaska Natives: A Call for Action ("AFN Report"), p. 9 (January 1989).

36 State of Alaska, Governor's Interim Commission on Health Care, The Best of Care - The Challenge of Providing Health Care to Alaskans, p. 1 (September 1988).

Economic Environment (Section G)

Alaska's economy remains one of boom and bust. Today's economy is heavily dependent on oil and gas. For example, approximately 85 percent of the State's unrestricted general fund revenue is petroleum-based.³⁷ Oil prices have not rebounded significantly from their precipitous drop in the middle of this decade. Alaskan oil prices peaked in 1981, when Alaska North Slope oil delivered to the West Coast sold for \$31.43 per barrel. In 1987, that price had dropped to \$13.38 per barrel, a decrease of approximately 57 percent.³⁸

As a result, employment in the state has dropped significantly. Employment peaked in 1985 when, on the average, 225,075 Alaskans held jobs in the State each month. That figure dropped by almost 10 percent, to 208,841, in 1987.³⁹ Total wages paid fell by a slightly greater percentage, from approximately \$6,434 million in 1985 to approximately \$5,779 million in 1987.⁴⁰

Almost every sector of the economy has been negatively affected. The greatest downturn has been in the construction industry. From 1983 to 1987, employment in this industry was down over 50 percent and wages were down by almost 60 percent.⁴¹ The

³⁷ See Section H, infra.

³⁸ State of Alaska, Department of Commerce and Economic Development, Division of Business Development, Alaska Economy, Performance Report 1987 ("Alaska Economy 1987"), Table 14 (December 1988). Attachment 8.

³⁹ Id., Table 2. Attachment 9.

⁴⁰ Id.

⁴¹ Id., Tables 3 and 4. Attachments 10 & 11.

mining (including oil and gas), utilities (including transportation and communications), wholesale trade, retail trade, financial and real estate, and services sectors have each seen reductions in average employment in both 1986 and 1987, ranging from 3 to 15 percent.⁴² Wages paid in those industries have fallen by up to 20 percent.⁴³ Tourism and federal government employment, however, appear stable.

The downturn could have been much worse. In part, some of the consequences of falling oil prices have been restrained in the near term by the fact that the volume of Alaskan oil brought to market has increased significantly. Since 1981, oil production has increased by approximately 25 percent.⁴⁴ This trend of increasing extraction of a depletable resource cannot continue forever. In fact, the State anticipates oil production to fall in 1989.

Unemployment in Alaska continues at a rate significantly higher than the national average, notwithstanding net out-migration from Alaska's urbanized areas to other states. In November 1988, the most recent month for which data are available, the unemployment rate in Alaska was 9.0 percent, almost twice the national average of 5.2 percent.⁴⁵ Only one other State

⁴² Id., Table 3. Attachment 10.

⁴³ Id., Table 4. Attachment 11.

⁴⁴ Alaska Economy 1987, Table 15.

⁴⁵ U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics (February 1989). Attachment 12.

(Louisiana) had a higher unemployment rate.⁴⁶ Unemployment is particularly severe in rural western Alaska. In June 1988, when unemployment for Alaska as a whole was 8.7 percent, unemployment rates in western Alaska were computed at up to 16.6 percent.⁴⁷

These data likely understate unemployment in Alaska, particularly in rural areas, because they exclude anyone who has not sought employment during the relevant portion of the survey period. Most economists believe that Alaska's rural locations have proportionally more of these discouraged workers.⁴⁸ One study, for example, shows that 58 percent of the potential native Alaskan work force in western Alaska have been forced to stop seeking work because no jobs are available in the villages where they live and they lack the education and skills to compete for jobs elsewhere.⁴⁹

Per capita income in Alaska is also down. From 1985 to 1987, per capita income in Alaska decreased by approximately 3 percent, from \$18,726 to \$18,230.⁵⁰ Per capita income decreased in that period only in one other state (Wyoming), where it declined by

46 Id.

47 AFN Report, Figure 10. Attachment 13.

48 State of Alaska, Department of Labor, Alaska Economic Trends, p. 21 (December 1988).

49 AFN Report, p. 31.

50 U.S. Department of Commerce, Bureau of Economic Analysis, Regional Differences in Per Capita Income, Table 2. Attachment 1.

approximately 1 percent.⁵¹ By comparison, per capita income nationwide increased by about 11 percent in those two years.⁵²

In 1985, Alaska had the highest per capita income of any state in the nation, about 32 percent higher than the national average.⁵³ In 1987, per capita income was higher in three other states and the District of Columbia.⁵⁴ Per capita income in Alaska was only 18 percent greater than the national average in 1987.⁵⁵

Although incomes in Alaska have been declining, there has been no change in Alaska's status as a most expensive place to live. The higher cost of living in Alaska continues to more than offset higher per capita income. Quarterly surveys of the American Chamber of Commerce Researchers Association ("ACCRA") continue to show that the cost of living in urbanized locations in Alaska is approximately 30 percent greater than in the nation as a whole.⁵⁶ Of the 263 urban areas listed by ACCRA in its Third Quarter 1988 survey, Juneau is the third most expensive in which to live (after Boston and San Francisco) and Fairbanks is the

51 Id.

52 Id.

53 See Supplemental Order at n.18.

54 U.S. Department of Commerce, Bureau of Economic Analysis, Regional Differences in Per Capita Income, Tables 2 & 3. Attachment 1.

55 Id.

56 American Chamber of Commerce Researchers Association, Cost of Living Index (Third Quarter, 1988). Attachment 14.

fifth most expensive.⁵⁷ For such essentials as groceries and health care, these Alaskan locations are by far the most expensive in the nation.⁵⁸

As expensive as they are, these larger communities continue to be among Alaska's least expensive places to live. The State has not updated the 1985 Alaska Geographic Differential Study, which compared the cost of living in different parts of the State. There is, however, no question that its findings remain valid. For example, more recent data compiled by the U.S. Department of Agriculture and the University of Alaska indicate that the cost of food at home for a week for a family of four with elementary school children is 70 to 75 percent greater in Nome than in Alaska's largest communities.⁵⁹ Similar cost differentials exist for other goods and services, including electricity and heating oil.⁶⁰

Rural locations in Alaska continue to be not only among the most expensive places in the United States to live, but also among the poorest. Per capita personal income in 11 of Alaska's 23

⁵⁷ Id. Neither New York City nor Anchorage is listed in this survey, the most recent one completed by ACCRA. The ACCRA index is designed to reflect geographic differences in a "mid-management" standard of living. Id., at p. i. It, therefore, places great weight on home ownership costs. Id. Excluding that category, Juneau and Fairbanks are the most expensive cities in the nation for which data are reported.

⁵⁸ Id.

⁵⁹ Alaska Blue Book 1987, p. 279.

⁶⁰ AFN Report, pp. 34-35.

census areas was below the national average in 1986.⁶¹ In rural western Alaska, per capita income in 1986 was only 65 percent of national levels.⁶² In the Wade-Hampton section of western Alaska, per capita income was 59 percent of the national average. Income levels were only slightly higher in Bethel (76 percent) and Yukon (81 percent).⁶³ According to the Alaska Geographic Differential Study, the cost of living in these areas is between 26 and 39 percent greater than the cost of living in Anchorage. Given that the cost of living in Anchorage and other urbanized areas of Alaska is approximately 30 to 40 percent greater than the national average, and the cost of living in these locations is 26 to 39 percent greater than Anchorage, actual purchasing power (or per capita income adjusted for cost of living) in these rural locations is only about a third of the national average.⁶⁴

State of Alaska Revenues and Expenditures (Section H)

The State's revenues have dropped almost as precipitously as the price of oil. The State's total unrestricted general fund⁶⁵

⁶¹ U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System. Attachment 15.

⁶² AFN Report, p. 34.

⁶³ U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System. Attachment 15.

⁶⁴ In Wade-Hampton, for example, the cost of living is approximately 76 percent greater than the national average ($1.4 \times 1.26 = 1.76$). Because per capita income is only 59 percent of the national average, average purchasing power is about one-third of that of the average American ($.59/1.76 = 0.33$).

⁶⁵ As explained in the 1986 Alaska Data Response, unrestricted general fund revenues form the vast majority of the State's income and include virtually all state tax revenues.

[Footnote continued on next page]

receipts peaked in fiscal year 1982 at \$4,108.4 million.⁶⁶ In fiscal year 1987, unrestricted general fund receipts fell to \$1,799.4 million, a reduction of 56 percent.⁶⁷ Unrestricted general fund receipts amounted to \$2,306 million in fiscal year 1988,⁶⁸ but are expected to decline in fiscal years 1989 and 1990 and beyond.⁶⁹

State revenues continue to be petroleum related. In fiscal year 1988, approximately 85 percent of unrestricted general fund revenues were petroleum based.⁷⁰

The unprecedented drop in revenues has forced the State to make unprecedented expenditure cuts as well. Most of these cuts occurred in fiscal years 1986 and 1987. The State has recently summarized its just completed fiscal year as follows:

FY 1988 was not as traumatic as FY 87, which saw almost 1000 positions in state government eliminated or unfilled as a result of the sharp decline in oil revenues and the steep decline of the state's economy. The reduction of almost 2 billion general fund dollars from the state appropriations level of FY 85 to the levels of FY 87 and FY 88 created dramatic dislocation in the state economy and has severely strained the

[Footnote continued from previous page]

Restricted general fund revenues come mostly from the federal government and may be used only for specific programs. Special fund revenues are received into statutorily created funds and mostly consist of loan programs and the Alaska Permanent Fund. See 1986 Alaska Data Response, Section H, p. 4.

⁶⁶ Alaska Economy 1987, Table 30. Attachment 16.

⁶⁷ Id.

⁶⁸ Id.

⁶⁹ Id. at p. 36.

⁷⁰ Id., Table 30. Attachment 16.

resources of local governments across the state. Both the Governor and a majority of the Legislators agreed on a spending plan for FY 89 that is comparable to the last two years in order to avoid further shocks to the Alaskan economy.⁷¹

If the State's projection of declining revenues in the future proves accurate, further expenditure cuts will be necessary. These cuts would be felt not only by those who receive state services, but also those who receive services provided by municipalities, because state revenues distributed through revenue sharing are an important source of funds for Alaskan municipalities.⁷²

The State of Alaska as Provider and Consumer
of Telecommunications Services (Section I)

Telecommunications continues to be of great importance in the State, as the use of telecommunications networks in the recent cold weather emergency demonstrates.⁷³ The significant expenditure reductions mandated by the State's budget crises, however, have had an impact on the State's ability to provide telecommunications services to the public.

⁷¹ State of Alaska, Office of the Governor, Division of Policy, Performance Report, Fiscal Year 1988, p. 8 (December 1988).

⁷² Alaska Economy 1987, p. 37.

⁷³ See Section C, supra.

The Learn/Alaska Network had to be consolidated with the Rural Alaska Television Network at the end of fiscal year 1986. Learn/Alaska had been used to provide instructional and educational television programming to approximately 240 Alaska communities through satellite-fed low power television transmitters, on an almost 24 hour per day basis. Learn/Alaska Network programming is now provided 2 to 5 hours per day, mostly on a recorded basis.

Respectfully submitted,

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February 27, 1989

5-20-92

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

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MAY 20 1992

Federal Communications Commission
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 Islands)

CC Docket No. 83-1376
RM 4436

REPLY COMMENTS OF THE STATE OF ALASKA

The State of Alaska ("the State" or "Alaska") hereby submits these reply comments addressing comments filed by others on April 20, 1992 in this docket.

In its April 20, 1992 comments, the State indicated that it opposes approval of the Master Agreement between American Telephone & Telegraph Company ("AT&T"), Alascom, Inc., and Telephone Utilities of Alaska ("TUA"). The State remains opposed to adoption of that agreement in its current form. It is the State's position that the Master Agreement is contrary to the public interest and the policy objectives that the Joint Board has identified in this docket: universal service, rate integration, jurisdictional revenue requirement neutrality, market based competitive entry, and increased efficiency.

The State's objection to the Master Agreement centers on the transfer of virtually all of the assets used by Alascom to provide interexchange telecommunications services to TUA, its corporate

affiliate. Among other things, that asset shift would cause significant and improper jurisdictional cost shifts and unacceptable upward pressures on a variety of intrastate service rates, at a time when rates should be decreasing. As demonstrated in the State's initial comments, intrastate toll revenue requirements would increase by at least \$22 million a year in 1998 (and presumably thereafter). This amount translates into cost increases of approximately \$88 per access line per year. Moreover, Alaska intrastate rates are not now inordinately low, making the unfairness of such a shift even greater. Further, revenue requirements for TUA's local exchange customers would increase by at least \$870,000 a year, or approximately \$35 per access line. Local private line costs would also increase significantly.

The State acknowledges the concern that the asset shift and resulting inclusion of assets that are presently used for interexchange purposes into the National Exchange Carrier Association, Inc. ("NECA") cost pooling mechanism skews the competitive marketplace. See, e.g., Petition to Deny, Opposition and Comments of General Communication, Incorporated at 5-6 (April 20, 1992). The State does not object, however, to that portion of the Master Agreement that calls for the termination of the joint services arrangement between AT&T and Alascom.

As a general matter, the State notes that the only parties submitting comments in support of the Master Agreement are its

signatories. As a result, the State does not believe that the Joint Board, Commission, and their staffs require a lengthy pleading which reiterates the State's position or summarizes the comments of the other parties. Thus, in these reply comments, the State will raise briefly only a few points.

1. **AT&T Cannot Deviate From Geographically Averaged Rates and Rate Integration Regardless of Whether the Master Agreement is Approved.**

AT&T, in its comments, appears to threaten to discontinue rate integration and geographic rate averaging unless the Master Agreement is approved. It states that the new TUA (that is, the TUA which exists after the transfer to it of virtually all of Alascom's interexchange telecommunications assets) must be allowed to participate in NECA, as the Master Agreement provides.

"[D]enial of TUA's right to participate in NECA would have the effect of de-averaging access costs for Alaska, which could imperil AT&T's ability to continue to offer full rate integration for Alaska MTS/WATS service." Comments of AT&T at 14 (April 20, 1992).

Of course, access costs are de-averaged in many locations in the country, yet AT&T continues to charge geographically averaged rates in those locations. Geographic rate averaging is a rate structure which promotes and protects the public interest because it furthers the statutory goal of universal service. The Commission is strongly committed to it, as is the Congress. As the State of Hawaii notes, the Commission has pledged to suspend and investigate any tariff that de-averages rates for MTS, WATS or

800 services. See, e.g., Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd. 2873, 3133 (1989). See also Comments of the State of Hawaii at 6 & n.10 (April 20, 1992).¹

Denying Alaskans the benefits of geographic rate averaging while providing those benefits to other Americans would violate not only the Commission's rate integration rules and decisions, but also the non-discrimination provisions of the Communications Act. See MTS and WATS Market Structure, 81 FCC 2d 177, 192 (1980); Integration of Rates and Services, Supplemental Order Inviting Comments, CC Docket No. 83-1376, 4 FCC Rcd. 395, 398 (Jt. Board, 1989). AT&T's litigation tactics notwithstanding, geographic rate de-averaging, particularly for Alaska only, is not only contrary to long standing and well accepted notions of the public interest, but also illegal. In our judgment, it cannot be allowed.²

¹ The State agrees with and endorses the views of the State of Hawaii that rate integration properly applies to private line service as well as MTS and WATS services.

² AT&T also states that adoption of the Master Agreement is necessary to resolve a "continuing dispute" concerning whether Alascom should separate its Central Office Equipment Category 4.23 costs as if it were a local exchange carrier. AT&T Comments at 12-13. Of course, this issue is not "continuing", but was resolved definitively by a sister Joint Board and the full Commission five years ago in CC Docket No. 80-286. MTS and WATS Market Structure and Amendment of Part 67 (New Part 36) of the Commission's Rules, 2 FCC Rcd. 2639 (1987). The Master Agreement seeks to negate this well-founded decision. AT&T may not be pleased with the resolution in that proceeding of the issue of Alascom's separations, but it is inaccurate for it to say that the issue has not already been resolved.

2. The Contention That the Master Agreement Creates a Market Structure in Alaska That is Like the Market Structure in the Lower 48 States is Inaccurate.

AT&T and Alascom both contend that the Master Agreement merely brings to Alaska the telecommunications market structure that already exists in the Lower 48 states. Comments of AT&T at 5, 10; Comments of Alascom, Inc. at 4, 7 (April 20, 1992). That contention, however, is inaccurate.

In its comments, NECA notes several significant differences between the market structure that would be created by the Master Agreement and the market structure that exists in the Lower 48 states. First, the average length of haul for TUA's "local transport service" would be over 140 miles, more than ten times the average length of haul for local transport in the Lower 48. Comments of the National Exchange Carrier Association, Inc. at 5 & n.9 (April 20, 1992). Moreover, the assets that would be used by to provide this "local transport service" would also be unique, in that the system includes an extensive satellite and earth station network. No other NECA member employs such a network to provide local transport service. Id. at 3 & n.3.

Sprint Communications Company, L.P. also notes that the TUA to be created by the Master Agreement is a far different creature than local exchange companies in the Lower 48 states. As it concludes, TUA would be far more like an interexchange intermediary between a local exchange carrier ("LEC") and

interstate interexchange carriers than it would an LEC itself.

Comments of Sprint Communications Company at 3 (April 20, 1992).

The contention that the market structure to be created by the Master Agreement is like the market structure in the Lower 48 is not only wrong, but misses the point. The task facing the Joint Board and the Commission is to identify the market structure for the Alaska interstate communications services that maximizes the public interest. The Joint Board has identified the policy objectives in this proceeding. Replication of the Lower 48 market structure is not one of those objectives and is not a public interest goal in and of itself.

3. The Joint Board and Commission Should Not Approve a New Service Arrangement That Creates Unknown and Unintended Jurisdictional Cost Shifts.

The jurisdictional cost shifts created by the proposed transactions may be much greater than the already large and unacceptable amounts forecast in the Joint Petition to Approve the Master Agreement. The Joint Board and Commission should not approve an agreement that creates unknown and unintended jurisdictional cost shifts.

First, some of the assumptions and interpretations of the Commission's rules that underlie the separations analysis in the Joint Petition have been questioned by the State and other commenters. If those assumptions and interpretations are not correct, the jurisdictional cost shifts will be much greater than forecast. The State thus reiterates its request that the Joint Board and Commission analyze the separations studies and data

presented by Alascom and determine whether the assumptions and interpretations made by Alascom are correct. If not, the Joint Board and Commission should indicate where those assumptions and interpretations are not correct so that the parties can determine more accurately the size of the jurisdictional cost shift that would result. As the State has already indicated, however, even the jurisdictional cost shift that is proposed is contrary to the public interest and is unacceptable to the State.

Second, if the Master Agreement is approved, new service arrangements will be created in Alaska. For example, AT&T will have points of presence in Alaska for the first time. Under these new service arrangements, interstate traffic may be handled differently than it has been in the past. If the Master Agreement is approved, the relative interstate use of some assets that Alascom currently uses for both interstate and intrastate communications will likely decrease. Any such relative decrease in interstate use will increase the jurisdictional cost shifts created by approval of the Master Agreement. The Joint Board and Commission, therefore, should recognize that approval of the Master Agreement will create future jurisdictional cost shifts that cannot presently be quantified with precision.

* * *

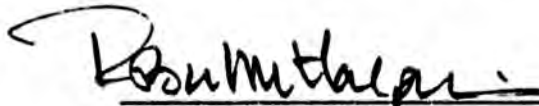
The State cannot support approval of the Master Agreement because, as is explained in the State's April 20, 1992 comments, that agreement is inconsistent with the policy objectives set forth in the Joint Board's Supplemental Order Inviting Comments.

As the State has said, the issues before the Joint Board and Commission in this proceeding are difficult. The State has been willing and continues to be willing to consider new approaches to resolve these difficult issues -- as long as those approaches are consistent with the objectives set forth in the Joint Board's Supplemental Order. To that end, the State has been meeting, and will continue to meet, with various parties to explore new approaches. If, as a result of these efforts, new approaches which would maximize the public interest are developed, the State will bring those approaches to the attention of the Joint Board, the Commission, and the parties.

Dated: May 20, 1992

Respectfully submitted,

THE STATE OF ALASKA



Linda K. Smith
Robert M. Halperin
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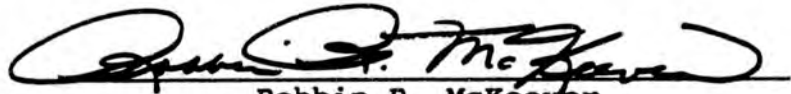
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing "Reply Comments of the State of Alaska" was served by first-class, U.S. mail, postage prepaid this 20th day of May, 1992 upon the parties listed on the attached Service List.



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5-26-92

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May 26, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

EX PARTE LETTER

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MAY 26 1992

Federal Communications Commission
Office of the Secretary

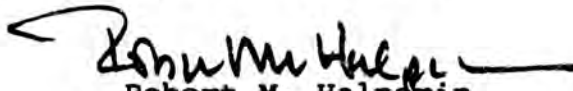
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on May 8, 1992, John W. Katz, Director, State-Federal Relations and Special Counsel to the Governor and Mark K. Dinneen, Associate Director for Commerce, Finance and Transportation, Office of the Governor of the State of Alaska, held a telephone conference with Commissioner Susan M. Knowles of the Alaska Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Susan M. Knowles

bcc: Linda K. Smith
John W. Katz

6-4-92

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June 4, 1992

BY HAND DELIVERY

EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

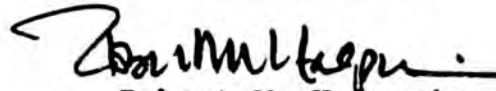
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on June 3, 1992, Linda K. Smith, Counsel for the State of Alaska, held a telephone conference with Commissioner Bruce Hagen of the North Dakota Public Service Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Bruce Hagen

bcc: Linda K. Smith
John W. Katz

6-18-92

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June 18, 1992

EX PARTE LETTER

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

RECEIVED

JUN 18 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on June 15, 1992, Linda K. Smith, Counsel for the State of Alaska, held a telephone conference with Commissioner Dean Joe Miller of the Idaho Public Service Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith

Linda K. Smith

cc: The Honorable Dean Joe Miller

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June 18, 1992

EX PARTE LETTER

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

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JUN 18 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on June 15, 1992, Linda K. Smith, Counsel for the State of Alaska, held a telephone conference with Kenneth C. Robinson, Senior Legal Advisor, Office of Chairman Alfred C. Sikes, to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith

Linda K. Smith

cc: Kenneth C. Robinson, Esq.

7-28-92

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July 28, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
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Washington, D.C. 20554

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

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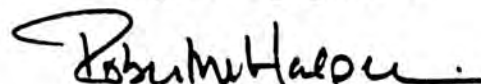
Federal Communications Commission
Office of the Secretary

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 26, 1992, Linda K. Smith, Counsel for the State of Alaska, met with, and on July 28, 1992, had a telephone conference with, Commissioner Susan M. Knowles of the Alaska Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Commissioner Susan M. Knowles

bcc: Linda K. Smith
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July 28, 1992

BY HAND DELIVERY

EX PARTE LETTER

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JUL 29 1992

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

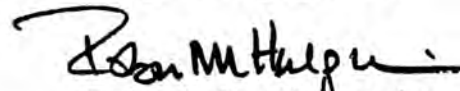
Federal Communications Commission
Office of the Secretary

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 26, 1992, Linda K. Smith, Counsel for the State of Alaska, met with Commissioner Bruce Hagen of the North Dakota Public Service Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


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cc: Commissioner Bruce Hagen

bcc: Linda K. Smith
John W. Katz

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ROBERT M. HALPERIN
(202) 624-2543

SUITE 1580
4875 MACARTHUR COURT
NEWPORT BEACH, CALIFORNIA 92660-1851
(714) 263-8400
FACSIMILE (714) 263-8414
SERJEANTS' INN
LONDON EC4Y 1LL
44-71-938-3038
FACSIMILE 44-71-938-3038

July 28, 1992

BY HAND DELIVERY

EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

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JUL 29 1992

Federal Communications Commission
Office of the Secretary

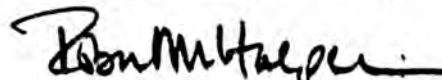
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 27, 1992, Linda K. Smith, Counsel for the State of Alaska, met with Ms. Cheryl Tritt and Mr. James Spurlock of the Common Carrier Bureau of the Federal Communications Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Ms. Cheryl Tritt
Mr. James Spurlock

bcc: Linda K. Smith
John W. Katz

CROWELL & MORING

1001 PENNSYLVANIA AVENUE, N.W.

WASHINGTON, D.C. 20004-2595

(202) 624-2500

CABLE: CROMOR

FACSIMILE (RAPICOM): 202-628-5116

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W. U. (DOMESTIC) 89-2448

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ROBERT M. HALPERIN
(202) 624-2543

July 28, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
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Washington, D.C. 20554

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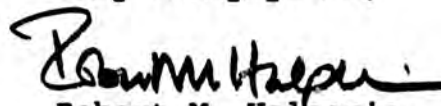
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 25, 1992, Linda K. Smith, Counsel for the State of Alaska, met with Commissioner Dean J. Miller and Ms. Eilleen Brenner of the Idaho Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Commissioner Dean J. Miller
Ms. Eilleen Brenner

bcc: Linda K. Smith
John W. Katz

CROWELL & MORING

1001 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2595

(202) 624-2500

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FACSIMILE (RAPICOM): 202-626-5118

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W. U. I. (DOMESTIC) 89-2448

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July 28, 1992

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Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

EX PARTE LETTER

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Federal Communications Commission
Office of the Secretary

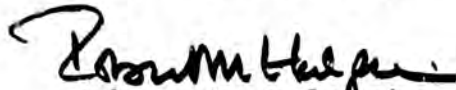
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 25, 1992, Linda K. Smith, Counsel for the State of Alaska, met with Mr. Ronald G. Choura of the Michigan Public Service Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Mr. Ronald G. Choura

bcc: Linda K. Smith
John W. Katz

CROWELL & MORING

1001 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2595

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FACSIMILE 44-71-936-3035

July 28, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

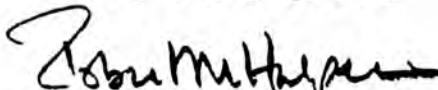
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 25, 1992, Linda K. Smith, Counsel for the State of Alaska, met with Ms. Lorraine Kenyon of the Alaska Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Ms. Lorraine Kenyon

EX PARTE LETTER

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JUL 29 1992

Federal Communications Commission
Office of the Secretary

bcc: Linda K. Smith
John W. Katz

CROWELL & MORING
1001 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2595
(202) 624-2500
CABLE: CROMOR
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ROBERT M. HALPERIN
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4675 MACARTHUR COURT
NEWPORT BEACH, CALIFORNIA 92660-1851
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44-71-936-3036
FACSIMILE 44-71-936-3036

July 28, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

EX PARTE LETTER

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Federal Communications Commission
Office of the Secretary

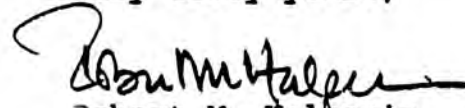
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on July 27, 1992, Linda K. Smith, Counsel for the State of Alaska, met with Ms. Debra Kriete of the Pennsylvania Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

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

Very truly yours,


Robert M. Halperin

cc: Ms. Debra Kriete

bcc: Linda K. Smith
John W. Katz

8-28-92

CROWELL & MORING

1001 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2595

(202) 624-2500

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SUITE 1200

2010 MAIN STREET

IRVINE, CALIFORNIA 92714-7217

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FACSIMILE (714) 263-8414

1 SERJEANTS' INN

LONDON EC4Y 1LL

44-71-936-3035

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ROBERT M. HALPERIN
(202) 624-2543

August 28, 1992

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SECRETARY

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EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

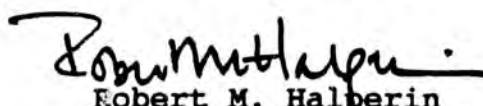
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on August 27, 1992, Robert M. Halperin, Counsel for the State of Alaska, and Karl Korsmo, the State's consultant, held a telephone conference with Ms. Lorraine Kenyon of the Alaska Public Utilities Commission staff and Mr. Ronald G. Choura of the Michigan Public Service Commission staff to discuss the Briefing Paper submitted to the Federal-State Board by Overland Consulting, Inc.

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

Very truly yours,


Robert M. Halperin

cc: Ms. Lorraine Kenyon
Mr. Ronald G. Choura

CROWELL & MORING
1001 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2595
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W. U. I. (DOMESTIC) 89-2448

ROBERT M. HALPERIN
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LONDON EC4Y 1LL
44-71-936-3036
FACSIMILE 44-71-936-3035

August 28, 1992

BY HAND DELIVERY

EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on August 27, 1992, Robert M. Halperin, Counsel for the State of Alaska, and Karl Korsmo, the State's consultant, held a telephone conference with Ms. Lorraine Kenyon of the Alaska Public Utilities Commission staff and Mr. Ronald G. Choura of the Michigan Public Service Commission staff to discuss the Briefing Paper submitted to the Federal-State Board by Overland Consulting, Inc.

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

Very truly yours,


Robert M. Halperin

cc: Ms. Lorraine Kenyon
Mr. Ronald G. Choura

bcc: Karl Korsmo
Linda K. Smith
John W. Katz

8-31-92

CROWELL & MORING

1001 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2595

(202) 624-2500

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4675 MACARTHUR COURT

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LONDON EC4Y 1LL

44-71-936-3036

FACSIMILE 44-71-936-3035

LINDA K. SMITH
OF COUNSEL
(202) 624-2710

August 31, 1992

EX PARTE LETTER

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

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

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on August 28, 1992, Linda K. Smith, counsel for the State of Alaska, held a telephone conference with Commissioner Dean Joe Miller of the Idaho Public Service Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, RM 4436, and related proceedings. The discussion involved matters covered in the State's previously filed pleadings.

If there are any questions in connection with this matter, please contact undersigned counsel.

Very truly yours,

Linda K. Smith (cm)

Linda K. Smith

cc: The Honorable Dean Joe Miller

9-15-92

RECORD COPY

CROWELL & MORING
1001 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2595
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ROBERT M. HALPERIN
(202) 624-2543

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BERMUNGE, CALIFORNIA 92714-7217
17141 283-8400
FACSIMILE 17141 283-8414
1 SERJEANTS' INN
LONDON EC4A 3LL
44-71-936-3036
FACSIMILE 44-71-936-3035

September 15, 1992

BY HAND DELIVERY

EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

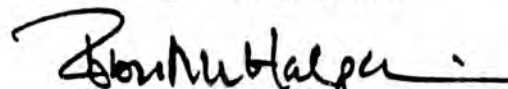
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that the State of Alaska sent a letter today to the State Commissioners on the Federal State Joint Board in this docket. A copy of that letter is attached.

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

Very truly yours,


Robert M. Halperin

Enclosure

TER J. HICKEL
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

September 15, 1992

Commissioner Susan M. Knowles
Alaska Public Utilities Commission
1016 West Sixth Avenue
Suite 100
Anchorage, AK 99501

Commissioner E. Bruce Hagen
North Dakota Public Service Commission
State Capitol Building
Bismark, ND 58505

Commissioner Dean Joe Miller
Idaho Public Utilities Commission
Statehouse
Boise, ID 83720

Chairman David W. Rolka
Pennsylvania Public Utilities Commission
104 North Office Building
Commonwealth and North Streets
Harrisburg, PA 17105-1376

Re: CC Docket No. 83-1376

To the State Members of the Federal State Joint Board:

This letter is written to clarify the facts with respect to certain recent developments in this proceeding.

On September 11, 1992, Pacific Telecom, Inc. (PTI) wrote to you requesting a delay in responding to your Memorandum of Understanding of August 4, 1992. PTI stated that its request was predicated on "discussions with the State of Alaska" (State) regarding possible solutions to the concerns the State has expressed to the Federal Communications Commission (FCC) and the Federal State Joint Board regarding the Master Agreement between

Commissioner Susan M. Knowles
Commissioner E. Bruce Hagen
Commissioner Dean Joe Miller
Chairman David W. Rolka
September 15, 1992
Page 2

PTI and American Telephone and Telegraph Company. The State had no advance notice of PTI's letter.

In light of PTI's letter to you and to correct misunderstandings that have been created by it, the State is providing you and is filing with the FCC copies of the most recent correspondence between PTI and the State that summarizes the discussions between them. The State has not agreed to endorse the proposals set forth in this correspondence and the State is not now endorsing them. In fact, the State believes the proposals are not presently adequate to address the concerns expressed in our prior pleadings. Moreover, these proposals were not aimed at solving all problems various commenters have raised with respect to the Master Agreement.

As the State has told PTI and others, we would not be a party to any proposed resolution of the issues in this docket without first circulating that solution for public comment and discussion. The State believes that input from the other parties to the FCC proceeding would be helpful in determining whether these or other proposals would resolve the public policy concerns the State expressed in its Comments and Reply Comments to the FCC on the Master Agreement.

We encourage all participants to continue to seek solutions to the difficult issues presented in this proceeding. I hope this letter is helpful to you in clarifying the current situation.

Sincerely,



John W. Katz
Director of State/Federal
Relations and Special Counsel
to the Governor

Enclosures

cc: Donna R. Searcy (for ex parte files)

ALTER J. HICKEL
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
WASHINGTON, D. C.

August 25, 1992

Donn T. Wonnell
Vice President, Regulatory Affairs
Pacific Telecom, Inc.
805 Broadway
P.O. Box 9901
Vancouver, WA 98668-8901

Re: Stipulations for FCC CC Docket No. 83-1376

Dear Donn:

As you know, Pacific Telecom, Inc. (PTI), on behalf of itself and its subsidiaries Alascom, Inc. and Telephone Utilities of Alaska (TUA), and the State of Alaska have been engaged in discussions over the past few weeks concerning whether the Master Agreement between PTI and American Telephone and Telegraph Company (AT&T) should be approved by the Federal Communications Commission (FCC). In these discussions, PTI and the State have sought to develop alternatives which would satisfy the State's concerns that the Master Agreement, as presently structured, is not in the public interest.

These discussions have led PTI to propose two stipulations which would be submitted to the FCC. The first stipulation would require AT&T to continue to lease switching facilities from PTI subsidiaries for at least ten years. This stipulation is intended to solve the concerns expressed by the State and others that any abandonment by AT&T of those switching facilities would cause increases in intrastate revenue requirements beyond those identified to date. PTI, AT&T and the State would be parties to this stipulation.

The second stipulation involves the proposal by PTI to the Alaska Public Utilities Commission (APUC) of an intrastate price cap plan for TUA modeled after the FCC's price cap plan for local exchange carriers. The purpose of this stipulation is to eliminate the connection between increased intrastate revenue requirements arising out of the Master Agreement and increases in intrastate rates. PTI and the State would be parties to this stipulation.

Mr. Donn T. Wonnell
August 25, 1992
Page 2

The State sincerely appreciates PTI's willingness to discuss these matters and to seek solutions to the concerns expressed by the State in its comments and reply comments to the FCC. We have agreed to consider these stipulations carefully and to respond to them. We recognize that the State members of the Federal-State Joint Board have asked PTI and AT&T to respond by September 1, 1992 to a Memorandum of Understanding suggesting that changes be made in the Master Agreement. We are, therefore, expediting our consideration of the most recent version of the stipulations and associated documents (which were provided to us on August 12, 1992) and are providing you this response as quickly as possible.

We believe that the stipulations PTI has proposed offer promise, but they are not acceptable to the State in their present versions. To accelerate matters, we are not taking the time necessary to provide a word-edited version of these stipulations, but rather are responding with a description of changes necessary if the State is to be a signatory to them.

The stipulation with AT&T should be modified to add the following points:

Carrier of Last Resort. The Joint Board has previously found that designation of a carrier of last resort in Alaska would be in the public interest. We recognize that the Master Agreement provides some protections in this regard, but those protections are not wholly adequate. If PTI, AT&T and the State are to enter into a stipulation in this matter, this issue must be addressed.

PTI should explicitly accept designation of TUA as a carrier of last resort for intrastate toll and private line services and for interstate and intrastate access (transport) services. It should provide these services to all communities of 25 or more persons requesting any interexchange service. AT&T should explicitly accept designation as a carrier of last resort for interstate toll and private line services and provide such services to all communities to which TUA has an obligation to provide access (transport) services. All interstate services, of course, would need to be provided at rate integrated rates.

NECA Participation. Our comments to the FCC, the Memorandum of Understanding, and the Overland Consulting report to the Joint Board all identify problems with long-run participation by TUA in the NECA cost pools. The Master Agreement calls for such participation for ten years. We believe that NECA cost pool participation with respect to assets being transferred from Alascom to TUA, if allowed, should be limited to five years. This change in the Master Agreement would promote the Joint Board's objectives of efficiency and market-based competition.

Mr. Donn T. Wonnell
August 25, 1992
Page 3

The stipulation with PTI should be modified to add the following points:

Revenue Requirement Neutrality. One of the major objections the State has to the proposed Master Agreement is that it violates the Joint Board's objective of revenue requirement neutrality by proposing to shift tens of millions of dollars a year of costs to intrastate toll, private line and local exchange services. We have been interested in exploring the concept of intrastate price caps because, if properly constructed, price caps hold the promise of breaking the link between increases in intrastate revenue requirements and increased intrastate service rates.

We have discussed with you previously our view that, to be acceptable, the price cap plan must be structured to eliminate entirely any intrastate rate impact arising out of the Master Agreement. The proposed price cap plan may purport to accomplish that goal, but, in our opinion, it does not do so.

Our comments to the FCC demonstrate that, using PTI's own data, intrastate toll rates should decline by approximately 20 percent by 1998. The price cap model data PTI has provided to us -- using the same data and assumptions that underlie the rate decrease predicted in our comments -- shows rate decreases of only 6 percent by 1998. We recognize that the data PTI has provided do not take into account any reduction in price cap indices arising out of sharing of earnings above the authorized rate of return. We have been advised by PTI staff, however, that under the proposal as it currently stands, no significant sharing is predicted until at least the next decade. It thus appears that the proposed price cap plan does not eliminate the intrastate rate impacts that the Master Agreement would create.

If the State is to sign the proposed stipulation, the price cap plan must be modified to provide that intrastate revenue requirement increases created as a result of the Master Agreement be excluded from the rate base when rates of return are calculated for purposes of calculating reductions in price cap levels ("sharing"). Similar treatment should be given to revenue requirement increases resulting from any voluntary or carrier initiated changes in depreciation rates and schedules. Sections 61.44 and 61.55 of PTI's proposed price cap regulations would need to be amended accordingly.¹ Only if these changes are made can intrastate ratepayers be fully protected from the jurisdictional cost shifts created by the Master Agreement.

¹ It also appears that the proposed price cap regulations would need to be amended to incorporate PTI's proposal to pass through reductions in intrastate access charges.

Mr. Donn T. Wonnell
August 25, 1992
Page 4

Alaska Market Adjustment. TUA has already agreed not to increase intrastate toll rates for five years on account of the jurisdictional cost shifts created by the Master Agreement. As we have previously stated to you, this promise should not be negated by the price cap plan. In addition, to protect fully Alaskan ratepayers, this protection must be expanded to include intrastate private line and local exchange rates as well. As our comments demonstrate, TUA's local exchange customers could face rate increases of up to \$35 a year as a result of the Master Agreement if this protection is not provided.

APUC Authority. The stipulation needs to be modified to provide that the State, by signing the stipulation, does not intend to limit in any way the authority of the APUC to act on the proposal. The State would be entering into a stipulation as a party to the FCC proceeding and not as a regulatory authority. The State does not wish to dictate to the appropriate regulatory authority (the APUC) how it should resolve matters before it. For example, the State does not wish to endorse the number and composition of price cap baskets proposed by PTI as being consistent with the public interest.

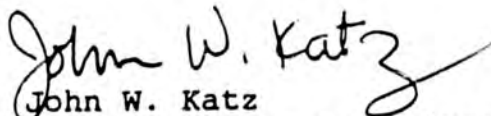
There is one change that should be made to both stipulations. Even if the changes set forth above are made (and changes are also made to the documents accompanying the price cap stipulation to make them consistent with the stipulation itself), the State cannot say that all public interest issues raised against the Master Agreement are resolved. Other parties (and Overland Consulting and the State Commissioners themselves) have expressed public interest concerns that are not addressed by these stipulations. The State cannot simply dismiss those concerns by stipulating that the Master Agreement, as supplemented by these stipulations, is now in the public interest. The State is prepared to stipulate that the undertakings of AT&T and PTI as set forth in the stipulation(s) appear to resolve the NECA participation, carrier of last resort, and intrastate rate concerns expressed by the State in its comments on the Master Agreement.

Finally, as we discussed August 12, 1992 and previously, the State cannot enter into these stipulations without consulting with other parties to the FCC proceeding and providing them with an opportunity to comment. Because of the September 1 deadline facing PTI and AT&T, we are not delaying this response to you. We are, however, providing to other parties the draft stipulations, the accompanying price cap proposal, and this letter, and are requesting their comments and input. If, as a result of consultation with other parties, additional concerns with the stipulations and price cap proposal come to light, we will convey them to you promptly.

Mr. Donn T. Wonnell
August 25, 1992
Page 5

The State believes that the stipulations, as modified by the changes suggested above, are useful mechanisms to resolve the issues before the FCC related to the Master Agreement. If modified, they significantly increase the extent to which the Master Agreement is consistent with the public policy objectives identified by the Joint Board. I hope PTI and AT&T agree and I look forward to your response.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "John W. Katz", with a stylized flourish at the end.

John W. Katz
Director of State/Federal
Relations and Special Counsel
to the Governor

Donn T. Wannell
Vice President, Regulatory Affairs
& Secretary



September 9, 1992

805 Broadway
Post Office Box 9901
Vancouver, Washington
98668-8701

John W. Katz
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Dear John:

On behalf of Pacific Telecom, Inc. and its affiliates, Alascom, Inc., and Telephone Utilities of Alaska, Inc. (TUA), I wish to express our appreciation for your correspondence of August 25, 1992, and for the time and effort which you and your associates have devoted to this complex and serious issue.

Your letter identifies six (6) major areas of concern, those being:

- (1) Carrier-of-last resort responsibilities
- (2) NECA participation by TUA
- (3) Revenue requirement neutrality, and particularly the issue of price cap regulation
- (4) Alaska Market Adjustment
- (5) APUC authority
- (6) Scope of State concurrence in proposed transaction

Of these issues, it is apparent that the third, dealing with price caps and their "promise of breaking the link between increases in intrastate revenue requirements, and increased intrastate service rates," is central to any State concurrence in the proposed transaction.

Since the receipt of your letter, representatives of the State and PTI have worked continuously to arrive at a satisfactory description and quantification of a price cap program. I am informed that these multiple information exchanges have resulted in a price cap structure and supporting estimates satisfactory to our respective financial analysts, including therein projected rate benefits for Alaska customers of TUA. Because of the central importance of this matter to the resolution of our current differences, and believing that the other issues can be readily disposed of once this matter is decided, I am addressing the price cap proposal in detail in this correspondence.

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(A) Intrastate Rate Assumptions

I note, at the outset, that a number of the State's assumptions concerning future intrastate rate levels are not entirely accurate. The State has asserted that but for the proposed transaction with AT&T, intrastate rates would decline over the next five years by approximately 20%. For the following reasons, however, neither the magnitude nor the certainty of such future rate decreases can be considered plausible.

First, the State has not actually commissioned an independent analysis of future rate trends for TUA and Alascom, either separately or conjunctively. Rather, the state interpolated data from TUA's filings concerning TUA's ability to absorb future jurisdictional shifts from the AMA. Analysis built upon such a foundation is necessarily limited, since the assumptions and planning directions utilized by TUA in its study would be only coincidentally appropriate for a different analysis, such as the State's.

The TUA filing, for example, incorporates assumptions concerning expense reductions which, in turn, are premised upon consolidation of TUA and Alascom operations. That consolidation can only occur if the current, unique structural separation imposed upon PTI's operations in Alaska by the APUC is terminated or modified. In the absence of approval of the proposed transaction, no structural modifications will occur; thus, no expense savings associated therewith will be realized. Obviously, to the extent future rate decreases are premised upon those reductions, such increases are phantom in nature.

Further, the State's position implicitly assumes that the Alascom-AT&T Joint Services Agreement (JSA) and the frozen allocator related to it will continue to survive for the next five years, thus ensuring that no change in jurisdictional revenue requirements will otherwise occur. As TUA has extensively demonstrated in its Reply testimony filed with the APUC, this assumption is highly doubtful given the following considerations:

(1) Any termination of the Joint Service Agreement and direct interconnection by AT&T in Alaska will undermine the continued application of the frozen allocator (47 CFR 36.126(d)), since the length of haul considerations underpinning that factor will be rendered inoperant;

(2) The mere lapse of time in this process works to undermine the application of the "frozen allocator," since that factor was derived from and utilizes data from 1985.

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That such data become increasingly irrelevant is recognized by the APUC staff consultant, Mr. Johnson, in his testimony;

(3) Although PTI continues to support the JSA as an effective vehicle for preserving the benefits of the status quo for Alaskans -- rate integration, universal service, and revenue requirement neutrality -- it is clear that most other parties, and particularly AT&T and GCI, are working to terminate that Agreement as soon as practicable. Indeed, the State has now also expressed a willingness to abandon the JSA.

As the State no doubt recognizes, the jurisdictional shift occasioned by any of these events is separate from and in addition to that arising from AT&T's hypothetical abandonment of TUA's network.

Each of these considerations -- the termination of the Joint Service Agreement, the direct interconnection of AT&T for service in Alaska, the lapse of time since the creation of the frozen allocator, and the absence of support for the JSA -- contradict and render implausible the State's assumption that but for the proposed transaction, future intrastate rates would decline for each of the next five years.

Finally, we note that forced rate reductions, arising from regulatory fiat rather than economic causalities, may result in price distortions in the intrastate market. The effect of such distortions, which would artificially lower TUA's intrastate rates, could well be to drive existing competitors out of that market and to discourage future competitive entry by others. TUA does not favor such a course, and believes it to be contrary to the State's prior assertions concerning competition in Alaska.

Certainly, the State cannot guarantee 20% percent in future rate decreases, should it successfully oppose the proposed transaction with AT&T. There would seem to be, then, ample reason for us to agree on a program which offers a realistic proposal for achieving future rate decreases, while at the same time ensuring Alaskan consumers are insulated from the effects of adverse jurisdictional shifts -- especially since such shifts appear likely to materialize, sooner or later.

(B) Price Cap Proposal

PTI has attached hereto the complete text and analysis of a price cap proposal, as worked out with the State's analytical experts. The proposal is quite comprehensive, being directly taken from that approved by the FCC for AT&T and major LECs for federal jurisdictional purposes. While certain that you will

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have reviewed it in detail with your consultants, I do wish to emphasize certain aspects of the program here:

(1) Structure:

The basic structure of the proposed price cap program is set out at Attachment A. Section A of that Attachment provides an executive summary of the issues addressed, the price cap program elements, and the benefits. Section B contains the program description, defined in terms of specific proposed adjustments to existing FCC rules concerning price caps. (This permits review of the proposal in a concrete context, directly related to the FCC's existing program). Section C discusses projections of rate effects of implementation of the program. In summary, the program structure entails the following:

The proposed price cap formula is derived from that already instituted by the FCC, and incorporates both a Price Index (PI) and an Actual Price Index (API) element.

The plan consists of four basic components: (i) a measure of inflation; (ii) a productivity offset; (iii) adjustments for defined exogenous changes; and (iv) specific mechanisms for the identification and flow-through of intrastate cost reductions to TUA's consumers.

Exogenous changes are defined to exclude from consideration:

- (i) The jurisdictional shift occasioned by the change from 35.126(d) to 35.126(e), (the "\$32 million" shift)
- (ii) Any jurisdictional shift occasioned by the abandonment of TUA's interstate access facilities by AT&T (the "abandonment shift")

Earnings will be shared with TUA's customers under a formula paralleling that developed by the FCC.

For five (5) years, the portions of the jurisdictional shift transferred to intrastate through the AMA will be excluded from rate of return computations for sharing earnings benefits with TUA's customers.

(2) Projected Intrastate Rate Decreases and Sources

Section C of Attachment A contains studies, done by PTI and reviewed by the State's consultants, setting forth the projected intrastate rate decreases which TUA's customers are likely to realize as a result of the adoption of price caps. Based upon projections to the year 2001, these benefits will occur as follows:

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Summary of
Predicted Price Cap Indices and
Potential TUA Consumer Savings (MTS)

<u>Year</u>	<u>Price Caps w/ Pass-Through & Sharing Scenario</u>	<u>Price Caps w/ Pass-Through & Sharing Scenario</u>
1993	97.70	\$1,757,220
1994	95.49	\$3,476,950
1995	93.38	\$5,179,104
1996	90.95	\$7,197,912
1997	88.65	\$9,519,416
1998	86.44	\$12,190,674
1999	84.49	\$15,055,862
2000	84.92	\$16,031,081
2001	84.04	\$16,943,713
Cumulative Savings		<u>\$87,340,932</u>

The flow-through of intrastate access charge decreases is an appropriate medium for future rate reductions for two sets of reasons. First, such decreases have historically occurred because of the favorable growth of traffic volumes relative to costs. This historical condition is very likely to continue, particularly as such decreases are annually overseen by the Alaska Public Utilities Commission. (To the extent the State may have deduced future rate decreases from TUA's filings, this decrease in access costs was an implicit part thereof.)

Second, by allying TUA's future intrastate rate reductions to experienced reductions in state access costs, TUA's resulting rate levels will reflect actual economic events. TUA's rates will thus be sending proper signals to the competitive marketplace. Further, reduced state access costs accrue to all intrastate interexchange carriers, permitting them the same latitude to adjust rates, should they so desire. In this manner, the detriments of artificially compelled rate reductions -- damage to competitors and false signals to potential entrants -- are avoided.

In sum, this proposed flow-through of access cost reductions directly serves both TUA's customers and the cause of competition -- a beneficial result which no other proposal before the Joint Board achieves.

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(3) Benefits of Price Cap Proposal

In our view, the price cap proposal fully and completely satisfies the State's expressed desire not merely for protection against future intrastate rate increases, but for a mechanism affirmatively promoting intrastate rate decreases in the next five years. The major benefits of the proposal include the following:

- * TUA's customers received quantifiable benefits off the top; returns to the shareholder come second;
- * TUA's customers are completely insulated from all effects from the "\$32 million shift" and the AT&T "abandonment shift";
- * The problems created by the demise of the Joint Services Agreement and the "frozen allocator" are addressed now, while the means and ability of the parties to do so exists and while consumers can be protected;
- * Rate decreases resulting from flow-through of decreases in intrastate access expenses, based upon historical trending, will yield rate decreases totalling 13.5% by year 6;
- * Price caps gives incentive to TUA to operate more efficiently, since increased earnings are shared by shareholders as well as consumers;
- * No artificial intrastate rate reductions occur, thereby avoiding distortion of the marketplace and adverse effects on competitors and competition;
- * Other benefits of the Master Agreement -- preservation of rate integration, universal service, and competition -- are enhanced.

Of note, by incorporating the existing five-year pledge concerning intrastate rate increases into the price cap calculation of sharing, PTI believes it has also addressed the State's concern No. 4, above, that the benefits of the Alaska Market Adjustment "should not be negated by price caps."

(C) Conclusion

Given that future intrastate rate decreases are highly speculative, at best, and cannot be guaranteed by the State as an alternative to the Master Agreement, PTI believes the price cap proposal worked out by the technical experts is clearly in

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the public interest. From the State's perspective, it ensures that Alaskan consumers will:

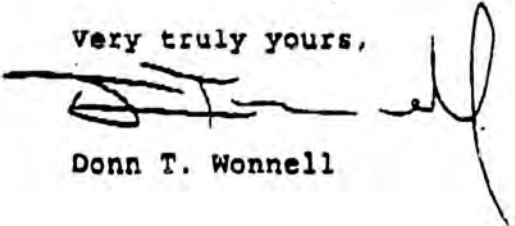
- * Benefit from flow-throughs of cost-reductions in TUA intrastate access expenses;
- * Benefit from shared earnings resulting from enhanced TUA operating efficiencies;
- * Benefit from insulation from multiple future sources of adverse jurisdictional costs shifts.

From a Joint Board perspective, this proposal will:

- * Promote rate integration and universal service by fostering approval of the Master Agreement's terms and conditions;
- * Promote efficiency in TUA's operations by virtue of the incentives which price caps offer;
- * Promote competition and efficiency in the Alaska marketplace by avoiding false pricing signals and injurious, artificially low price levels.

The State has succeeded in obtaining far more from our negotiations than could be ordered by any agency involved in this proceeding, and deserves great credit for its efforts in developing this approach. PTI finds this approach acceptable and is prepared to immediately address and resolve the remaining issues, to the end that the appropriate filings can be made and the transaction can proceed. We have very much appreciated the courtesy shown us by the State and we look forward to a final resolution of these issues.

Very truly yours,



Donn T. Wonnell

**INTRASTATE PRICE CAP REGULATION
OF
TELEPHONE UTILITIES OF ALASKA, INC.**

SECTION A

EXECUTIVE SUMMARY

Pacific Telecom, Inc. (PTI) for itself and on behalf of its subsidiaries Alascom, Inc. and Telephone Utilities of Alaska, Inc. (TUA), has entered into a proposed Master Agreement with American Telephone & Telegraph Company (AT&T) under which PTI would (i) sell and transfer Alascom's interstate MTS/WATS business to AT&T, and (ii) restructure and consolidate Alascom's intrastate interexchange and interstate access service provisioning in TUA. This proposed restructuring has caused the State of Alaska to express concerns with respect to potential future impacts on intrastate telecommunications users in Alaska.

As a way of addressing and ameliorating those concerns, PTI has prepared a regulatory framework to be recommended for consideration by the Alaska Public Utilities Commission. This framework, patterned after the price cap/incentive regulation plan adopted by the FCC for local exchange telephone companies and AT&T, would ensure that any adverse potential intrastate impacts of concern to the State would be subjected to APUC regulatory control to the extent found appropriate by that Commission, thereby eliminating the public interest concerns of the State concerning the PTI/AT&T transaction.

In addition, the price cap regulation proposal discussed herein incorporates two specific, additional benefits for TUA's customers:

(a) TUA proposes an automatic flow-through to consumers for five years of all reductions in intrastate access costs realized by TUA in that period; and

(b) TUA proposes that for five years, sharings of excess earnings with its customers will be calculated on a basis excluding the effects of the jurisdictional shift resulting from implementation of the Alaska Market Adjustment (AMA). In other words, neither rate base nor operating expenses arising from the jurisdictional shift will be recognized in any way for purposes of rate of return calculations and sharing with consumers.

By virtue of these additional protections, the State's goal of economic-based rate decreases are promoted, while also giving full recognition to TUA's prior commitments not to increase intrastate rates as a result of the jurisdictional shift.

This document addresses the proposed resolution of these matters in four segments --

Section A reviews and summarizes the (1) issues of concern to the State of Alaska, (2) the price cap proposal adopted by the FCC, including the purposes and advantages thereof, (3) the proposed price cap plan to be recommended to the APUC, (4) the projected likely intrastate rate effects of adopting the proposed price cap plan, and (5) the benefits anticipated from the adoption of this stipulated result.

Section B of this document describes the specifics of the price cap program proposed to be implemented by the APUC for TUA. The program is described in specific terms by means of a section-by-section comparison of the proposed APUC program with that already adopted by the FCC.

Section C contains an analysis of likely price cap indices resulting from implementation of the proposed price cap program. This analysis utilizes where relevant the assumptions previously made by TUA and incorporated into the materials currently of public record with the FCC (CC Docket 83-1376) and the APUC (U-92-9).

Section D describes in added detail the proposed flow-through, on a dollar for dollar basis, of all reductions of intrastate access charges for five years. This additional consumer protection, which is similar to the pass-through mechanism historically imposed on AT&T by the FCC prior to the implementation of price cap regulation, ensures that direct and quantifiable reductions in access charge payments to the Alaska LECs are immediately passed on to consumers in the form of lower intrastate interexchange MTS rates.

1. The Issues.

Both PTI and AT&T recognized from the outset that the proposed transaction would result in a change in the federal separations rule applicable to the investments and expenses of PTI's Alaska operations (from 47 CFR 36.126(d)(3) to 47 CFR 36.126(e)(3)). The effect of this change in the applicable rule would be to shift a material amount of revenue requirement (currently estimated to be approximately 32 million dollars in the first year following implementation of the Master Agreement) from the interstate to the intrastate jurisdiction.

TUA proposed to address the adverse implications of this "jurisdictional shift" for intrastate telecommunications users by absorbing the total shifted amount for five years, thereby insulating its customers from any rate effect of the shift. PTI, at the parent level, would offset the shortfall in TUA earnings occasioned thereby utilizing the proceeds of the AT&T transaction. PTI estimates that more than \$130 million of the AT&T sale proceeds would be so utilized over five years to protect Alaskan intrastate ratepayers.

Additional concerns have been expressed, however, concerning the adequacy of PTI's proposed protective plan. These concerns arise from three sources:

(a) The "Year Six" Concern: PTI's protective plan assumes TUA must and will adjust over five years to profitable operations at existing rate levels, in the belief either (i) that after five years the Alaska intrastate market will be competitive and thus TUA will be competitively restrained from increasing its rates then or thereafter, or (ii) that if no active competition exists in the Alaska intrastate market after five years, the increased revenues and earnings resulting from service provisioning to 100% of the intrastate market will necessitate a rate reduction under traditional, continuing rate of return regulation.

The State has expressed concerns that these alternatives are too uncertain or indefinite to adequately protect the future public interest and thus are insufficient to warrant acceptance of the transaction in its present form.

(b) The "Abandonment Shift" Concern: AT&T has agreed as part of the proposed Master Agreement to lease from TUA for three- and five-year periods switching and transmission facilities to establish points of presence (POPS) at Anchorage, Juneau, and Fairbanks. It has been alleged that if AT&T abandons these facilities at the end of the current lease periods, and if no other interstate interexchange carrier utilizes TUA's facilities, then a substantial further shift in revenue requirements to the intrastate jurisdiction will occur, as there will be no interstate usage upon which to base allocations to the interstate jurisdiction.

(c) Absence of Rate Decreases: In its comments to the FCC, the State implied that PTI's commitment to cap intrastate rates for a five year period was insufficient in light of evidence which suggested that intrastate rates would otherwise decline during the phase-in period.

The State has taken the position that additional measures are required to protect the interests of Alaskan intrastate telecommunications users against these possible events. After discussion and negotiation, the parties have determined that these public interest concerns will be effectively addressed by four interrelated measures:

(a) A mandatory referral to the APUC of a recommended program of price cap regulation for that Commission's consideration; and

(b) A conditioning of FCC operating authorities granted to AT&T to require (i) utilization (i.e., non-abandonment) by AT&T of identified portions of the existing TUA network necessary to

prevent material adverse jurisdictional shifts for ten years and (ii) continuing oversight by the FCC of Alaska access arrangements after ten years;

(c) An additional consumer safeguard which ensures that all reductions to intrastate access charges are immediately passed on to consumers in the form of prospective downward adjustments to intrastate interexchange rates; and

(d) A further consumer benefit in the form of exclusion for five years of any and all jurisdictional shift revenue requirements from the computation of TUA's rate of return for purposes of sharing earnings with consumers.

2. The FCC Price Cap Rules for LECs and IXC

The proposal to be advanced by the APUC is directly drawn from that approved by the FCC in September 1990, for application to local exchange carriers throughout the country. The FCC price cap plan consists of three basic components: (i) a measure of inflation; (ii) a productivity offset; and (iii) adjustments for defined exogenous changes. These factors are part of a formula used to derive a price cap index (PCI) against which tariffed rates are measured for reasonableness according to an actual price index (API). An LEC under price caps is required to make annual filings in accordance with changes in the PCI to ensure that reductions in rates, as measured in real/inflation-adjusted terms, occur for customers.

The FCC's price cap plan resulted from an extensive, multi-year public proceeding in which a broad spectrum of industry members, states (including Alaska), and federal agencies (including the Department of Justice) filed comments and made recommendations. On the basis of this extensive record and input, the FCC formulated a plan calculated to produce a maximum level of benefits to consumers in several ways, as described by the FCC itself:

Price cap regulation sets maximum limits on the prices a company may charge for its telecommunications services. Because the price limit is set at a lower level than is expected under current rate of return regulation, which relates companies' earnings rather than prices, customers benefit from lower rates. The companies will have the opportunity to increase their profits under the lower rates if they cut costs and increase demand or offer attractive new services, thus achieving greater levels of efficiency. Customers will enjoy lower rates and share from 50% to 100% of increased profits.
(FCC News, Report No. 1713, September 19, 1990, p. 1.)

3. PTI's Price Cap Proposal for Alaska

The proposed state price cap program is premised upon that established nearly two years ago by the FCC. Certain modifications, however, have been incorporated into the FCC's plan to ensure maximum effectiveness of the program in a state context. The major elements of the proposed state plan, including the major changes from the FCC version, include the following:

(a) **Service Baskets:** The Proposed Price Cap Plan would entail two service baskets, one for local exchange service and the other for intrastate interexchange services. The first basket would include all services presently offered pursuant to TUA's intrastate tariff A.P.U.C. No. 251; this would include all residential and business basic exchange services, custom calling services, and local private line services. The second basket would consist of all services now offered pursuant to Alascom's current intrastate tariff A.P.U.C. No. 98 (which TUA has proposed to adopt intact and unchanged); this would include Message Telecommunications Service (MTS), Intrastate Interexchange Private Line Services, and Wholesale Services. Access services, being governed by existing, specific APUC requirements, would not be included in any basket.

(b) **Included Exogenous Cost Changes:** Factors which are determined to be exogenous can increase the price cap index. Paralleling the FCC's plan, TUA will propose that the following factors be considered exogenous --

- * Changes in the USOA (Part 32 of FCC Rules)
- * Changes in jurisdictional separation
(Part 36 FCC Rules)
- * Changes in intrastate jurisdictional separations
(e.g., 3 AAC 48.430)
- * Tax law changes
- * Other APUC approve changes

(c) **Excluded Exogenous Cost Changes:** TUA will propose that the following factors be excluded from exogenous treatment (i.e., these factors cannot be utilized to increase the price cap index) --

- * Changes in depreciation rates/schedules
- * Changes resulting from application of 47 CFR 36.126(e)(3) (the Year Six Concern)
- * Changes resulting from withdrawal by AT&T from TUA's network (the Abandonment Shift Concern)

(d) **Shared Earnings:** To the extent TUA is able to generate efficiencies in excess of the productivity offset, TUA proposes to share any resulting higher earnings with its customers in the same manner as provided for under the FCC price cap program. This would result in the following:

- * Earnings up to 100 basis points above authorized return would be retained by the company
 - * Earnings between 100 and 500 basis points above authorized return would be shared 50-50 between the company and its customers
 - * Earnings in excess of 500 basis points above authorized would be returned entirely to the company's customers.
- = During the period, 1993-1998, intrastate earnings would be calculated without recognition of the jurisdictional shift associated with the PTI/AT&T transaction for purposes of determining sharing under price cap regulation.

The share of excess earnings in any period belonging to the customers would be returned in the form of one-time downward adjustment in the price cap index for the service basket in which the excess earnings accrued.

(e) **Access Reduction Pass-Through:** TUA proposes to annually flow-through to its customers any and all savings resulting from reductions in intrastate access costs. As described in Section D, TUA estimates that such access costs will decrease by approximately \$5 per year. In terms of TUA's revenue requirement, this translates into a potential effective revenue requirement decrease of 2-2 1/2% per year.

(f) **Actual Price Index (API):** As part of the annual price cap filing requirement, or whenever a change to the price of a service within a particular basket is requested, TUA will be required to calculate an Actual Price Index as a means of measuring existing or proposed prices against the applicable PCI. The API is a collective index used to measure current or proposed prices against the relevant PCI for each basket. For the ten year period of the proposed plan, the API would not exceed the PCI.

(g) **Implementation:** The PCI and the API for each service based would be assigned a value of 100 which would correspond to the rates in effect within each service basket as of the date of the APUC's adoption of the price cap plan. The first annual filing would take place on April 1st of the year following by a full calendar year the adoption of the rate cap plan by the APUC, and would reflect earnings and changes to the GNP-PI during that preceding full calendar year. The filing will include supporting materials as prescribed by the APUC, sufficient to review the determination of the appropriate PCI and API for each basket.

A proposed description of the proposed state price cap program is contained in **Section B** of this document.

4. Projected Price Cap Indices

Set forth in Section C is an analysis of prospective price cap indices and potential MTS consumer savings resulting from implementation of the proposed price cap program. The indices show that intrastate customers of TUA can anticipate declining prices for services over the course of nine years, to 2001.

5. Benefits of Price Caps for Alaska Customers

The benefits to intrastate telecommunications users of implementation of the proposed price cap program are both numerous and material:

- * The price cap system incorporates a steady, irreducible minimum allowance for required utility productivity, regardless of all other factors operant in any given year. In effect, the customer receives a quantifiable benefit off the top; returns to the shareholder come second;
- * Any misjudgments by TUA producing under-earnings are borne solely by TUA. Any misjudgments by TUA producing over-earnings are shared 50-50 or 100% with TUA's customers, as described above;
- * Exclusion of jurisdictional shift revenue requirements from the computation of rate of return for sharing purposes for five years further effectuates TUA's commitment not to raise intrastate rates as a result of such jurisdictional shifts;
- * Flow-through of intrastate access cost reductions provides direct consumer benefits. Annual APUC review of intrastate access costs enhances the likelihood that such costs decreases will materialize in the future;
- * Because of the rewards and disincentives built into the system, company management has maximum inducement to achieve operating efficiencies, to promote full network usage, to enhance existing services, and to promote new service offerings in order to maximize profits for the company's shareholders; and
- * The defined exclusions from exogenous treatment ensure that intrastate customers of TUA will not pay prices based upon the consequences of either (i) AT&T's decisions concerning utilization of TUA's network or (ii) the condition of competition in the intrastate market in Year 6.

These benefits are in addition to those which flow to consumers as a result of the proposed PTI/AT&T transaction, and which have been described in other documents. The proposed price cap program, thus, not only addresses specific concerns arising from and in the context of the PTI/AT&T transaction, but it provides a desirable

regulatory scheme which promotes both efficiency and competitive responses to consumer demands. Price cap regulation, accordingly, is an appropriate structure for APUC consideration. The stipulations among the parties promote consideration of this program, and thus clear the way for final consideration and approval of the proposed PTI/AT&T transaction.

SECTION B**ANALYSIS OF TUA'S PROPOSED MODIFICATIONS
TO THE FCC'S PRICE CAP RULES FOR PURPOSES OF
DEVELOPING ALASKA PRICE CAP RULES****I. General**

The purpose of this document is to prescribe the framework for an interstate price cap plan to be applied to TUA following implementation of the Master Agreement. TUA proposes to use the FCC's price cap plan for AT&T and the Local Exchange Carriers (LECs) subject to certain modifications that are required to tailor that plan to the intrastate operations of TUA.

Part 61 of the FCC's Rules and Regulations includes all basic provisions relating to price cap regulation of AT&T and the LECs. TUA's proposal utilizes the FCC's price cap rules as the foundation for TUA's proposal. These rules appear at 47CFR, Ch.1, § § 61.41 - 61.49. TUA here discusses each of the major changes required to make those rules suitable for application to TUA's intrastate operations.

For purposes of this analysis, only major modifications to the FCC's rules are being addressed. Certain other language changes will be required to eliminate superfluous provisions that do not relate to the specific application of price cap regulation to the intrastate market structure in Alaska. As an example, the FCC's rules include provisions which make price cap regulation optional to some local exchange carriers. Such provisions are inappropriate in the context of TUA since it is envisioned that price cap regulation for TUA would be mandatory. Although these and other similar changes are not highlighted herein, TUA will prepare and present to the Alaska Public Utilities Commission a complete set of proposed price cap regulations, which includes all revisions to the FCC rules, as part of its required APUC filing. For purposes of highlighting and discussing the material modifications necessary to apply price cap regulation to TUA, only major changes are being included in this analysis.

II. Overview of Proposed Changes to 47CFR, Ch.1, §61.41 - §61.49**A. § 61.41 - Price cap requirements generally.****1. Modification**

TUA proposes no major modifications to this section.

2. **Explanation of Modifications.** None applicable to this provision

3. **§ 61.42 - Price cap baskets and service categories.**

1. **Modification**

TUA proposes to replace § 61.42 in its entirety with the following provision:

(a) TUA shall establish service baskets subject to price cap regulation as follows:

(1) All services presently offered pursuant to TUA's tariff, A.P.U.C. No. 251. This includes all local exchange services, custom calling services, Semi-public and Public Pay Telephone service, Digitrex Service, and Foreign Exchange Service. This basket shall be known as the Local Exchange Services Basket.

(2) All service presently offered pursuant to Alascom's tariff, A.P.U.C., No. 98. This includes Message Telecommunications Service (MTS), Private Line Service, and Wholesale Service. This basket shall be known as the Interexchange Services Basket.

(b) The following services shall be excluded from either service basket:

(1) Access Service offered by TUA pursuant to its participation in the Alaska Exchange Carriers Association tariff A.P.U.C., No. 999;

(2) Special Contracts;

(3) Special Construction Charges;

(4) such other services or portions of such services as the Alaska Public Utilities Commission may designate by Order.

(c) New services, other than those within the scope of paragraph (b) of this section, must be included in the affected service basket at the first annual price cap tariff filing following completion of the base period in which they are introduced.

2. **Explanation of Modified Substitute Language for § 61.42:**

TUA is proposing two service baskets which entail the major lines of business it will conduct; namely, local exchange services

and interexchange services. The FCC's price cap plan includes three service baskets that are specific to AT&T's operations and a separate and distinct set of four service baskets that are specific to local exchange carriers. TUA believes that the set of AT&T and local exchange carrier service baskets should be replaced with two service baskets which more directly reflect the two lines of business that the Company will be engaged in. This revision conforms the concept of "service baskets" to the intrastate market structure envisioned in the Master Agreement. For example the FCC plan does not have a "Local Exchange Services Basket" because the FCC does not regulate the local exchange services offered by LECs. However, because local exchange services are regulated by the Alaska Public Utilities Commission, and because local exchange services are, and will remain, a significant segment of the Company's intrastate operations, it is reasonable to create a service basket specifically for those services. Similarly, TUA is proposing a service basket for interexchange services.

The existence of separate tariffs provides a reasonable and useful division of service offerings for each service basket. It should also be noted that the service baskets TUA proposes are consistent with the line of business accounting procedures that TUA is proposing in Docket No. U-92-9.

In paragraph (b) above, TUA has excluded intrastate access services offered pursuant to the AECA's Tariff No. 999. Intrastate access services were excluded because they are currently part of a statewide pooling and tariffing mechanism employed by the Alaska Public Utilities Commission. This exclusion does not preclude the possibility of depooling and integration of TUA's intrastate access services into price cap regulation at some future time.

§ 61.43 - Annual price cap filings required.

1. Modifications

TUA proposed no significant changes to language embodied in § 61.43; the provision, however, should be adjusted as follows:

TUA shall submit annual price cap tariff filings that propose rates for the upcoming year, that makes appropriate adjustments to PCI and API values pursuant to §§ 61.44 through 61.46, and that incorporate the costs and rates of new services into the PCI and API calculations pursuant to §§ 61.44 (g), 61.45 (f), and 61.46 (b). TUA may propose rate or other tariff changes more often than annually, consistent with the requirements of § 61.59.

2. Explanation of Modifications (Language Revisions for § 61.43):

TUA proposes one notable change to this provision. As discussed later in reference to § 61.46, TUA is proposing to

eliminate references to "Service Band Index (SBI)" for purposes of this exercise.

§ 61.44 - Adjustments to the PCI for Dominant Interexchange Carriers.

1. Modifications

TUA proposes to use the FCC's price cap formula set forth in this provision, which governs and applies price cap regulation to AT&T, to the Interexchange Services Basket proposed in § 61.42. Although the formula, as prescribed in this provision, is appropriate for TUA's Interexchange Services Basket, TUA proposes four substantive revisions to the application of this formula that, as discussed below, are of significant importance and of benefit to the State. These revisions consist of (1) use of the higher LEC productivity factor, (2) the addition of a provision which specifically excludes the jurisdictional shift caused by the Master Agreement from being treated as an exogenous cost change under price cap regulation so that the jurisdictional shift will not affect the price cap, (3) the addition of a provision which specifically excludes consideration of any jurisdictional shift caused by the abandonment by AT&T of TUA's interstate access networks and (4) inclusion of the LEC sharing mechanism as an adjustment to the PCI, and interexchange rates, in the event TUA experiences excessive earnings under price cap regulation.

The following modifications to § 61.44 are proposed:

[1] In § 61.44 (b) the value for the "X" factor should be replaced with 3.3%.

[2] Add the following provision to § 61.44 (c):

(b) Exogenous cost changes shall not include:

(1) a jurisdictional shift of revenue requirements resulting from application of Section 36.126 (e)(3) of the FCC's Rules and Regulations.

(2) a jurisdictional shift of revenue requirements resulting from the withdrawal of AT&T's interstate MTS/WATS traffic from the TUA network.

[3] Append the following provision to § 61.44:

(d) TUA shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism adopted by the FCC in CC Docket No. 87-313 (FCC 90-314, released October 4, 1990). Base period earnings the period 1993-1997 shall be determined without reference to the jurisdictional shift of revenue requirements resulting from application of Section 36.126

(e)(3) of the FCC's Rules and Regulations. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.

2. Explanation of Modifications (Proposed Revisions to § 61.44):

In the first revision TUA proposes to use the higher, and consequently more burdensome, productivity factor of 3.3 percent adopted by the FCC for LECs. When price cap regulation commenced for AT&T, the FCC adopted a productivity factor of 3.0 percent. In consideration of a price cap plan for LECs, however, the FCC decided to impose a higher productivity factor. Since, the reorganization contemplated in the Master Agreement envisions a single entity providing both interexchange and local exchange services, and because TUA is proposing service baskets which reflect each of these lines of business, it makes little sense to have and retain separate and distinct productivity factors for a single organization. Consequently, TUA proposes to adopt the higher productivity factor of 3.3 percent for both service baskets. This revision is of benefit to the State because the higher productivity factor would ultimately be reflected in the form of a lower PCI for TUA's Interexchange Services Basket.

In the second revision, TUA proposes to adopt the FCC's language regarding exogenous cost changes, but specifically recognize that the jurisdictional cost shift contemplated in the Master Agreement may not be considered an exogenous cost change for purposes of applying price cap regulation to TUA. This change benefits the State, because it specifically excludes TUA from seeking exogenous cost treatment, and hence, an increase to the Interexchange Services Basket's PCI for the jurisdictional shift. A similar revision to the exogenous cost provision in § 61.45 is necessary to exclude the jurisdictional shift from exogenous cost treatment in the PCI for the Local Exchange Services Basket.

In the third revision, TUA proposes to further recognize that any jurisdictional costs shift caused by AT&T's abandonment of TUA's interstate access network may not be considered an exogenous cost change for purposes of applying price cap regulation to TUA. This change benefits TUA's intrastate customers, because it excludes any increases in the price cap index due to the "abandonment shift" concern. (This proposal is based upon the concurrent conditioning of AT&T's ability to withdraw from TUA's network, as reflected in the separate stipulation among the State, PTI, and AT&T concurrently entered into.)

Finally, the fourth revision brings forward the earnings sharing mechanism imposed by the FCC on the LECs to the Interexchange Services Basket. The State and other parties have expressed concerns about the possibility of excessive earnings and,

secondly, the possibility of foregone rate decreases. By including the sharing mechanism in the PCI formula for the Interexchange Services Basket, TUA is ensuring that excess earnings will be shared with customers in the form of price decreases. Moreover, TUA is proposing that earnings during the 1993-1997 period be measured and shared, exclusive of the effect of the jurisdictional shift contemplated in the transaction.

§ 61.45 - Adjustments to the PCI for Local Exchange Carriers.

1. Modifications

TUA proposes to use the FCC's price cap formula set forth in this provision, which governs and applies price cap regulation to LECs, to the Local Exchange Services Basket proposed in § 61.42. TUA proposes four revisions or modifications to this provision:

[1] In § 61.45 (b)(1), eliminate the following text from the end of the provision:

" , or 4.3% if the carrier so elects."

Also, eliminate § 61.45 (h) in its entirety.

[2] Add the following provision to § 61.45 (d):

(i) a jurisdictional shift of revenue requirements resulting from application of Section 36.126 (e)(3) of the FCC's Rules and Regulations.

(j) a jurisdictional shift of revenue requirements resulting from the withdrawal of AT&T's interstate MTS/WATS traffic from the TUA network.

[3] Eliminate all references to the "g" factor in § 61.45 (c) and eliminate § 61.45 (e) in its entirety.

2. Explanation of Modifications (Proposed Revisions to § 61.45):

The first revision eliminates an option provided by the FCC to LECs, to opt for a higher productivity factor in exchange for a more liberal sharing mechanism for earnings. TUA does not believe that this option is necessary in determining an effective price cap plan for the Company's operations.

The second revision mirrors the amendment to § 61.44 (c) to specifically recognize that the jurisdictional cost shift contemplated in the Master Agreement may not be considered an exogenous cost change for purposes of applying price cap regulation to TUA. As was the case for the Interexchange Services Basket, specific exclusion of this cost change from exogenous cost treatment in the Local Exchange Services Basket is necessary to address the

State's and other parties concerns that the shift will somehow accrue to higher local exchange rates. The additional language ensures that this may not occur.

The third revision mirrors the amendment to § 61.44 (c) to specifically recognized that the any jurisdictional cost shift resulting from an "abandonment" of TUA's interstate access network by AT&T may not be considered an exogenous cost change for purposes of applying price cap regulation to TUA. (As noted above, this provision is premised upon concurrent, stipulated limitations on AT&T's ability to withdraw from TUA's network.)

The fourth revision eliminates the "g" factor from the PCI to be applied to TUA's Local Exchange Services Basket. The "g" factor was created by the FCC to require LECs to share growth in the demand associated with the carrier common line access charge rate element between interexchange carriers and local exchange carriers. TUA is not proposing to apply this formula to intrastate common line costs for two reasons. First, the Alaska Public Utilities Commission has adopted a different and unique method for the recovery of the intrastate common line costs of LECs. The Commission's method, known as the "bulk bill approach," already effectively prevents LECs from earning additional revenues as a result of demand growth for common line access. Consequently, the demand sharing mechanism reflected by the "g" factor in the FCC's LEC price cap formula is simply unnecessary in light of the APUC's treatment of these costs. Secondly, as discussed previously, TUA has excluded intrastate access charges from the price cap proposal because of the access pooling and tariffing mechanism required by the APUC (i.e., the AECA).

§ 61.46 - Adjustments to the API.

1. Modifications

TUA proposes no major modifications to this section.

2. Explanation of Modifications.

None applicable here.

§ 61.47 - Adjustments to the SBI; pricing bands.

1. Modifications

TUA proposes to eliminate this section entirely.

2. Explanation of Modifications (Section Eliminated)

Service Band Indexes (SBIs) were created by the FCC to temper price changes for certain services offered by AT&T and the LECs. Although similar provisions will probably be proffered and considered by the APUC during an examination of price cap regulation, TUA believes that is premature to propose specific SBI attributes.

§ 61.48 - Transition rules for price cap formula calculations.

1. Modifications

TUA proposes no major modifications to this section.

2. Explanation of Modifications.

None applicable here.

§ 61.49 - Supporting information to be submitted with letters of transmittal for tariffs of carriers subject to price cap regulation.

1. Modifications

TUA proposes no major modifications to this section. However, it will be necessary to adapt the FCC's supporting information requirements to the APUC's tariff filing requirements.

2. Explanation of Modifications.

Non applicable here.

Additional Provision: Removal of Symmetrical Treatment of Low Earnings

1. Modifications

As part of the earnings sharing requirement imposed by the FCC on price cap LECs, the Commission adopted a mechanism which allows LECs to increase prices and related PCIs to the extent that actual earnings fall below a specific threshold. This "symmetrical" treatment was created by the FCC to ensure that the price cap plan does not subject LECs to low earnings over a prolonged period of time. TUA proposes to exclude this provision from the price cap plan for the interstate market structure of Alaska.

2. Explanation of Modifications

It is necessary and contrary to the intent of the application of price cap regulation to TUA given the intent of the Master Agreement. This modification benefits TUA's customers, since the effect is to ensure that positive earnings above specified levels are saved with customers, but below authorized earnings aren't recovered from customers through a higher price cap index.

SECTION C**Summary of
Predicted Price Cap Indices and
Potential TUA Consumer Savings (MTS)**

<u>Year</u>	<u>Price Caps w/ Pass-Through & Sharing Scenario</u>	<u>Price Caps w/ Pass-Through & Sharing Scenario</u>
1993	97.70	\$1,757,220
1994	95.49	\$3,476,950
1995	93.38	\$5,179,104
1996	90.95	\$7,197,912
1997	88.65	\$9,519,416
1998	86.44	\$12,190,674
1999	84.49	\$15,055,862
2000	84.92	\$16,031,081
2001	84.04	\$16,943,713
Cumulative Savings		<u>\$87,340,932</u>

SECTION D

TUA'S PROPOSAL TO PASS-THROUGH REDUCTIONS OF INTRASTATE ACCESS CHARGES

Although TUA believes that price cap regulation will serve as an effective tool for controlling intrastate telecommunications rates and eliminate any public interest concerns about potential rate increases and other adverse effects of the PTI/AT&T transaction, additional measures may be suitable to address concerns that intrastate rates would otherwise decline if the transaction does not occur. To address these specific concerns, TUA proposes an additional consumer safeguard which serves as an overlay to the price cap plan proposed in other sections herein.

Appendix IV to the Joint Petition shows TUA's predicted cost per minute of access to be paid to LECs (in cents per minute) for the years 1991 - 1998. As the Appendix illustrates, TUA predicts that intrastate access prices will continue to decline at approximately 5% per year. Such reductions in cost translate into effective revenue requirement decreases of approximately 2 - 2 1/2%. TUA proposes to "pass-through" these savings, to the extent they are actually realized, to intrastate consumers in the form of an annual tariff filing containing reductions to intrastate interexchange rates. This filing, in addition to the filing required under the price cap regulation proposal, would ensure that savings to the company caused by access charge price reductions would immediately be reflected in reduced intrastate interexchange rates.

Using data derived from the Company's filings, the State concluded that significant intrastate price reductions should occur absent the perceived negative effects of the jurisdictional shift contemplated in the Master Agreement.^{1/} It is important to recognize that a principal element of the State's argument about intrastate price reductions is premised on the Company's forecast embodied in Appendix IV to the Joint Petition. A major element of Appendix IV, and consequently, a significant factor leading to the State's conclusions about potential future decreases to intrastate interexchange rates, was the Company's forecast of continued reductions in access charge prices during the ensuing six years. The pass-through proposal will produce significant intrastate price reductions, assuming that access prices continue to decrease at the levels predicted in Appendix IV, and as used by the State in

^{1/} The State's analysis does not similarly quantify the potential for interstate rate reductions associated with the decrease in interstate revenue requirements which are the obverse of a shift of \$32 million in revenue requirements to the intrastate jurisdiction.

asserting that significant price reductions are in the offing absent the jurisdictional shift.^{2/} Furthermore, these price reductions will occur despite the jurisdictional shift contemplated in the Master Agreement and the abandonment shift concern raised by other parties in the ongoing intrastate proceeding.

Although significant price reductions can be predicted as a result of the pass-through mechanism, it is important to note that additional price reductions remain possible as a result of price cap regulation. Operating in concert with the application of price cap regulation, the pass-through mechanism guarantees a minimum level of intrastate price reductions as a result of decreases in intrastate access charge prices. To the extent that the price cap index decreases because changes to the GNP-PI are more than offset by the 3.3 productivity factor or because the sharing of earnings mechanism is effectuated, intrastate telecommunications consumers would benefit from further intrastate price reductions. Thus the pass-through mechanism and the likely intrastate rate effects described herein, acting concurrently with price cap regulation, should be viewed as the relevant starting point in assessing the magnitude of TUA's regulatory proposal.

^{2/} TUA predicts that intrastate rates would decline approximately \$1.6 - 1.7 million per year and approximately \$10 million through 1998 if the access charge pass-through mechanism is adopted.

9-21-92

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September 21, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

EX PARTE LETTER

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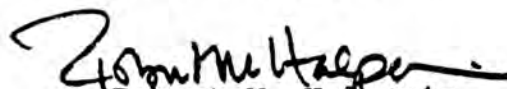
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on September 14, 1992, Linda K. Smith, Counsel for the State of Alaska, had a telephone conversation with Commissioner Susan M. Knowles of the Alaska Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The conversation involved matters covered in the State's September 15, 1992 letter to the State Joint Board Commissioners, copies of which have already been filed with you.

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

Very truly yours,


Robert M. Halperin

cc: Susan M. Knowles

bcc: Linda K. Smith
John W. Katz

CROWELL & MORING

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September 21, 1992

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EX PAF

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

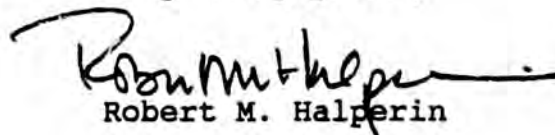
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on September 14, 1992, Linda K. Smith, Counsel for the State of Alaska, had a telephone conversation with Ms. Eilleen Brenner of the Idaho Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The conversation involved matters covered in the State's September 15, 1992 letter to the State Joint Board Commissioners, copies of which have already been filed with you.

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

Very truly yours,


Robert M. Halperin

cc: Eilleen Brenner

20 -
141
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bcc: Linda K. Smith
John W. Katz

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September 21, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

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

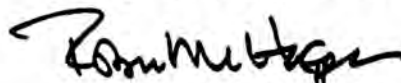
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Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on September 14, 1992, Linda K. Smith, Counsel for the State of Alaska, had a telephone conversation with Mr. James Spurlock, of the Federal Communications Commission, Common Carrier Bureau to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, Rm 4436, and related proceedings. The conversation involved matters covered in the State's September 15, 1992 letter to the State Joint Board Commissioners, copies of which have already been filed with you.

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

Very truly yours,



Robert M. Halperin

cc: Mr. James Spurlock

bcc: Linda K. Smith
John W. Katz

9-23-92

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ROBERT M. HALPERIN
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September 23, 1992

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

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

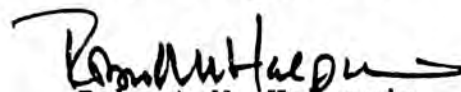
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that during the week of September 14, 1992, John W. Katz, Director, State/Federal Relations and Special Counsel to the Governor of the State of Alaska, had three telephone conversations with Commissioner Susan M. Knowles of the Alaska Public Utilities Commission. The conversations related to matters covered in the State's September 15, 1992 letter to the State Joint Board Commissioners, copies of which have already been filed with the Commission.

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

Very truly yours,


Robert M. Halperin

cc: Commissioner Susan M. Knowles

10-1-92

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EX PARTE LETTER

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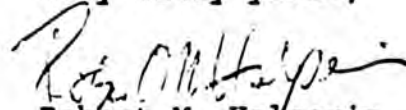
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that in September 30, 1992, John W. Katz, Director, State/Federal Relations and Special Counsel to the Governor of the State of Alaska, Linda K. Smith and Robert M. Halperin, Counsel for the State of Alaska, and Karl Korsmo had a telephone conversation with Commissioner Susan M. Knowles and Lori Kenyon of the Alaska Public Utilities Commission and Commissioner Dean Joe Miller and Eileen Brenner of the Idaho Public Utilities Commission. The conversations related to matters covered in the State's September 15, 1992 letter to the State Joint Board Commissioners and GCI's September 1, 1992 letter to the State Joint Board Commissioners. Both of those letters have been filed with the Commission.

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

Very truly yours,


Robert M. Halperin

cc: Commissioner Susan M. Knowles
Lorraine M. Kenyon
Commissioner Dean J. Miller
Eileen Brenner

bcc: Linda K. Smith
John W. Katz

11-3-92

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November 3, 1992

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EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
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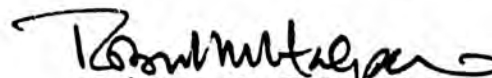
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on October 29, 1992, John W. Katz, Director, State/Federal Relations and Special Counsel to the Governor of the State of Alaska, Linda K. Smith and Robert M. Halperin, Counsel for the State of Alaska, and Karl Korsmo, the State's consultant, had a telephone conversation with Commissioner Susan M. Knowles and Lorraine Kenyon of the Alaska Public Utilities Commission, Commissioner Dean Joe Miller of the Idaho Public Utilities Commission, and Debra Kriete of the Pennsylvania Public Utilities Commission. The conversations related to the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376.

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

Very truly yours,


Robert M. Halperin

cc: Commissioner Susan M. Knowles
Lorraine M. Kenyon
Commissioner Dean J. Miller
Debra Kriete

bcc: Linda K. Smith
John W. Katz

11-13-92

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November 13, 1992

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Ms. Donna R. Searcy
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1919 M Street, N.W.
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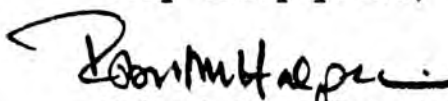
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

Transmitted herewith on behalf of the State of Alaska are an original and five copies of its comments on various proposals to modify the master agreement in the above-referenced proceeding.

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

Very truly yours,


Robert M. Halperin

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

Nov 13 '92

2 COPY

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

U.S. DEPT. OF COMMERCE
SECRETARY

CC Docket No. 83-1376
RM 4436

COMMENTS OF THE STATE OF ALASKA
ON VARIOUS PROPOSALS TO MODIFY THE MASTER AGREEMENT

THE STATE OF ALASKA

Linda K. Smith
Robert M. Halperin
CROWELL & MORING
1001 Pennsylvania Avenue, N.W.
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(202) 624-2500

Its Attorneys

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SUMMARY

The Federal-State Joint Board and Commission have before them three sets of proposals to augment or alter the Master Agreement between the American Telephone and Telegraph Company ("AT&T") and two subsidiaries of Pacific Telecom, Inc. ("PTI") -- Alascom, Inc. and Telephone Utilities of Alaska, Inc. ("TUA"). Those proposals are an intrastate price cap plan proposed by PTI, which would augment the Master Agreement and two more wide reaching proposals made by Overland Consulting, Inc. ("Overland") and General Communication, Inc. ("GCI"). In these Comments, the State of Alaska analyzes the three proposals and presents recommendations concerning the final resolution of the issues presented by the Master Agreement.

All three proposals would materially improve the Master Agreement when measured against the five policy objectives identified by the Joint Board: universal service, rate integration, revenue requirement neutrality, competition and efficiency. None, however, is entirely acceptable.

On balance, the State concludes that PTI's intrastate price cap proposal should not be adopted. The proposal places the regulatory cart before the horse, does not deliver on its hoped-for potential to remove the upward pressures on intrastate rates created by the Master Agreement, and does not address many of the public policy concerns raised by the Master Agreement. Moreover, most of the benefits it offers could be achieved through alternative mechanisms.

The proposals of Overland and GCI have merit, but neither of

them should be adopted in its entirety. Concepts raised in those proposals, however, are useful.

The State has reviewed the three proposals and has identified key elements which it believes are the cornerstones on which a final resolution to the issues raised by the Master Agreement should be built. They are as follows:

1. The proposed transfer of assets from Alascom to TUA must not be permitted. It therefore follows that Alascom's current interexchange operations should not be included in NECA cost pools.

2. The frozen allocator used to separate Central Office Equipment Category 4.23 assets must be continued. AT&T's latest attempt to alter the method by which Alascom separates its interexchange assets should again be rejected.

3. Carrier of last resort responsibilities must be designated for both toll and private line services. The State has no objection to AT&T's designation as the carrier of last resort for interstate toll services and Alascom's designation as the carrier of last resort for intrastate toll services.

4. Rate integration and universal service, which the State has long sought to attain, must be maintained. This should not be accomplished through passing higher than average interstate costs on to the backs of intrastate ratepayers.

5. Certain aspects of the Master Agreement can be conditionally approved. The State, for example, has no objection to AT&T's proposed acquisition of Alascom's interstate and international MTS/WATS business and termination of the joint

services arrangement if conditions along the lines the State sets forth in these Comments are satisfied.

6. It appears that a transition period, perhaps of five years, will be necessary. Precisely what would occur during this transition depends on whether AT&T and PTI choose to close on a transaction conditioned as stated in these Comments.

7. The joint services arrangement could be terminated. The precise nature of its termination, as suggested above, would depend on whether the parties to the Master Agreement choose to close on a conditioned transaction.

8. At the end of the five-year transition period, Alascom's interstate operations would be subject to a price cap form of regulation with sharing of earnings above the authorized rate of return. This approach would create new efficiency incentives and would maximize the likelihood Alascom would successfully compete for AT&T's traffic, thereby reducing the likelihood of, and the detriments to the public interest that might flow from, any "abandonment shift."

9. Steps must be taken to avoid unintended jurisdictional cost shifts that could be created by termination of the joint services arrangement. To accomplish this goal, Alascom's interstate rate base should be written down to a competitive benchmark level. The write-down could be accomplished through five-year accelerated depreciation. If the parties choose to close on the conditioned transaction, part of the proceeds from the transaction could be used to fund the accelerated depreciation.

10. To provide further assurances against unintended jurisdictional cost shifts, after the five-year transition (during which all of AT&T's interstate traffic would be carried on Alascom's network), AT&T would continue to place a specified minimum percentage (for example, 10 percent) of all interstate traffic originating and terminating at each of its points of presence in Alaska or Alascom's network. This approach is intended to assure that no significant cost shifts to the intrastate jurisdiction occur through decreased interstate use of Alascom's network.

Alascom has argued that the write-down proposal of GCI is confiscatory. The State believes that Alascom's arguments are unpersuasive, as they appear based on faulty assumptions. For example, contrary to Alascom's argument, not all of the consideration AT&T has agreed to pay Alascom is attributable to the assets Alascom is selling to AT&T. Much of that consideration is attributable to other actions, particularly avoidance of the frozen allocator and participation in NECA cost pools. The State, therefore, does not believe that a more limited write-down proposal is confiscatory.

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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

COMMENTS OF THE STATE OF ALASKA
ON VARIOUS PROPOSALS TO MODIFY THE MASTER AGREEMENT

In the Spring of this year, the Federal Communications Commission ("FCC" or "Commission") and the Federal-State Joint Board received comments and reply comments concerning the Master Agreement between American Telephone & Telegraph Company ("AT&T"), Alascom, Inc. ("Alascom"), and Telephone Utilities of Alaska, Inc. ("TUA"). Filings were made by a variety of entities, including other interexchange carriers, the Alaska Telephone Association ("ATA"), individual Alaska exchange carriers, the National Exchange Carrier Association ("NECA"), the State of Alaska ("State"), and others.

The comments and reply comments revealed almost unanimous opposition to the Master Agreement. In fact, only the parties to the Master Agreement supported it without reservation.¹ The

¹ See Reply Comments of the State of Alaska at 2-3 (May 20, 1992).

State, among others, indicated that it was opposed to approval of the Master Agreement, unless significant changes to that agreement were made. The State remains opposed to approval of the Master Agreement as it presently stands.

I. GENERAL BACKGROUND

In its reply comments, the State invited consideration of new approaches to resolve the difficult issues facing the Joint Board and Commission and said that it would be meeting with various parties to explore new approaches.² The State has followed through on that commitment, having explored new approaches with representatives of Pacific Telecom, Inc. ("PTI"), the parent of Alascom and TUA, Overland Consulting, Inc. ("Overland"), a firm retained by the Alaska Public Utilities Commission ("APUC") to analyze the interstate aspects of the Master Agreement, General Communication, Inc. ("GCI"), ATA, and United Utilities, Inc., an Alaska exchange carrier.

As a result of these communications and of filings made with the Joint Board and Commission, the State is aware of three sets of ideas to modify the Master Agreement. PTI, in communications with the State -- which have been forwarded by the State to the Joint Board, Commission, and interested parties -- has developed an intrastate price cap proposal.³ Overland has proposed that

² Id. at 8.

³ See Letter of D. Wonnell (PTI) to J. Katz (State of Alaska), dated September 9, 1992, attached to and filed with letter of J. Katz to State Members of the Joint Board, dated September 15, 1992.

certain changes to the Master Agreement be made, including not permitting Alascom and TUA to merge, an immediate write-down of Alascom's MTS rate base, regulatory review of material capital improvements to Alascom's network during a transition period, and, possibly, a transition to an interstate price cap regulatory system for Alascom.⁴ GCI has submitted to the Joint Board a variant of the Overland proposal.⁵ GCI calls for a write-down of Alascom's interstate rate base, funded, in essence, through the payments Alascom is to receive from AT&T under the Master Agreement.

The State has carefully considered these three proposals and analyzed them in terms of the five public interest objectives identified by the Joint Board: universal service, rate integration, revenue requirement neutrality, efficiency, and competition.⁶ Although all offer significant improvements to the Master Agreement, none is entirely satisfactory. Consideration of these proposals, however, has allowed the State to identify the cornerstones on which it believes a public interest resolution to the issues facing the Joint Board and Commission can and must be built.⁷

⁴ Overland Consulting, Inc., Study of the Alascom/AT&T Master Agreement -- Briefing Paper (July 21, 1992) ("Overland Study").

⁵ Proposal of General Communication, Inc. (October 2, 1992) ("GCI Proposal").

⁶ Supplemental Order Inviting Comments, 4 FCC Rcd. 395 (Jt. Bd., January 4, 1989) ("Supplemental Order").

⁷ The State has briefly reviewed the recently released Memorandum of Principles, Alaska Market Structure: The State (Footnote continued on next page)

II. EVOLUTION OF THE PROPOSALS

The State has long believed that there is no monopoly on knowledge or useful ideas relating to the issues under review. It has, therefore, always maintained an open door policy and encouraged all parties to think creatively about whether changes or enhancements to the Master Agreement that would maximize the public interest were possible. The State began communicating with interested parties (e.g., PTI, GCI, ATA and others) concerning possible changes or enhancements to the Master Agreement as early as May 1992.

The State Members of the Joint Board have also encouraged parties to consider alternatives to the Master Agreement as initially proposed. In late July 1992, it received the briefing paper from Overland recommending an alternative to the Master Agreement. On August 4, 1992, it issued a Memorandum of Understanding and sent a letter to AT&T and PTI inviting them to consider modifications to the Master Agreement to accommodate the concerns expressed and recommendations contained in comments filed

(Footnote continued from previous page)

Members' Plan, dated November 5, 1992. The State notes that the State Members' plan is consistent with the recommendations made in these Comments. Although the State makes some recommendations that are absent from the State Members' plan (and visa versa), that fact arises largely because both these Comments and the State Members' plan are frameworks for a final market structure and not comprehensive resolutions addressing all aspects of that market structure. In general measure, the State Members' plan and these Comments reflect a shared view that the market structure that would be created under the Master Agreement is not in the public interest. They also reflect a shared view of the general nature of an alternative market structure that would be in the public interest.

in this proceeding.⁸ As a result of all of these efforts, three proposals have emerged.

A. PTI's Price Cap Proposal

As set forth in its comments on the Master Agreement, the State's major objection to the Master Agreement (but, by no means, its only objection) was that it was contrary to and undermined the objective of revenue requirement neutrality,⁹ with other accompanying public interest detriments. By proposing that Alascom and TUA merge, the Master Agreement, if approved, would result in at least \$32 million a year in increased intrastate service costs, which would put significant upward pressures on intrastate service rates.¹⁰

The State and PTI began discussing ways to solve the problems created by this massive cost shift in May of 1992. The approach that emerged from those discussions was PTI's price cap proposal. The State's major concern with respect to increased intrastate costs was that, under traditional rate of return regulation, increased intrastate costs would be translated into higher intrastate service rates. If the nexus between increased intrastate costs and increased intrastate rates were broken, the

⁸ Letter to V. Dunham (PTI) and A. Tyree (AT&T) and Memorandum of Understanding from State Members of Joint Board (August 4, 1992).

⁹ Comments of the State of Alaska at 13-28 (April 20, 1992).

¹⁰ See id. at 16-18, 21. See also Joint Petition to Approve Master Agreement at 18 (January 29, 1992).

logic went, a major concern of the State -- upward pressures on intrastate rates -- would be ameliorated.

In July, PTI proffered two draft stipulations to the State. One of those stipulations -- which would have been between PTI, the State, and AT&T -- would have obligated AT&T for at least ten years to maintain interconnection with the interstate access facilities of the new TUA at the AT&T points of presence ("POPs") to be established in conformity with the Master Agreement. The second stipulation -- which would have been between PTI and the State -- would have obligated PTI to propose to the APUC, and to accept if implemented by the APUC, an intrastate price cap proposal, which would reduce the nexus between increased intrastate cost allocations and increased intrastate service rates. PTI also provided the State with a description of its intrastate price cap proposal. The PTI draft stipulations provided that, in exchange for these undertakings, the State was to support immediate approval of the Master Agreement.

The State had a number of objections to the approach and substance of the proposed stipulations and communicated those objections to PTI. Among other things, the State indicated that, even if the price cap proposal were acceptable, it would not be willing to support approval of Master Agreement. The State indicated that it needed much more information, including data projecting the actual workings of the price cap model, before it was willing to accept the proposal. Moreover, the State could not accept the first stipulation because AT&T informed the State that it could not subscribe to PTI's draft.

PTI provided data projecting the workings of the price cap proposal, including rate reductions forecasted as a result of "sharing" of earnings above the authorized rate of return. In August, the State expressed concern to PTI that the forecasts provided by PTI indicated that the PTI proposal did not eliminate the upward pressures on intrastate rates created by the Master Agreement because, among other things, the costs shifted to the intrastate jurisdiction under the Master Agreement were not excluded from the total revenue requirement in calculating the rate of return for sharing purposes.

In response to this concern, PTI, in mid-August, offered to amend the price cap proposal to provide for an immediate pass through of exchange carrier access charge reductions. PTI has estimated that this pass through would reduce intrastate revenue requirements by approximately \$1.6 million annually.¹¹

On August 25, 1992, the State provided PTI with a written response to its price cap proposal.¹² The State noted several areas of concern. For example, the stipulation with AT&T would have to be modified to provide for clear carrier of last resort responsibilities and to provide that the merged TUA/Alascom entity would be permitted to participate in NECA pooling, if at all, for no more than five years. The price cap stipulation and proposal would have to be modified to exclude costs shifted to the

¹¹ See Price Cap Proposal, appended to letter of V. Dunham (PTI) to State Members of Joint Board, dated September 21, 1992 ("PTI Price Cap Proposal") at 19.

¹² A copy of that letter was sent to the State Members of the Joint Board, the Commission, and interested parties by the State on September 15, 1992. See n. 3, above.

intrastate jurisdiction from the total revenue requirement in calculating the rate of return for sharing purposes. The State indicated its concern that the regulatory authority of the APUC not be infringed. The State noted that it would be seeking comments from interested parties concerning the price cap proposal. The State also reiterated to PTI that it would be unwilling to stipulate that it supported the Master Agreement, even if otherwise acceptable stipulations could be crafted. The most the State could undertake was to represent that certain of its concerns had apparently been resolved.

After this letter was sent, representatives of the State and PTI addressed various technical issues regarding the data underlying PTI's price cap proposal and projections. PTI then responded to the State's letter on September 9, 1992.¹³ Among other things, PTI proposed to exclude the costs shifted to the intrastate jurisdiction from the total revenue requirement in calculating the rate of return for sharing purposes for a five-year period.¹⁴

After the State provided copies of this exchange of correspondence to the Joint Board, Commission, and interested parties on September 15, 1992, the State solicited the views of interested parties on the price cap proposal. None of the interested parties supported the price cap proposal. The State

¹³ A copy of this letter was also sent to the State Members of the Joint Board, the Commission, and interested parties by the State on September 15, 1992.

¹⁴ Letter from D. Wonnell to J. Katz, dated September 9, 1992, at 4.

asked for, and received, the parties' specific objections and concerns.

On September 21, 1992, PTI sent a letter to the State Members of the Joint Board responding to their August 4, 1992 Memorandum of Understanding.¹⁵ In that letter, PTI described the evolution of its price cap proposal and explained why it thought the proposal furthered the public interest. Materials describing the price cap proposal were appended.¹⁶

On October 1, 1992, the State had a lengthy telephone conference with PTI in which it raised a variety of concerns about, and further suggested enhancements to, the price cap proposal. Some of those concerns and enhancements originated with the State; some were first raised with the State by others.¹⁷ Those concerns and enhancements included, for example, the inclusion in the price cap proposal of quality of service standards and expanded sharing of earnings over the authorized rate of return. The State also reiterated its previous position that the costs shifted to the intrastate jurisdiction be excluded from the total revenue requirement in calculating the rate of return for sharing purposes, even beyond the five-year period PTI had recently accepted.

¹⁵ Letter of V. Dunham to State Members of Joint Board, dated September 21, 1992.

¹⁶ These materials appear to be identical to those supplied by the State to the Joint Board and interested parties on September 15, 1992.

¹⁷ GCI sent a letter to State Members of the Joint Board on October 6, 1992, which has been filed in this docket, expressing its opposition to the price cap proposal.

PTI responded to the State by a letter dated October 9, 1992.¹⁸ PTI agreed to modify its price cap plan slightly in response to the State's expressed concerns and suggestions. PTI also satisfactorily responded to other concerns the State had expressed.¹⁹ Many of the State's concerns and suggestions, however, remain.

Also on October 9, 1992, AT&T wrote to the State Members of the Joint Board informing them that AT&T was willing to accept a Commission order requiring it, for ten years from implementation of the Master Agreement, to purchase access services from TUA between two of AT&T's three Alaska POPs (Anchorage and Fairbanks) and the local exchange carriers serving the communities in which those POPs are located for all of AT&T's MTS traffic which originates or terminates in those exchanges.²⁰

¹⁸ A copy of that letter is attached to these comments (Attachment 1). Also on October 9, 1992, PTI made an ex parte filing with the State Members of the Joint Board addressing GCI's criticisms of the price cap proposal.

¹⁹ For example, the State had expressed a concern that TUA would have the incentive to shift costs from services that would be subject to price cap regulation to services (in particular, local access services) that would be subject to rate of return regulation. PTI demonstrated, in response to that concern, that the revenue requirement for local access services is so small in comparison to the revenue requirements for services to be subject to price cap regulation that any potentially significant cost shift could be readily detected.

²⁰ Letter of A. Tyree to State Members of Joint Board, dated October 9, 1992.

B. Overland's Proposal

On July 21, 1992, Overland submitted a briefing paper on the Master Agreement to the Federal-State Joint Board.²¹ The State Members of the Joint Board released the briefing paper to the parties on August 4, 1992.

Representatives of the State had a telephone conference with Overland on August 27, 1992, during which Overland responded to questions the State had concerning the briefing paper.

C. GCI's Proposal

GCI's current proposal was first put forward in its September 1, 1992 response to the State Member's August 4, 1992 Memorandum of Understanding.²² Representatives of the State and GCI met on September 9 and 22, 1992 to discuss GCI's proposal. Among other things, the State expressed concerns about the legal sufficiency of the GCI approach.

GCI refined its proposal and submitted a pleading in this docket on October 2, 1992.²³ That pleading set forth GCI's proposal in greater detail than before and also addressed the issue of the proposal's legal sufficiency. Alascom filed an opposition to the GCI proposal on October 23, 1992.²⁴

²¹ See n. 4, above.

²² PTI filed with the Joint Board on September 10, 1992 a response to GCI's September 1, 1992 letter. That response contained a brief rebuttal to GCI's write-down proposal.

²³ See n. 5, above.

²⁴ Opposition of Alascom, Inc. to Proposal of General Communication, Inc. (October 23, 1992).

III. THE PROPOSALS

The three proposals are matters of public record before the Joint Board and Commission, and the State will not attempt in these comments to set forth the details of those proposals. The State believes, however, that a summary of the major features of these proposals would be useful.

A. PTI's Price Cap Proposal

PTI has proposed to protect intrastate ratepayers from the significant increases in intrastate costs created by the Master Agreement through an intrastate price cap proposal largely based on the Commission's interstate price cap rules for local exchange carriers ("LECs"). PTI has tailored the federal LEC price cap plan to this situation, however, in a number of respects.

First, the cost shifts created by the merger of TUA and Alascom and the resulting elimination of the frozen allocator for separating the costs of jointly used equipment falling into Central Office Equipment Category 4.23 would be treated as an exogenous cost and thus not be a basis on which to request an increase to the price caps. Similarly, cost shifts resulting from any action by AT&T to remove its interstate MTS/WATS traffic from Alascom/TUA's intrastate network would be treated as exogenous costs.²⁵

²⁵ PTI Price Cap Proposal at 2-3, 5, 12.

Second, TUA would pass through to ratepayers all future intrastate access cost reductions.²⁶ PTI's estimate that this would reduce intrastate rates by approximately \$1.7 million a year is dependent on the assumption that past intrastate access cost reductions continue in the future.

Third, PTI has proposed that the price caps not be subject to a low-end adjustment. Thus, even if PTI does not earn near its authorized rate of return, there would not be an increase in the price caps.²⁷

Fourth, PTI has agreed to exclude the revenue requirement shifted to the intrastate jurisdiction from sharing calculations for a period of five years. Thus, for five years (and only five years) the intrastate rate impact of the jurisdictional cost shift created by the Master Agreement would be checked.²⁸

PTI has projected the impact of its price cap proposal as reducing intrastate rates by approximately 2 percent in 1993 (if the proposal were in effect by January 1, 1993) and by approximately 15 percent by 1999.²⁹ Cumulatively, PTI projects intrastate customer savings of over \$87 million through 2001.³⁰ Data supplied to the State by PTI showed that most of the

²⁶ Id. at 1, 4, 6, 18-19.

²⁷ Id. at 7, 16. PTI's willingness to abandon the low end adjustment (which PTI volunteered) has suggested to some that PTI does not believe it likely that TUA would not be able to earn at least the authorized rate of return.

²⁸ Id. at 1, 4, 7.

²⁹ Id. at 17 (measured as reductions from Price Cap Index of 100.00 in 1992).

³⁰ Id.

projected rate reduction and customer savings (approximately \$73 million of \$87 million, or 84 percent) is the result of projected future declines in intrastate access costs. It should be noted that the declines (if any) in intrastate access costs would occur independently of any price cap proposal.

Procedurally, PTI proposes that the Master Agreement be approved by state and federal regulators subject to a condition that PTI or TUA submit the price cap proposal to the APUC and agree to be bound to accept that proposal should it be implemented at the state level.³¹ In discussions with the State, PTI has refused to condition approval of the Master Agreement on APUC approval of an intrastate price cap plan.

B. Overland's Proposal

Overland's proposal has four essential elements. First, TUA and Alascom are not permitted to merge.³² Overland suggests that, if necessary, Alascom's MTS and TUA's exchange operations could be temporarily combined in a separate holding company so that the combined company could participate in NECA pooling arrangements for an interim period of time.³³

Second, steps would be taken to reduce Alascom's rate base. From an accounting perspective, monies associated with the sale of Alascom's interstate customer lists, termination of the joint

³¹ See letter of V. Dunham to State Members of Joint Board, dated September 21, 1992, at 2, 6.

³² Overland Study at 3.

³³ Id. at 3, 8.

services arrangement, and profit on the sale of capacity in the Alaska Spur should effect an immediate write-down of Alascom's MTS rate base.³⁴ Thus, unlike GCI's proposal, discussed below, both interstate and intrastate interexchange rate bases would be reduced under the Overland proposal. In addition, the APUC would need to approve material capital improvements to Alascom's network before such investments could be added to the rate base.³⁵

Third, AT&T would be designated as, and must accept the responsibility to be, a carrier of last resort for carriage of interstate traffic to LECs and, upon reasonable request, to end users.³⁶ This responsibility would exist without regard to whether AT&T owns facilities to those points.

Fourth, after five years, the holding company referred to above would be dissolved and further steps might be taken. One of the suggestions that Overland makes is that Alascom's interstate operations be subject to a price cap regulatory regime.³⁷

C. GCI's Proposal

GCI's proposal, as PTI notes in its October 23, 1992 Opposition, has gone through several evolutions, but is set forth with particularity in its October 2, 1992 pleading.³⁸ The proposal presents two alternative courses of action. Under the

³⁴ Id. at 4, 9.

³⁵ Id. at 4, 11.

³⁶ Id. at 4, 10-11.

³⁷ Id. at 4.

³⁸ See n. 5, above.

first course of action, the Commission would approve certain portions of the Master Agreement subject to certain conditions, which the parties to the Master Agreement would ultimately accept. Under the second course of action, the Master Agreement would not be approved (or the conditioned approval would not be accepted by the parties) and the Commission would craft a new solution. Both courses of action are intended ultimately to result in the same market structure.

There are several fundamental aspects of GCI's proposal. First, the joint services arrangement between AT&T and Alascom would be terminated (either immediately or at the end of a transition period, depending on which course of action set forth above was implemented). AT&T would be permitted to offer interstate services in Alaska and establish POPs in Alaska at that time.³⁹

Second, the transfer of assets from Alascom to TUA would not be permitted.⁴⁰ TUA would remain exclusively an exchange carrier. Interstate distribution services would be provided by Alascom. As a result, participation in NECA pooling arrangements would not be possible with respect to the interstate distribution functions that Alascom would provide because Alascom is not and would not be an exchange carrier.⁴¹

As a consequence of not permitting the transfer of assets from Alascom to TUA, the frozen allocator for separating plant in

³⁹ GCI Proposal at 3, 7.

⁴⁰ Id. at 4, 7, 8.

⁴¹ Id. at 4, 8.

Central Office Equipment Category 4.23 would continue to apply to Alascom.⁴² The continued applicability of the frozen allocator eliminates the jurisdictional cost shift Alascom identified as arising out of implementation of the Master Agreement.

Third, AT&T would be designated an interstate carrier of last resort and Alascom would remain the intrastate carrier of last resort.⁴³ These designations are critical to assure universal service and rate integrated interstate rates.

Fourth, under the course of action in which the proposed transaction would be permitted subject to conditions, Alascom's existing net plant would be written down to approximately 2½ percent of the corresponding gross plant category as of January 3, 1993. This write down would be funded by an accelerated depreciation for five years. Alascom would have to apply the proceeds of the proposed transaction above book value of the assets being sold to this depreciation expense.⁴⁴ Thus, in effect, profit from the transaction would pay for the accelerated depreciation.

Fifth, under the course of action in which the proposed transaction would not be consummated, Alascom's interstate MTS rate base would be similarly reduced. The joint services arrangement would continue for five years. During that period, Alascom would charge AT&T depreciation of \$37.5 million a year for

⁴² Id. at 4, 7.

⁴³ Id. at 3, 4, 7.

⁴⁴ Id. at 5-6.

five years. According to GCI, these charges would virtually eliminate Alascom's existing interstate MTS rate base.⁴⁵

Sixth, if the proposed transaction is not consummated, Alascom's new investment in interstate MTS plant would be limited to a fixed amount (GCI suggests \$10 million annually) during the five-year period in which the joint services arrangement continues in effect. Additional investments above that fixed amount could only be made with the approval of AT&T.⁴⁶

Seventh, after approximately five years, Alascom would be rate regulated only to the extent that it continues to be a monopoly service provider.⁴⁷

IV. RECOMMENDATIONS

The State does not recommend adoption, in whole, of any of the three proposals set forth above. Although all of the proposals materially improve the Master Agreement from a public interest perspective, none is without flaws.

A. PTI's Price Cap Proposal Should Not Be Adopted.

Although it appreciates the effort and attempt to reduce the burdens on intrastate ratepayers that the Master Agreement creates, the State cannot endorse PTI's price cap proposal. PTI's

⁴⁵ Id. at 7-8. AT&T would be permitted to purchase part of the Alaska Spur (six cable DS3s) for book value, which GCI estimates to be \$27.5 million.

⁴⁶ Id.

⁴⁷ Id. at 5, 8.

plan puts the regulatory horse before the cart, does not deliver on its hoped-for potential, and does not address many of the public interest concerns raised by the Master Agreement.

PTI's proposal, as noted above, calls for approval of the Master Agreement conditioned only on PTI's filing of a price cap proposal with the APUC, support of the proposal before the APUC, and willingness to accept regulation pursuant to that proposal if enacted. Early in its discussions with PTI, the State requested that approval of the Master Agreement be conditioned on APUC enactment of an acceptable price cap plan. Perhaps because it recognized that proceedings before the APUC on a price cap plan could not be concluded in the time frame established for regulatory action in the Master Agreement, PTI did not agree to that request.

Regardless of whether PTI could agree to that request and not breach the Master Agreement, the PTI proposal for approval of the Master Agreement before APUC action on any price cap plan would, if accepted, infringe upon the regulatory authority of the APUC. State regulators would be confronted with a situation in which the Master Agreement, which creates a massive and unacceptable jurisdictional cost shift -- one which PTI itself estimates to be approximately \$32 million a year,⁴⁸ and which might be much higher⁴⁹ -- has been approved and the transactions contemplated in it have been consummated. The only way to mitigate (though not

⁴⁸ Joint Petition at 18.

⁴⁹ Comments of the State of Alaska at 16-18; Reply Comments of the State of Alaska at 6-7.

eliminate) the effects of that cost shift would be to adopt the price cap plan. This approach therefore denies the APUC a meaningful opportunity to make an independent determination of whether an intrastate price cap plan of the type proposed by PTI would be in the public interest. Rather than being able to discharge its responsibility in a meaningful manner, the APUC would be faced with a Hobson's choice: either it, in effect, stipulates to PTI's proposal or it forces state ratepayers to accept significant upward pressures on intrastate rates. Neither of these options is acceptable.⁵⁰

The price cap proposal also does not appear to deliver on the hoped-for promise of eliminating the upward pressures on intrastate rates that the Master Agreement creates. PTI has agreed to remove the costs shifted to the intrastate jurisdiction from the intrastate revenue requirement it would use to calculate sharing of earnings above the authorized rate of return for only five years. Assuming that sharing is at 50 percent, the impact of PTI's position is that, after five years, intrastate rates would have to compensate TUA for half of the annual shifted revenue requirement (through reduced sharing). There is no public interest justification for forcing state ratepayers to bear this multimillion dollar burden.

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The State does not mean to suggest that an intrastate price cap plan is not necessarily in the public interest. That would be a determination for the APUC to make if the issue were presented to it. The State does suggest, however, that the APUC should not, in effect, be forced to accept an intrastate price cap plan.

In addition, as noted above, the vast majority of the projected decline would arise out of the hoped-for continued reduction in intrastate access costs.⁵¹ It is by no means assured that intrastate access charges will be reduced in the near future, given the condition of the Alaska economy, the small Alaska population, and the likelihood that call volumes will not increase. Moreover, a reduction in access costs could result in the same decline in intrastate toll rates under a rate of return regulatory system as under PTI's price cap plan.

Finally, PTI's price cap proposal is not a panacea that cures all of the public interest ills from which the Master Agreement suffers. From the beginning, the State has approached the price cap proposal as one that had the potential for solving some, but not all, of the significant problems created by the Master Agreement. The proposal does, for example, diminish to some extent the impact of the intrastate cost shift on intrastate service rates and encourage greater efficiency by creating incentives to reduce costs.

Other significant problems with the Master Agreement, however, have been noted.⁵² The transfer of assets from Alascom to TUA and the entry of the expanded TUA into the NECA pool

⁵¹ In this regard, it should be noted that PTI has failed to identify any significant cost savings arising out of the Master Agreement. See Order Adopting Findings and Denying Confidential Status, Docket No. U-92-9, Order No. 14 (APUC, August 11, 1992).

⁵² See the Memorandum of Understanding of the State Members of the Joint Board, dated August 4, 1992, for a compilation of the numerous other concerns expressed in comments about the Master Agreement.

creates in Alaska anomalies from market structures in the rest of the United States. A carrier which is largely an interexchange carrier would be regulated as if it were largely an exchange carrier.⁵³ This simply makes no sense.

The major reason the proponents of the Master Agreement seek such regulation is to make assets used to provide interexchange service subject to separations factors applicable to exchange carriers. This justification similarly makes no sense.

Moreover, NECA participation by the expanded TUA would significantly increase certain NECA access rates.⁵⁴ These increased costs would likely lead the lowest cost NECA carriers to leave the NECA pool, thus further escalating NECA rates and lessening the ability of the NECA pooling mechanism to accomplish its intended purpose -- providing the lowest possible access rates to interexchange carriers who need to purchase access services from exchange carriers operating in high cost areas.⁵⁵

B. Overland's and GCI's Proposals Should Not Be Adopted in Their Entirety, But They Raise Useful Ideas Which Should Be Included in a Final Resolution.

The State does not believe that either Overland's or GCI's proposal should be adopted in its entirety. Those proposals do,

⁵³ See Comments of the National Exchange Carrier Association at 3, 5 (April 20, 1992); Comments of Sprint Communications Company at 3 (April 20, 1992); Reply Comments of the State of Alaska at 5-6.

⁵⁴ Comments of the National Exchange Carrier Association at 6-10.

⁵⁵ See State Members of Joint Board, Memorandum of Understanding at 9, 10 (August 4, 1992).

however, raise several useful ideas which the Joint Board and Commission should seriously consider. Ultimately, the State believes that the final resolution of this docket must encompass a market structure solution that contains many of the features of the Overland and GCI proposals.

1. No Transfer of Assets from Alascom to TUA. The State believes that the proposed transfer of assets from Alascom to TUA and the resultant inclusion of Alascom's current interexchange operations into NECA pooling arrangements are contrary to the public interest and should not be permitted. The asset transfer, as discussed above, creates -- and is intended to create -- significant cost shifts to the intrastate jurisdiction, in complete and direct contradiction of one of the Joint Board's primary public interest objectives: revenue requirement neutrality. As set forth in the State's initial comments on the Master Agreement, the consequences for intrastate ratepayers would be dramatic and harmful. Universal service would suffer and notions of rate integration are stood on their head if the obligations interstate rate integration creates for carriers are satisfied simply by shifting higher than average interstate costs to intrastate ratepayers.⁵⁶

2. Continuation of the Frozen Allocator. Existing separations formulas and procedures applying to Alascom's current

⁵⁶ The State also notes with concern that others have argued that the effective merger of TUA and Alascom would distort competition in Alaska for intrastate and interstate toll and access services. See State Members of Joint Board, Memorandum of Understanding at 7-11; Petition to Deny, Opposition and Comments of General Communications, Inc. at 12-18 (April 20, 1992).

operations should continue. The Master Agreement has been structured to require assets that Alascom currently separates according to the frozen allocator of Section 36.126(d)(3) of the Commission's Rules to be separated henceforth according to Section 36.126(e)(3). PTI has asserted that the frozen allocator is an anachronism, cannot survive, and must be changed.⁵⁷ The fact is that the applicability of the frozen factor to the assets at issue was confirmed by a sister Joint Board and the Commission in 1987.⁵⁸ This Joint Board has even more recently further confirmed the correctness of that determination.⁵⁹ In this regard, the Master Agreement constitutes yet another attempt by AT&T to relitigate and reargue issues that it has lost repeatedly.

Though the proponents of the Master Agreement seek to promote the Agreement as constructing a market structure akin to the market structure in the Lower 48,⁶⁰ in reality they seek to make Alaska different. They seek to require that assets Alascom has long used for interexchange purposes as an interexchange carrier be separated as if they were used by a local exchange carrier, though no other interexchange carrier separates its assets in that manner. The frozen allocator applies to Category 4.23 assets of all interexchange carriers, not just Alascom. They also seek to

⁵⁷ See Letter from V. Dunham to State Members of Joint Board, dated September 21, 1992, at 5.

⁵⁸ MTS and WATS Market Structure and Amendment of Part 67 (New Part 36) of the Commission's Rules, 2 FCC Rcd. 2639 (1987).

⁵⁹ Supplemental Order at ¶ 31.

⁶⁰ Joint Petition at i-ii, 10, 11.

include interexchange operations in NECA, though that is not done to any comparable extent by carriers operating elsewhere.⁶¹

As PTI itself has recently stated, the frozen allocator is "[t]he basic bulwork against jurisdictional cost shifts."⁶² It is of critical importance to the State that it remain unchanged.

3. Carrier of Last Resort. As the Joint Board has tentatively concluded,⁶³ carrier of last resort responsibilities must be designated for toll and private line services. Alascom is the only interexchange carrier serving all of Alaska and the only carrier with the obligation to serve. The State has no opposition to AT&T's assumption of that responsibility for interstate services, but any such assumption must not lessen the scope of the obligation. Alascom is now obligated to provide interexchange service to all communities of 25 or more which request such service. AT&T must assume the same responsibility with respect to interstate toll services.⁶⁴ Alascom would continue to be designated as a carrier of last resort for intrastate MTS and private line services.⁶⁵

⁶¹ See n. 53, above.

⁶² Letter of V. Dunham to State Members of Joint Board, dated September 21, 1992, at 5.

⁶³ Supplemental Order at ¶ 29.

⁶⁴ The State does not mean to suggest that AT&T would have to construct duplicative facilities. The State recognizes that AT&T may implement this responsibility through connecting arrangements with Alascom or others.

⁶⁵ Although the State believes a carrier of last resort must be designated for interstate private line services, it does not at this time express a view as to whether AT&T or Alascom should be designated to perform that role.

4. Rate Integration. As the dominant interstate carrier, AT&T must offer to Alaskans the same interstate services it offers to other Americans at rate integrated rates.⁶⁶ The public interest requirement of rate integration has been fundamental to this proceeding and it remains critically important to the accomplishment of the statutory objective of "mak[ing] available, so far as possible, to all of the people of the United States a rapid, efficient, Nation-wide, and world-wide . . . communication service with adequate facilities at reasonable charges"

47 U.S.C. § 151.

5. Conditional Approval of Certain Aspects of the Master Agreement. Both Overland and GCI suggest that portions of the Master Agreement could be approved subject to certain conditions. If the parties to the Master Agreement choose to accept those conditions, the unchallenged portions of the Master Agreement would be consummated. If those conditions were not accepted, no part of the proposed transactions would be permitted to occur. Among those conditions, from the State's perspective, are the matters set forth above (concerning the TUA-Alascom transaction, the frozen allocator, carrier of last resort obligations, and rate integration). Additional conditions (concerning, for example, application of the purchase price and its impact on Alascom's rate base) are set forth below.

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The State will not repeat here the statutory and decisional authority that requires rate integration and refers the reader to prior State pleadings on this issue. See, e.g., Comments of the State of Alaska at 12, Reply Comments of the State of Alaska at 3-4.

The State does not object to this approach. Specifically, the State has no objection to a transaction in which, consistent with the market structure the State suggests in these Comments, AT&T and PTI terminate the joint services arrangement, transfer to AT&T of Alascom's interstate and international MTS business, and engage in a reasonable covenant not to compete.

6. Transition. The market solution the State envisions cannot be implemented on a flash cut basis, even if AT&T and PTI choose to go forward as set forth in the previous paragraph. The State believes, therefore, that there must be a transition period. The transactions AT&T and PTI have negotiated envision a five-year payment period. This time frame appears to provide a reasonable period during which a transition could occur. As GCI suggests, precisely what would occur during the transition period depends on whether AT&T and PTI choose to close on a conditioned transaction.

7. Termination of the Joint Services Arrangement. If AT&T and PTI choose to consummate a transaction consistent with the conditions set forth in these Comments, the joint services arrangement could be terminated immediately, although AT&T would continue to be obligated to place all of its interstate traffic on Alascom's network for five years. If the proposed transaction is not consummated, the joint services arrangement could be terminated five years after a decision in this docket.

8. Interstate Price Caps. The State suggests that Alascom's interstate operations after the five-year transition be subject to a price cap regime in which earnings above the authorized rate of return are subject to sharing with ratepayers

and earnings below a threshold rate of return are subject to a low-end adjustment. Thus, Alascom would not be assured of earning the authorized rate of return on new investment which would not be depreciated entirely during the transition period. Investments, then, would be made only if they appear cost-effective. Under the sharing mechanism, if Alascom provides interstate distribution services, the customers with which it would be sharing earnings would be interexchange carriers, including AT&T.

This sharing mechanism, moreover, gives AT&T added incentive not to abandon the Alascom network. The interstate price cap plan, therefore, reinforces the purposes of the write-down of the interstate rate base (see item 9, below) by minimizing the likelihood of jurisdictional cost shifts arising out of reduced interstate use of the Alascom network.⁶⁷

Interstate price caps can be at least as effective in promoting efficiency as the intrastate price caps proposed by PTI. Moreover, if the frozen allocator remains in place, interstate price caps would appear to be more effective because of the greater interstate cost allocations that are maintained.

The State recognizes that beginning a price cap program at the end of a five-year transition period gives a carrier an incentive to accelerate investment and to increase expenses prior to the commencement of the price cap regime. Therefore, the State suggests that during the five-year transition period, any

⁶⁷ Another reason why sharing is important is that there is no track record for Alascom's interstate rates outside the operation of the joint services arrangement.

significant new investments or unusual expenses be subject to prior regulatory approval.⁶⁸

9. Write-Down of Alascom's Interstate Rate Base. The State believes steps must be taken to prevent unintended jurisdictional cost shifts that could result from termination of the joint services arrangement. Several categories of assets used by Alascom for both interstate and intrastate communications -- for example, tandem switches -- are separated according to relative amounts of interstate and intrastate use.⁶⁹ If, as a result of termination of the joint services arrangement, the relative interstate use of these assets declines, the costs assigned to the intrastate jurisdiction will increase. In a worst case scenario, the entire cost of these assets could be shifted to the intrastate jurisdiction.

One approach to this problem, advocated by GCI, is to reduce Alascom's interstate revenue requirement by reducing its interstate rate base.⁷⁰ If the interstate revenue requirement

⁶⁸ The State does not, in these Comments, specify the specific levels of new investment or unusual expenses that would require advance regulatory approval, but suggests that those levels be high enough so as not to interfere unduly with Alascom's operations and not to place an undue burden on regulators.

⁶⁹ 47 C.F.R. § 36.124(b).

⁷⁰ Overland's recommendation is somewhat different. It suggests writing down Alascom's interexchange rate base on both the interstate and intrastate sides. Overland Study at 4, 9. Questions have been raised as to whether this approach may conflict with decisional law in Alaska to the extent that the write-down of the intrastate rate base is justified on the basis of the sale or transfer to AT&T of assets that are interstate in character (e.g., Alascom's interest in the joint services arrangement and its interstate MTS customer
(Footnote continued on next page)

were reduced to a level that makes using Alascom the most cost-effective method for distributing its traffic in Alaska, AT&T would then have no economic incentive to remove its traffic from Alascom's network. Of course, a mechanism would need to be constructed to compensate Alascom for any such reduction in its rate base.

In this regard, GCI advocates reducing Alascom's existing net plant to approximately 2½ percent of the corresponding gross plant category as of January 1, 1993. This write-down would be accomplished through accelerated depreciation over a five-year period.⁷¹ GCI also suggests that Alascom's investment in new interstate MTS facilities be limited to \$10 million a year.⁷²

The State does not believe such an aggressive reduction of Alascom's rate base is necessary. It appears to the State that AT&T would not have an economic incentive to abandon the Alascom network or to reduce the traffic it routes over that network as long as Alascom's rates for service are competitive with those of alternative service providers (GCI). Alascom's rates can be competitive if (1) the interstate MTS rate base is reduced to a competitive level and (2) Alascom is given incentives to keep its interstate rate base and expenses as low as reasonably possible.

(Footnote continued from previous page)
list). See United States v. RCA Alaska Communications, Inc.,
597 P.2d 489 (Alaska 1979).

71 Again, Overland's proposal is somewhat different. It suggests an immediate write-down. Overland Study at 4, 10.

72 GCI Proposal at 7-8.

Therefore, the State suggests that Alascom's interstate rate base should be written-down, though not to the extent GCI proposes. Rather, the Joint Board and Commission should determine a competitive benchmark level for Alascom's interstate rate base. It should look at other interexchange carriers in determining what that benchmark level is. Although other interexchange carriers face different conditions and service obligations than Alascom, rate base levels of other interexchange carriers -- adjusted for those differences -- could be a guide to establishing the appropriate competitive benchmark level. The write-down could be accomplished, and compensated for, through five-year accelerated depreciation to the extent necessary. For the reasons set forth in the following section of these Comments, the State believes that, if the parties to the Master Agreement choose to consummate their transaction subject to conditions, this accelerated depreciation could be funded through an application of some of the payments PTI receives from AT&T over five years pursuant to the Master Agreement. Otherwise, it could be funded by increasing Alascom's depreciation expense used for ratemaking purposes during the transition period.

Future investment should not be limited arbitrarily in the manner GCI proposes. The concern that Alascom's interstate rate base would be increased to today's levels (and thus defeat the purpose of the accelerated depreciation) can be accommodated in other ways, for example, by initiation of the interstate price cap regime suggested above.

10. A Minimum Percentage of AT&T's Traffic Must Be Placed on Alascom's Network. Another mechanism for assuring that no unintended jurisdictional cost shifts are created as a result of reduced interstate use of Alascom's network is to require AT&T to continue using the Alascom network to carry a minimum percentage of its interstate traffic even after the five-year transition period. To require AT&T to continue to place all of its interstate traffic on Alascom's network would, in practical effect, recreate the joint services arrangement, which all of the affected interexchange carriers want terminated. However, the State believes that material jurisdictional cost shifts might largely be avoided if the frozen allocator remains applicable to Alascom's Category 4.23 assets and AT&T is required to place at least a minimum percentage of its traffic originating and terminating at each of its Alaska POPs on the Alascom network.⁷³

C. Alascom Has Not Demonstrated That a Write-Down of Its Interstate Rate Base As Set Forth in These Comments Would Be Confiscatory.

The State recognizes that questions have been raised concerning whether the write-down proposal of GCI (and perhaps, of Overland, as well) is confiscatory in violation of the Fifth and

⁷³ For example, the minimum percentage might be 10 percent in light of the fact that the FCC has used a 10 percent test, under the contamination doctrine, in determining whether a facility primarily used for intrastate communications is subject to interstate regulation. MTS and WATS Market Structure, Amendment of Part 36 of the Commission's Rules and Establishment of Joint Board, 4 FCC Rcd. 5660 (1989). Used here, the 10 percent figure is meant to establish that Alascom's assets currently used to provide both interstate and intrastate services continue to be used in that manner.

Fourteenth Amendments to the United States Constitution.⁷⁴ The State, too, has raised those questions in discussions with GCI.

As the Commission has often stated, "regulatory bodies have long recognized that acquisition by one utility of the property of another presents the possibility for abuse, or at least confuses the question of the proper value to be placed on such property for ratemaking purposes."⁷⁵ For that reason, a case-by-case analysis must be made.⁷⁶

In its Opposition to GCI's proposal, Alascom sought to demonstrate that GCI's proposal created an unconstitutional "taking." One fundamental assumption on which its argument is based is that the tangible and intangible assets that Alascom is selling to AT&T have a value of approximately \$256 million because that is what AT&T is willing to pay for them (in present value terms).⁷⁷ The State believes that this fundamental assumption is wrong.

In the Master Agreement, AT&T is willing to pay \$330 million over five years (\$256 million in present value terms) for a bundle of assets and actions. The tangible and intangible assets Alascom identifies (Alaska Spur facilities, termination of the joint services arrangement, interstate MTS/WATS business) are certainly

⁷⁴ See, e.g., Opposition of Alascom, Inc. to Proposal of General Communication, Inc. at 2-7, 14, 18-22, and Attachment 1.

⁷⁵ Amendment of Part 65 of the Commission's Rules, 3 FCC Rcd. 269, 273 (1987).

⁷⁶ Id.

⁷⁷ Opposition of Alascom, Inc. to Proposal of General Communication, Inc. at 2-4 and n. 2.

part of that bundle; but, contrary to Alascom's argument, they do not constitute the entire bundle.

The State understands that AT&T negotiated long and hard for additional features of the Master Agreement, including specifically the transfer of assets from Alascom to TUA. That proposed transfer, if consummated, would provide AT&T significant benefits. It would require Alascom/TUA to separate those assets pursuant to Section 36.126(e)(3) and not the frozen allocator of Section 36.126(d)(3), thus significantly reducing AT&T's costs of using the Alascom network. It would also place the interstate costs relating to Alascom's interexchange plant in NECA cost pools which are paid, in part, by interexchange carriers other than AT&T.

AT&T has long estimated, in this docket and elsewhere, that removal of the frozen allocator would reduce AT&T's costs going forward by approximately \$40 million a year.⁷⁸ Avoidance of the frozen allocator is what creates the \$32 million jurisdictional cost shift Alascom admits would arise under the Master Agreement. In the Joint Petition seeking approval of the Master Agreement, Alascom, TUA and AT&T also state that the proposed participation of the new TUA in NECA cost pools would cost other interexchange carriers -- and thus save AT&T -- \$8 million annually.⁷⁹

Ernst & Young has done an analysis to determine the value to AT&T of these two elements of the bundle of goods AT&T receives under the Master Agreement. Conservatively figured, when interest

⁷⁸ See Comments of the State of Alaska at 14.

⁷⁹ Joint Petition at 14.

rates and taxes are taken into account, an improvement in cash flow of \$40 million (\$32 million plus \$8 million) a year, even for only ten years, has a present value to AT&T of approximately \$147 million.⁸⁰

On the other side of the ledger, it does not appear to be of any material financial significance to PTI whether Alascom's interexchange assets are transferred to TUA. Under the Master Agreement, PTI would still, through TUA, use those same assets to provide regulated services and would earn a comparable rate of return from them regardless of which subsidiary owns and uses them.

Thus, the transfer of assets from Alascom to TUA is an action that has very significant benefits for AT&T and no significant costs for PTI. For Alascom to state, therefore, that the value of the assets it is selling to AT&T is equal to the consideration being paid by AT&T ignores the very significant benefits AT&T receives from other aspects of the Master Agreement. In the State's analysis, it appears that AT&T might have been willing to pay only \$109 million (\$256 million minus \$147 million) for the assets Alascom claims are valued at \$256 million.⁸¹ Alascom's

⁸⁰ This calculation is based on an assumed combined federal and state income tax rate of 40 percent, and a discount rate of 10 percent over a ten year period. If the cash flow improvement were to go on in perpetuity, the value of this improved cash flow would be \$240 million. Using a smaller discount or interest rate would also raise the value of the cash flow improvement.

⁸¹ Even this calculation assumes an improved cash flow for only ten years. If the improved cash flow were to continue in perpetuity (and there is no reason to assume otherwise), AT&T might have been willing to pay even less.

argument that no portion of the proceeds from the proposed transaction can be used to reduce its interstate rate base because the value of the assets it is transferring to AT&T is equal to the purchase price it is receiving, therefore, is unsupportable.

Alascom's argument that GCI's proposal is confiscatory also is based on the assumption that the intangible assets that Alascom is selling to AT&T are, in effect, not regulatory in nature.⁸² This assumption does not appear to be entirely correct. Alascom's interstate customer list, for example, exists in substantial part because of the fact that Alascom has a Section 214 certificate from the FCC which permits it to engage in interstate communications services. The marketing expenses involved in generating that list (e.g., expenses relating to carrier selection balloting) were apparently paid for by ratepayers. Moreover, the joint services arrangement exists, at least in substantial part, because of federal regulatory direction and could theoretically be terminated by the same authority. Therefore, the intangible assets Alascom proposes to sell to AT&T appear, at least in part, to be regulatory in nature.

The Commission has recognized that allocation of profits on the sale of nondepreciable property used in connection with the provision of regulated services should be governed by the "financial burden test," rather than the "risk of loss" test.⁸³

⁸² See Letter of V. Dunham to State Members of Joint Board, dated August 7, 1992, at 8.

⁸³ Amendment of Part 65 of the Commission's Rules, 3 FCC Rcd. at 281; American Telephone and Telegraph Co., 64 FCC 2d 1, 68, recons. in part, 67 FCC 2d 1429 (1978).

This test examines whether the utility's ratepayers or its shareholders have borne the financial burden related to the property at issue. It does not appear that Alascom's shareholder has borne significant financial burdens in creating the interstate customer list or in participating in the joint services arrangement.

Thus, if, notwithstanding the conditions suggested above, the parties choose to consummate portions of the transactions between Alascom and AT&T, there appears to be no legal or policy justification for permitting Alascom's shareholder to reap all of the economic benefits. In that event, it appears reasonable to reduce Alascom's interstate rate base to a competitive benchmark level as suggested above through five-year accelerated depreciation. During this time, AT&T would be required to continue to place all of its traffic over Alascom's network and the payments AT&T would make under the Master Agreement would be reduced in an amount equal to the difference between the accelerated depreciation amounts and the amounts of depreciation which would be taken in the absence of accelerated depreciation.⁸⁴

This approach would not be confiscatory.⁸⁵ A significant

⁸⁴ In recognition of the income tax liability faced by PTI under the Master Agreement, the State suggests that the reduction in payments AT&T would make under the Master Agreement be limited so that the monies PTI receives from AT&T under the Master Agreement are sufficient to cover all income tax liabilities arising out of the Master Agreement.

⁸⁵ Alascom offers the Declaration of Philip J. Freedenberg and a report by Lubow, McKay, Stevens & Lewis for the proposition that the Alascom interstate network contains no inefficiencies and thus should not be subject to a write-down. See Letter of V. Dunham to State Members of Joint
(Footnote continued on next page)

portion of the consideration AT&T would pay to Alascom relates to items other than the assets Alascom is selling. Alascom does not have title to and cannot sell AT&T relief from the frozen allocator or participation in NECA pooling. A portion of the transaction price relating to those items could be used to reduce Alascom's interstate rate base without confiscation. Moreover, to the extent assets Alascom is actually selling to AT&T are regulatory in nature (and, as shown above, they are to some extent), a portion of the transaction price relating to those items could be used to reduce Alascom's interstate rate base as well.

The State does not advocate reducing Alascom's interstate rate base to the same extent as GCI proposed. A reduction to a

(Footnote continued from previous page)

Board, dated October 9, 1992, at 3 and Tabs A and B. The material submitted, however, does not support the proposition that the Alascom's interstate revenue requirement does not include costs which would not be present in a more competitive environment.

The Freedenberg declaration, for example, merely addresses the issue of whether new technologies -- for example, personal communications networks or low earth orbit satellites -- would be more cost effective than a C-band communications satellite based network and it concludes that they would not. It does not address the issue of whether Alascom's satellite network was efficiently constructed and is efficiently administered.

The Lubow, McKay report is almost six years old and is based on data that are eight years old. It only addresses the issue of whether Alascom's network at that time contained excess transmission capacity. It, too, does not address operational cost efficiency.

Thus, there is no factual material in the record to support Alascom's proposition that a reduction of its interstate rate base to a competitive benchmark level -- when that reduction is funded through accelerated depreciation -- is confiscatory.

competitive benchmark is proposed here. Those portions of the purchase price that are available for use for a write-down -- which would be no less than the \$147 million Ernst & Young estimates avoidance of the frozen allocator and NECA participation are worth to AT&T -- appear more than adequate for this purpose.

If the parties to the Master Agreement choose not to consummate the transaction as modified with the conditions suggested in these Comments, then the Joint Board and Commission could establish an appropriate accelerated depreciation schedule for Alascom. AT&T would then be responsible for paying those accelerated depreciation charges during the transition period during which the joint services arrangement continued in effect.⁸⁶ At the end of the transition, Alascom's interstate rate base would be at a competitive level and interstate price cap regulation would give Alascom every incentive to maximize efficiency. Alascom and AT&T could then negotiate concerning a possible sale of Alascom's interstate and international MTS/WATS business. Interstate price cap regulation would also give AT&T incentives to continue to place its interstate traffic over Alascom's network.

V. CONCLUSION

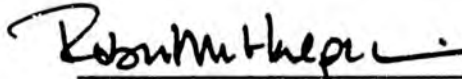
The State suggests that the Joint Board and Commission adopt a market structure consistent with these Comments. Such a market

⁸⁶ To the extent that this regulatory depreciation occurred in advance of tax depreciation, Alascom would obtain a slight economic benefit.

structure would be far more consistent with the policy objectives of the Joint Board than the Master Agreement.

Respectfully submitted,

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Dear John:

I am writing to respond on behalf of Pacific Telecom, Inc., to the matters raised in our telephonic discussion of October 2nd, last. You expressed a desire to conclude the review of these matters and to formulate recommendations for State consideration in the near future. PTI appreciates your efforts to further the regulatory review of its proposed transaction with AT&T. To facilitate that process, we are responding here with written positions on all open matters, that uncertainties and ambiguities may be minimized in your further deliberations.

This correspondence is divided into two sections. Section I addresses the matters raised in our October 2nd discussion. Section II addresses (in the interests of completeness) matters raised by the State's correspondence to PTI of August 25, 1992. For future ease of reference, points may be designated by section and subsection numbers (e.g., II-2).

In reciting below the State's expressed negotiating points, PTI has attempted to accurately and neutrally recite the issue presented, as it understands the same. If any such statement of issue is inaccurate or incomplete, please so indicate and we will amplify or restate our response, as appropriate to addressing the corrected recitation of the issue.

SECTION I

(1) The State has expressed concerns about that element of the current PTI price cap proposal which places both wholesale and retail intrastate interexchange services in the same basket, and has inquired whether PTI would consider the use of "banding" or other subcategories to differentiate between those two classes of service offerings.

PTI has no objection in principle to the use of subcategories with respect to wholesale and retail intrastate interexchange rates as suggested in the State's inquiry. The original structure proposed recognized the need to differentiate between local exchange and intrastate interexchange services because of the different market structures and regulatory prescriptions attending the one and the other. To the extent the Alaska Public Utilities Commission were to develop and establish, upon a proper record, the justification for additional subcategories, including the use of specific service bands, PTI would accept such. With respect to its current price cap proposal, PTI believes that it would be inappropriate to attempt to define such subcategories now as between PTI and the State. Referring to the State's issue No. 5 in its August 25th correspondence, PTI believes any such attempt now would improperly interfere with the APUC's exercise of its jurisdictional powers. This correspondence, however, acknowledges the potential and will be filed for informational purposes with the APUC.

(2) The State has requested that PTI consider excluding the jurisdictionally shifted revenue requirement (the "\$32 million shift") from any revenue sharing computation under PTI's price cap proposal, permanently rather than for the five years currently proposed by PTI.

PTI's initial proposal to protect its customers from any adverse rate effects of the \$32 million shift entailed a pledge to exclude any such shifted amounts from intrastate revenue requirements calculations for five years following implementation of the Master Agreement. To the extent the APUC adopts a price cap/incentive regulation structure, PTI initially believed that the price cap, itself, would supplant the AMA-related guarantee.

As a result of subsequent negotiations with the State, however, PTI will agree to overlap the programs by reflecting the substance of the AMA-related pledge (the exclusion of jurisdictionally shifted revenue requirements) in the earnings sharing computation. Thus, for five years following implementation of the Master Agreement, and whether under the current pledge related to the AMA, under price caps, or under a combination of the two, PTI's customers will be insulated from any rate effects of this shift. In this way, also, PTI affirmatively addresses the State's concern that the AMA

"should not be negated by price caps", as expressed in item No. 4 of its August 25th letter.

In no event would these jurisdictionally shifted revenue requirements ever be reflected as increases in the price cap index (PCI) or the actual price index (API). Under PTI's proposed regulations, these revenue requirements would be expressly excluded from consideration as exogenous changes. This exclusion remains unimpaired by the recognition of such revenue requirements for sharing purposes, as discussed above.

To extend PTI's commitment beyond a five-year period and into perpetuity serves neither PTI's interest nor that of its customers. There can be no question that the assets underlying the revenue requirement continue to be used and useful in the public service. To seek a reasonable return in this investment after five years, thus, is completely in accord with long-standing legal and economic tenets pertaining to utility regulation. (A discussion of these and related legal issues occurs in a separate filing by PTI in FCC Docket CC No. 83-1376, a copy of which will be provided to you shortly for your review). Since the public is deriving a benefit on the interstate side of the transaction (interstate telecommunications costs decline by the same \$32 million revenue requirement), it is clearly inequitable to make PTI's shareholders suffer a penalty on the intrastate side.

Of more import for PTI's customers, the exclusion of all future return on this investment would severely and adversely effect PTI's future ability to maintain and to expand service to the State of Alaska. Capital investments which will not service debt or provide earnings on equity will deter both lenders and shareholders from making expenditures necessary to maintain plant or to expand capacity in the future. This result is inconsistent with the State's desire for assurances concerning carrier-of-last-resort obligations (see Section II-1, below). The impairment of PTI's financial capabilities works against, not in favor of, the continued fulfillment of those duties.

PTI has estimated -- and no party has challenged -- the cost of the protection which it is offering at over \$130 million. This represents a significant sharing of the benefits of the AT&T transaction with PTI's customers. For these reasons, PTI believes the exclusion of any earnings potential on the jurisdictionally shifted revenue requirement for five years is fully protective of its customers' interests, is a fair sharing of transactional benefits with consumers, and represents a benefit not otherwise obtainable by agency order in the resolution of the issues presented in FCC Docket CC No. 83-1376.

(3) Under PTI's current price cap proposal, sharing of earnings with customers does not commence until after earnings achieve a level of 100 basis points above authorized rate of return. The State has requested that PTI commence sharing as soon as earnings rise above authorized return levels (i.e., that the first 100 basis points of such earnings be shared, as well).

The proposal to share earnings after 100 basis points is a direct replication of the FCC-approved price cap program. The primary consumer and regulatory benefit of this element of price caps is the clear incentive it provides a utility to achieve efficiencies which will yield this benefit to the utility's investors. Given the heavy emphasis placed by the State on concerns for future efficiency (e.g., see item No. 2, letter of August 25th, concerning limitations on NECA participation), retention of this incentive is appropriate from both State and Company perspectives.

Moreover, PTI notes that unlike the federal plan, its price cap proposal contains no downside protection against inadequate rates of return in the future. Under the FCC-approved price cap program, a carrier's earnings are protected against inadequate returns by an "automatic stabilizer" which serves to increase the price cap index when prior period earnings drop below a level of 100 basis below authorized returns. At the State's insistence, PTI has eliminated this provision in its proposal. The absence of such protection, and the concomitant elimination of any potential rate increases resulting therefrom, represent a major benefit to PTI's customers. The maintenance of the existing 100 basis point incentive, therefore, does not leave PTI's customers disadvantaged, but does provide at least a partial offset to the increased risk assumed by the Company's investors, who represent a needed source of future capital.

(4) The State has expressed concerns that having a carrier under both rate of return and price cap regulation will provide incentive to the carrier to shift revenue requirements away from the price cap environment and onto the rate of return structure.

PTI notes that most if not all carriers currently subject to price cap regulation, in either the federal or a state jurisdiction, would be subject to the same observation. Nonetheless, the FCC and the states adopting price caps have found such incentive regulation to be in the public interest, demonstrating that this concern is unfounded. Indeed, the FCC is now considering expanding the scope of price cap regulation to smaller LECs.

There are several reasons for this trend. First, a substantial body of law and regulation exists at the FCC and the states (including the APUC) which prescribes uniform systems of accounts, separations

procedures, and revenue requirement recovery mechanisms for state and federal jurisdictional purposes. Taken together, these regulations set out the means for properly allocating investment and operating costs between jurisdictions and lines of business. These requirements are enforceable and enforced, and no evidence exists of record to suggest the contrary. To assume, therefore, that misallocations will occur is to assume something not demonstrated, and possible only if the regulatory agencies involve fail to exercise clear, existing powers.

As a second matter, there is no practicable ability to misallocate revenue requirements to the AECA rate of return structures in PTI's context. Alascom's intrastate interexchange services are fully competitive, in law and fact; there is no state jurisdictional rate base regime to shift requirements to. TUA's local exchange operations are currently rate base regulated, but would become subject to price caps as well under PTI's proposal. Thus, only the AECA portion of TUA's revenue requirements would remain subject to some form of rate of return regulation. But this element of TUA's requirement is too small to "hide" any material amount of TUA's revenue requirement subject to incentive regulation.

For example, the AECA portion of TUA's revenue requirement is approximately \$2.8 million at present. But TUA's revenues proposed to be subject to price cap regulation amount to more than \$102.0 million. The AECA revenue requirement is less than 3% of the revenue requirement subject to price caps. Assuming TUA were trying to improperly allocate a portion of its price cap requirements (for example, 10%) to the AECA pools, the AECA revenue requirement would dramatically expand by 500%.

It cannot be seriously suggested that such an increase would go unnoticed by the AECA, the APUC, or competitive carriers, particularly since AECA filings are annually made and annually reviewable and reviewed by all parties. There is, thus, no practical manner in which the State's concerns could materialize, even assuming PTI has any inclination so to do (which it does not).

PTI notes that these same factors apply in the case of the TUA's proposed participation in the National Exchange Carrier Association, as well. An extensive description of the proposed cost allocation and separations mechanisms which TUA proposed to employ to avoid misallocations to both the AECA and NECA pools was provided in APUC filings (attached hereto at **Tab A**).

No evidence has been brought forth demonstrating any material misallocations in prior Alascom or TUA rate proceedings, reinforcing the conclusion that existing procedures are effective and effectively enforced.

Additionally, the incentives inherent in the proposed price cap program diminish the likelihood of any carrier misallocation.

Because the substantial bulk of investment and operating expense is joint use in nature, the positive effects of intrastate price caps will be evidenced in all jurisdictions, reducing the revenue requirement in each over time. A carrier cannot become efficient as to just one jurisdiction, and the reduction in revenue requirements over time reduces any motive to alter allocations between jurisdictions or between service offerings.

Consideration has been requested of a settlement cap. A settlement cap operates as an artificial barrier to recovery of costs otherwise a necessary and legitimate part of a carrier's cost of service. In that vein, such an artificial limitation appears inconsistent with or counterproductive as to TUA's carrier-of-last-resort obligations, to the expressed concerns for maintaining quality of service, and to concerns for the complexity of price cap regulation. Given the absence of any practical ability to misallocate and the absence of any evidence of historical irregularities, such a measure appears unnecessary, a hinderance to fulfilling other requirements, and does not justify the burdens associated with its implementation and maintenance.

(5) The State has expressed concerns that future network improvements, such as Signalling System 7, may entail costs which would effectively prevent the anticipated declines in AECA rates incorporated into PTI's proposed flow-through rate reductions.

Declines in AECA costs are the primary component of the State's forecasted rate decreases in the next five years. To the extent such cost decreases do not materialize, the State's presumed decreases would not materialize, either. PTI's proposal is therefore no more or less certain than the State's assumed future rate reductions against which it is being measured.

Historically, AECA costs per minute of access have decreased, principally because of the relatively greater increases in volumes over associated costs of service. Although departures from this trend in the future are possible, they appear unlikely. Future investments, such as those associated with SS-7 implementation, will undoubtedly be made, but are a necessary concomitant of the expansion and improvement of service to Alaska which the State supports. In each instance, any increase in cost must properly be examined in the context of offsetting benefits, such as reductions in other operating expenses, displacement of other costs, and growth in traffic volumes and revenue streams. Investment costs for Alaska have increased dramatically in the last two decades, but unit costs for services, state and interstate, have declined significantly.

Further, major investments have already been made to bring the network to maturity. Most bush villages desiring same now have local exchange service. State of the art satellite and fiber optic facilities were put into service by PTI within the last fourteen months, with anticipated useful lives extending well into the next century. As discussed in PTI's study of the prospective application of future technologies in the Bush, it is unlikely that fiber optics, personal communications systems (PCS), and low-orbit satellite systems will offer cost-effective alternatives to the present network, reinforcing the belief that significant infrastructure costs are unlikely for the foreseeable future. (Please see Tab B.)

Comparatively, the costs of such incremental network improvements as SS-7 do not represent a material source of concern. The most significant influence on rates will not be the cost of service, but the volume of traffic over which such costs are spread. In that regard, the general state of the economy in Alaska would be the primary determinant, over which PTI has no control. Accordingly, a proposal to flow-through expense reductions as they occur affords maximum benefit to PTI's customers without placing upon PTI risks it cannot control. Neither PTI nor the State are in a position to do more.

(6) The State has expressed concerns that incentive regulation, such as price caps, may promote actions by a company which improve earnings but lead to a decline in quality of service to customers. The State has suggested the need for quality of service standards to prevent this, with provisions therein tending to be self-enforcing or self-policing.

Both as a matter of corporate policy and competitive necessity, PTI has consistently placed the highest premium on quality of service. The company's record in Alaska and throughout its other jurisdictions, both in terms of operations and investment policy, reflects a consistent respect for the needs of its customers. Indeed, quality of service has been a major theme of Alascom and accounts in large measure for the competitive success of Alascom over the past year and one-half in the intrastate marketplace.

Quality of service requirements already exist for Alaska and appear in the APUC's regulations at 3 AAC 52.200 et seq (attached at Tab C). Additional standards are provided for in NECA tariffs, in AT&T policies and procedures, in industry standards such as CCITT, and so on. To the extent any single piece of equipment is devoted to joint use, that equipment must meet all applicable standards and, to the extent standards overlap, the highest applicable standard.

PTI believes there always can be room for improvement, particularly in light of the maturing of the Alaska network discussed above.

Other states have implemented reviews of existing standards, such as that recently concluded by the Idaho Public Utilities Commission in Case No. 31.D-R-90-1 (attached at Tab D). Given the complexity of the subject matter, the unknown nature of existing or potential APUC concerns, the need for other parties' input, and the State's expressed concern for unintended interference with APUC prerogatives (issue No. 5, letter of August 25th) PTI does not believe it appropriate or practicable to define such standards now as between it and the State. PTI would be willing, however, to agree with the State to initiate a proceeding with the APUC for reviewing quality of service standards for all Alaskan carriers, concurrently with its initiation of a price cap proceeding.

(7) The State expressed a need to further coordinate the "unfinished business" of reconciling certain data previously supplied by PTI to the Federal-State Joint Board with that utilized in its price cap analysis.

Representatives of PTI and the State have conducted several telephonic conferences on this matter. Continuing dialogue is intended by both sides, but to PTI's knowledge all outstanding issues have been sufficiently addressed to date to permit the State to conclude its review of these matters.

(8) The State has expressed concern that difficulties may arise in measuring price cap performance against a backdrop of an evolutionary market structure, such as that of Alaska, given other changes in corporate configurations, operations, and asset distribution such as that proposed in TUA's prior Application to the APUC.

Price Cap regulation is conceptually premised upon the price charged to the customer, which increases or decreases based upon a relatively few, defined factors. As such, it is the antithesis of rate base regulation, which frequently involves scores (if not hundreds) of subsidiary issues requiring particularized determination.

The measurement of performance is accomplished by comparing the PCI against the API. The composition of each index is clearly identified in the proposed regulations, sufficiently so that a number of software programs for the entry of data, analysis of effects, and reporting of results exist and would be utilized by PTI. As part of the shared concern for efficiency and cost-reduction measures, the implementation of price caps would tend to lighten the administrative burden on both PTI and the APUC, by standardizing and annualizing the reporting of results. Year-to-year comparisons are inherent in this reporting structure, thus further promoting performance measurement. In conjunction with possible improvement to measurements of quality of service

(discussed above), the ability of the APUC to measure price and non-price attributes of carrier performance is enhanced, not degraded, by the proposal. PTI believes that price caps offer a regulatory scheme of lesser complexity than that of current regulatory approaches.

(9) In the course of discussions on matters affecting this docket, the State requested PTI's views on proposals to utilize accelerated depreciation to write-down currently allocated interstate investment.

PTI will vigorously oppose any attempt to confiscate or to condemn its property through forced write-downs of its investment, whether all at once or over time through the subterfuge of "accelerated" depreciation (merely another form of write-down). PTI has extensively addressed such matters in its analysis of and response to a contemporaneous proposal of GCI to effect such confiscation (alluded to above). Our specific responses to that proposal will be forwarded to you in the near future.

For purposes of this correspondence, PTI opposes such proposals for the following reasons:

(a) Lack of legal foundation. Such proposals either -

- (i) deprive PTI of its property without just compensation,
- (ii) entail forced sales of PTI property without just compensation,
- (iii) deprive PTI of a reasonable opportunity to earn a reasonable return on its investment,
- (iv) inequitably and unlawfully divert shareholder benefits to ratepayers, or
- (v) force future provisioning of service with no prospect of earning a reasonable return on facilities admittedly used and useful in public service;

(b) Lack of public policy justification. Implementation of alternative proposals to write-down PTI's investment, however couched, would -

- (i) destroy the economic value of plant which nonetheless remains factually utilized in the public service; there is no public policy precedent or justification for this in the FCC's past rulings (e.g., the inside wiring and CPE decisions affirmatively recognized the continuing economic value of the facilities to the affected company);
- (ii) impair PTI's financial position, by occasioning defaults and cross-defaults in its underlying, primary debt instruments;
- (iii) impair the ability of PTI to invest in maintenance

of the existing network and in future expansion of the network, by driving off future lenders and equity investors, insofar as Alaskan service is concerned;

(iv) impair PTI's ability to carry out its public interest obligations as carrier-of-last-resort for services in and to Alaska;

(v) reduce PTI's financial capabilities and the state of PTI's financial affairs to the same level of uncertainty as that of its primary intrastate competitor (a "lowering", rather than "leveling", of the competitive playing field);

(vi) provide no ratepayer protection against future intrastate rate increases (whereas PTI is prepared to devote more than \$130 million of the transaction proceeds to offset adverse intrastate rate effects);

(vii) provide only transitory and not permanent interstate cost benefits, since interstate ratebase is only temporarily diminished (unlike PTI's proposal, where interstate revenue requirements are permanently diminished); and

(viii) vitiate the potential for future intrastate rate decreases potentially amounting to \$87 million through the turn of the century, with no offsetting commitments by any other party to the proceeding.

- c) Impediments to implementation. Such proposals will prove impossible to put into effect because of practical and administrative impediments. Among others, these would include -

(i) the absence of accepted, recognized accounting methodologies to account for the effects of such proposals;

(ii) the failure of such proposals to recognize the financial, accounting, and legal effects arising from the taxable nature of such transactions;

(iii) the changing nature of jurisdictional allocations over any period of time, arising from year-to-year changes in usage factors and resulting in reallocations to intrastate and interstate jurisdictions in succeeding periods;

(iv) the absence of regulatory precedent by which to measure future operating results; and

(vi) the concomitant need for additional regulatory proceedings to improvise ad hoc rules to deal with the vagaries and unknowns of such an unprecedented proposal.

None of the proposals to write-down PTI's investment address the offsetting public benefits which justify such an extended, extensive departure from applicable law, established regulatory precedent, accounting convention, and demonstrable practical requirements. Nor do they purport to offset the palpable damage to public interest benefits available through implementation of the

existing transaction, as enhanced by the additional changes being negotiated here by the State. PTI believes that such proposals would not be adopted by regulators, or if adopted, would clearly not survive judicial scrutiny.

SECTION II

The responses above address, in our view, all matters raised in our discussion of last week. In the interests, however, of a comprehensive reply and to enhance the State's full review of this matter, PTI wishes to address here additional matters not discussed directly last week, but raised previously by the State in its correspondence of August 25th. These are as follows:

(1) Carrier-of-last-resort responsibilities.

Alascom has and will continue to exercise its responsibilities as an incumbent carrier under applicable APUC requirements, which requirements would equally apply to TUA upon consolidation of the intrastate operations as heretofore proposed. With respect to interstate private line (interstate MTS responsibilities being the province of AT&T upon implementation of the Master Agreement), TUA would propose to assume carrier-of-last-resort responsibilities via the NECA special access tariffs, and would provide private line-related services under such tariffs at all locations served by it. Given the overlay of APUC-imposed responsibilities for an incumbent carrier, this would extend the private line service commitment to all Alaskan villages of 25 or more requesting interexchange service. TUA's commitment here would extend to the same duration as its participation in NECA, since TUA's ability to provide such services is a function of the pooling and rate averaging aspects of NECA participation.

(2) Limitation of NECA participation to five (5) years.

TUA believes that limiting NECA participation to five years is contrary to the public interest. NECA was created and exists to promote universal service by pooling the costs associated with lower density, higher cost access service areas by averaging the rates therefore across all participating companies and service areas. This concept is exactly the same as that underpinning averaged rates for interstate MTS service, which the State earnestly desires, and the positive effects on promoting service to Alaska are exactly the same. Further, AT&T's commitment to avoiding any "abandonment shift" for ten years is related to maintenance of TUA's NECA participation for an equivalent period (thereby to ensure a fair and equitable distribution of Alaskan service costs

to all interstate IXCs). As noted above, TUA's commitment to provide private line access to Alaska, and especially the Bush, is also premised upon the availability of NECA pooling and rate averaging attributes attending the special access tariffs.

- (3) Revenue requirement neutrality (including avoidance of intrastate rate increases and the promotion of intrastate rate decreases).**

PTI believes all matters associated with these issues are addressed in its previous correspondence concerning its price cap proposal (letter of September 9, 1992), and in the discussion of this subject area, above.

- (4) Avoided diminution in current AMA-related rate protection pledge.**

In the manner defined earlier in this correspondence, PTI has proposed to incorporate the intended benefits of the AMA into its price cap program through exclusion of jurisdictionally shifted amounts from the computations for earnings sharing purposes. Such a provision ensures that the AMA's protection will not be "negated" by the adoption of rate caps by the APUC.

- (5) Avoided interference with APUC exercise of jurisdiction.**

PTI has consistently cited the need to avoid jurisdictional overreaching by all agencies involved in this proceeding, and concurs with the State's expressed concerns, here. For this reason, PTI believes that the particulars of many aspects of its price cap proposal ought not to be addressed by the State and PTI as parties to a federal docket, but are more appropriately reserved for APUC examination under applicable state law and regulation.

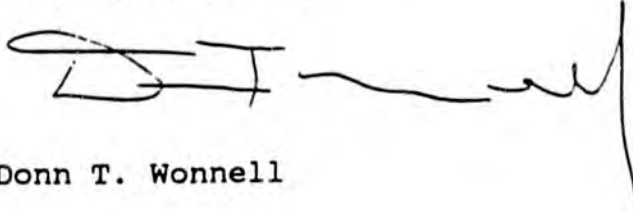
- (6) Scope of State commitment to agreement.**

PTI has, at multiple times and places, supported its belief that the provisions of the Master Agreement fully recognize the public interest. PTI presumes the good faith of the State in engaging in these negotiations to provide additional enhancements to that Agreement. These enhancements substantially increase the number and scope of public benefits, but also increase the burden and risk of the transaction on PTI. These additional benefits, for which the State has negotiated, cannot be realized unless the transaction is approved. If agreement is reached here, then the public benefits to be derived and the continuing good faith of the State require affirmative support of the State for this course. PTI is not asking the State to oppose the concerns of others, but it is asking the

State to act consistently with its own expressions of good faith and with the realization and implementation of the benefits for which it has negotiated.

I am authorized to represent these matters as constituting the position of Pacific Telecom, Inc., on the subjects described herein. If you require any clarifications of the issues, please contact me at your convenience. Your continuing courtesies in working through these issues are very much appreciated by us.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'D. T. Wonnell', with a long, sweeping horizontal line extending to the right.

Donn T. Wonnell

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing "Comments of The State of Alaska on Various Proposals to Modify the Master Agreement" was served by first-class, U.S. mail, postage prepaid, this 13th day of November, 1992 upon the parties listed on the attached Service List.



Robbin R. McKeever

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November 23, 1992

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EX PARTE LETTER

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
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Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

This letter is being filed, in duplicate, in accordance with the Commission's Rules, to report that on November 16, 1992, Robert M. Halperin, Counsel for the State of Alaska, met with Commissioner Susan M. Knowles and Lorraine Kenyon of the Alaska Public Utilities Commission, Chairman Bruce Hagen of the North Dakota Public Utilities Commission, Commissioner Dean J. Miller and Eileen Benner of the Idaho Public Utilities Commission, Ronald G. Choura of the Michigan Public Service Commission, and Debra Kriete of the Pennsylvania Public Utilities Commission to discuss the State of Alaska's position with respect to the Alaska Joint Board Proceeding, CC Docket No. 83-1376, and related proceedings. This discussion took place in Los Angeles at the meeting of the National Association of Regulatory Utilities Commissioners.

During this meeting, the State said that it generally concurred with the Memorandum of Principles issued by the State Members of the Joint Board on November 5, 1992.

The State reiterated the position it set forth in its Comments of the State of Alaska on Proposals to Modify the Master Agreement, filed with the Joint Board and Commission on

Ms. Donna R. Searcy
November 23, 1992
Page 2

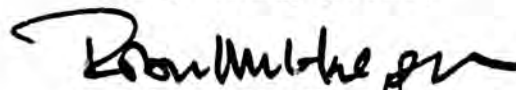
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November 13, 1992. The State outlined its communications with interested parties in this proceeding, particularly its discussions with Pacific Telecom, Inc. ("PTI") concerning PTI's price cap plan and General Communication, Inc. ("GCI") about its price cap plan. (See pages 4-11 of its November 13, 1992 Comments.) The State then reviewed its view of the cornerstones on which a market structure for interstate telecommunications services for Alaska should be built. (See pages 23-32 of its November 13, 1992 Comments.)

In response to questions from the State Members of the Joint Board and their staff, the State indicated its view that the Joint Board could proceed by issuing a recommended decision along the lines set forth in the Memorandum of Principles or in the State's November 13, 1992 Comments and that the Commission could then adopt that decision in a Report and Order. If necessary, the Report and Order could be accompanied with a Notice of Proposed Rulemaking which would allow the Joint Board and Commission to develop the details for implementing a new market structure, consistent with the parameters set forth in the Report and Order. The State suggested that the time frame for resolving any new rulemaking proceeding be limited. The Joint Board and Commission might also wish to consider whether any new rulemaking proceeding should be a negotiated rulemaking pursuant to the Negotiated Rulemaking Act.

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

Very truly yours,



Robert M. Halperin

cc: Commissioner Susan M. Knowles
Lorraine Kenyon
Chairman Bruce Hagen
Commissioner Dean J. Miller
Eileen Benner
Ronald G. Choura
Debra Kriete

12-18-92

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

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FEDERAL COMMUNICATIONS COMMISSION
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 Islands)

CC Docket No. 83-1376
RM 4436

**COMMENTS OF THE STATE OF ALASKA
ON THE STATE MEMBERS' PLAN
FOR THE INTERSTATE ALASKA MARKET STRUCTURE**

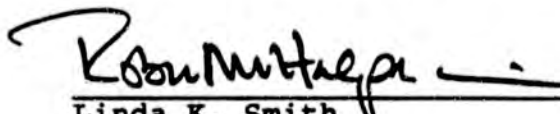
In response to the Public Notice of December 2, 1992 (DA 92-1638), establishing a pleading cycle for comments on the Memorandum of Principles Alaska Market Structure: The State Members' Plan, dated November 5, 1992, the State of Alaska ("State") notes that on November 13, 1992, it submitted lengthy comments in this docket setting forth its position concerning the appropriate market structure for interstate telecommunications services to and from Alaska.

The State will review the additional comments filed in this pleading cycle by others and will, to the extent necessary, submit further comments as set forth in the Public Notice referenced above.

Dated: December 18, 1992

Respectfully submitted,

THE STATE OF ALASKA



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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing "Comments of The State of Alaska on The State Members' Plan for the Interstate Alaska market Structure" was served by first-class, U.S. mail, postage prepaid, this 18th day of December, 1992 upon the parties listed on the attached Service List.


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