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Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

SPEAKER NAMES TELECOMMUNICATIONS TASK FORCE

4/20/93

FOR IMMEDIATE RELEASE

CONTACT: SPEAKER RAMONA BARNES, 465-3438

In order to ensure that increased competition in the telecommunications industry is in the best interest of Alaskans, Speaker Ramona Barnes today appointed a Telecommunications Task Force.

Recently it was announced that AT&T has applied to the Alaska Public Utilities Commission to enter the Alaska phone market. Said Barnes, "While I am not opposed to increased competition, I believe that the potential impact of losing the rate subsidy that Alaskans currently benefit from is tremendous, and therefore deserves a policy review from the legislature."

Those appointed to the task force include Rep. Bill Hudson (R) Juneau, Rep. Harley Olberg (R) Delta Junction, and Rep. Mike Navarre (D) Kenai. Speaker Barnes also asked that three Senate members be appointed to the task force.

The task force will schedule a series of public hearings and gather input on the issue statewide.

ALASKA STATE LEGISLATURE
HOUSE TELECOMMUNICATIONS TASK FORCE

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"

This MATTER, more commonly referred to as the "restructuring of Alaska's telecommunications industry", has been before the Federal Communication Commission (FCC) for approximately nine years. It appears to most parties, state and industry representatives alike, that a new effort, by the FCC, is underway to bring finality to the situation.

Due to the complexity of this "restructuring" Matter, and the need to accommodate regional input, the FCC established the Joint Board. The Joint Board is composed of both FCC Commissioners and western-state public utility officials. Their charge: review the record, receive additional testimony, if necessary, and submit a recommendation to the full FCC for consideration.

Currently, the Joint Board has two "restructuring" proposals under active consideration: AT&T's Consumer Benefit Plan and the Joint Board's Tentative Recommendation. In response, various interested parties have submitted comments and formal filings. Interested parties include: Alascom, GCI, MCI, AT&T, states of Alaska and Hawaii, and the Anchorage Telephone Utility. In addition, the Board recently held an interstate video-teleconference specifically to hear from Alaskan groups and consumers. It is the responsibility of the Joint Board to review, and consider, this input as part of their process of formulating a final recommendation.

During the week of July 26-30, the Joint Board met in San Francisco to produce a final product. They will likely direct the Common Carrier Bureau (of the FCC) to draft a work product for the Board's final consideration. As directed, their final proposal will be forwarded on to the full FCC for consideration. A final ruling, by the FCC, is expected by the first of October, 1993.

STATE OF ALASKA CONCERNS

Alaska, and its consumers, will undoubtedly be the most impacted party from any restructuring of its telecommunications system. As such, the State has submitted two filings on the Matter. While commending the Board for its efforts, the State is recommending specific changes to its proposal. Furthermore, it has made a request for clarification(s) to a number of provisions in AT&T's proposal.

In general, everyone is in favor of greater market competition, system efficiencies, and improved and expanded services. These developments will, however, entail some risks.

It has been recognized, by the FCC itself, that the Alaskan market is indeed unique. It is a vast area; with few highly populated regions. Competition and deregulation, in most Alaskan markets, are undoubtedly beneficial. In rural Alaska, however, concerns are somewhat different due to remoteness, and heavy reliance on telecommunications as a "life-line". The State of Alaska has consistently recognized the unique problems of providing reliable and affordable service to Bush Alaska. These unique concerns should be addressed in any sensible plan to restructure Alaska's telecommunications market. To their credit, both AT&T and the Joint Board have endeavored to create proposals that will address these concerns. Minimum investment commitments, transition rules, requiring rate integration, dominant carrier regulation, accelerated cost recovery and a modified allocator requirement are but a few of the conditions contained in the proposals.

Still, the challenge remains, how to implement a new market structure without imperiling primary public interest objectives. The State noted these objectives, in its June 28, 1993 filing, with the Joint Board.

1. Universal service;
2. Rate integration; and
3. Avoiding/minimizing upward pressures on intrastate rates.

The House Telecommunications Task Force, established by the House Speaker, was directed to monitor this process. It will be successful to the extent it can involve the public, solicit industry responses, and further the objectives above.

AT+T

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CC 83-1376

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

AT&T'S PETITION TO TERMINATE THE JOINT SERVICE ARRANGEMENT

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Francine J. Berry
Robert J. McKee
Richard H. Rubin

Its Attorneys

Room 3244J1
295 North Maple Avenue
Basking Ridge, NJ 07920

Dated: March 31, 1993

SUMMARY

For nearly ten years, the Commission and Joint Board have struggled to find an appropriate interstate telecommunications structure for Alaska. During that time, the debate has centered principally upon the effects a new structure would have upon carriers. At the same time, however, the Alaska marketplace has continued to operate and competition has become the driving force, making customers, not carriers, the appropriate focus of attention. AT&T's Consumer Benefit Plan is a customer-focused and competition-based solution that fully satisfies all of the goals and objectives previously articulated by the Joint Board and the Commission. Adoption of AT&T's Plan will benefit customers by spurring the growth of efficient competition, lowering prices and providing higher service quality. It should finally put to rest the Commission's decade-long search for a structure that best provides for the future telecommunications need of Alaskans.

AT&T's Consumer Benefit Plan is straightforward. If AT&T's plan is approved and the current Joint Service Arrangement ("JSA") is terminated, AT&T will enter into the competition for interstate and intrastate Alaska services. AT&T will amend its interstate tariffs to provide both northbound and southbound services at AT&T's nationwide integrated rates, and it will offer Alaska customers lower rates on many calls by eliminating mileage bands 10 and 11 from its MTS tariff. AT&T will also improve service quality

and create new service capabilities for Alaskans by developing its own network to serve Alaska, including the construction of a new fiber optic submarine cable system that will connect Alaska directly with the lower 48 states. This new cable will not only make new service capabilities available to Alaskans, it will also transcend the limitations of the existing Alaska Spur cable since its inception.

The Consumer Benefit Plan will also offer benefits to Alaska intrastate customers. AT&T will apply to the Alaska Public Utilities Commission ("APUC") for authority to provide intrastate switched services. AT&T's basic intrastate MTS rates will be equal to or less than the lowest current Alascom or GCI rates for comparable services. In addition, AT&T will pledge not to raise its initial MTS rates for five years, except to pass through APUC-approved increases in intrastate access charges.

The implementation of AT&T's plan is subject to only three reasonable conditions: (1) prompt termination of the JSA; (2) approval of AT&T's companion Section 214 Application to extend its lines of communication to Alaska and create its new Alaska Network; and (3) an order requiring Alascom to comply with its obligations under Sections 201 and 202 of the Communications Act to provide AT&T and other carriers with tariffed, cost-based services between their Alaska Points of Presence ("POPs") and the

networks of the Alaska LECs, services which Alascom already provides under its intrastate tariff.

AT&T's Consumer Benefit Plan will guarantee permanent and vigorous competition for Alaska telecommunications services, and at the same time offer customers lower prices combined with higher service quality and more service options than have ever been available before. AT&T's plan offers customers substantially more advantages than any other proposal put forward in the ten year history of this proceeding. The Commission should therefore proceed promptly to adopt AT&T's Consumer Benefit Plan.

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) CC Docket No. 83-1376
Common Carriers between the)
Contiguous States and Alaska,)
Hawaii, Puerto Rico and the)
Virgin Islands)

AT&T'S PETITION TO TERMINATE THE JOINT SERVICE ARRANGEMENT

American Telephone and Telegraph Company ("AT&T") hereby petitions the Commission to enter an order promptly terminating the Joint Service Arrangement between AT&T and Alascom, Inc. ("JSA") in accordance with the Consumer Benefit Plan described below. Implementation of AT&T's plan will achieve the stated goals and objectives of the Joint Board and Commission and serve the best interests of customers by lowering prices, improving service quality, expanding the range of available services and spurring the rapid development of efficient MTS/WATS competition in Alaska.

I. Introduction

This proceeding was commenced in April, 1983, in anticipation of the break-up of the Bell System, which had historically subsidized the provision of telecommunications services for Alaskans. During the past ten years, the Commission and the Joint Board have considered many

different proposals to establish an efficient and effective structure for the future of Alaska telecommunications. Despite the effort and the substantial amount of time invested in the process, however, they have to date yielded no consensus and no results. This is due largely to the fact that every proposal has been the subject of fierce debate, mostly over the effects the proposals would have upon particular carriers and the effects of technical regulatory rules relating to the separations process and rate of return regulation.

During the same time, however, the introduction of competition and new technology has caused drastic changes in the telecommunications business. The focus of the business has turned away from technical regulatory rules and toward head-to-head competition among carriers to meet the specific needs of customers. Concerns had earlier been expressed in this proceeding about the ability of competition to prevail in Alaska, but recent developments demonstrate that competition has become the driving force in Alaska as well.

While this proceeding has been pending, competition for Alaska telecommunications services has become increasingly more intense. GCI, the principal competitor of Alascom, has been very effective in winning the business of Alaska customers. The prospects of successful competition have apparently been so great that MCI has now acquired a substantial stake in GCI. This fact itself demonstrates the marketplace's belief that

competition has become the central operating force in Alaska as it has in the rest of the country. The existence of such competition in Alaska also reinforces the need to end the anomalous situation in which one carrier and its customers subsidize the entire telecommunications structure of the state.

In light of these developments, AT&T has created a plan for Alaska that focuses upon customer benefits rather than carriers' needs and upon competition rather than technical regulatory rules. The Consumer Benefit Plan described below is designed to serve the needs of Alaska customers by lowering prices, increasing service quality and the number of available service options and making competition the keystone of the Alaska telecommunications structure. Adoption of AT&T's plan will serve Alaska consumers better than any proposal that has previously been put forward and will finally allow the Commission to end its decade-long search for an appropriate Alaska telecommunications structure.

II. AT&T's Consumer Benefit Plan

AT&T's Consumer Benefit Plan is simple and straightforward. Upon the termination of the JSA, AT&T will amend its existing interstate MTS/WATS tariffs and begin providing interstate services directly to and from Alaska at AT&T's nationwide averaged rates. AT&T will also provide immediate rate reductions for Alaska customers by eliminating mileage bands 10 and 11 from its basic

interstate LDMTS rates and its rates for Commercial Long Distance Service (collectively referred to herein as "MTS").

In order to provide direct service quality improvements and more service options for Alaska customers, AT&T proposes (pursuant to a companion Section 214 application¹) to create a new network for Alaska services, including construction of a state-of-the-art fiber optic submarine cable system between Alaska and the continental United States. When constructed, AT&T's new cable system will enable it to transcend the limitations of the existing Alaska Spur cable and provide service based upon the latest optical transmission technology. AT&T's in-state Alaska network will also be designed to the high standards of quality that are used in the rest of AT&T's domestic network.

In addition, AT&T plans to apply to the Alaska Public Utilities Commission ("APUC") for certification to provide intrastate switched services as a competitive carrier. AT&T's application will propose a rate stability plan, pursuant to which AT&T's initial intrastate MTS rates will be equal to or lower than the lowest currently tariffed rates of either Alascom or GCI for similar services. AT&T will further pledge that its intrastate MTS rates will not rise for five years, except to pass through any LEC access

¹ A copy of AT&T's concurrent Section 214 Application is appended as Attachment A hereto.

charge increases approved by the APUC. This action by AT&T, together with the increased competition that will result from the MCI/GCI partnership, will assure that there will be permanent and effective competition for Alaska consumers' intrastate business. It will also assure that competitively-based intrastate prices will be available to Alaska consumers over the long term.

AT&T is prepared to implement its Consumer Benefit Plan subject to only three conditions:

- (1) prompt termination of the JSA;
- (2) grant of Section 214 authority permitting AT&T: (a) to provide interstate service directly to and from Alaska, and (b) to create its new Alaska network consistent with the network architecture proposed in AT&T's concurrent Section 214 application (a copy of which is appended as Attachment A hereto); and
- (3) issuance of an order pursuant to Section 201 of the Communications Act directing Alascom to file tariffs that will enable AT&T and other interexchange carriers to connect their points of presence ("POPs") in Alaska with locations served by Alascom's network and further requiring that the rates for such services be based solely on the direct costs of providing them.

III. AT&T's Plan Will Benefit Consumers And Fulfill The Commission's Goals And The Joint Board's Objectives.

AT&T's Consumer Benefit Plan offers Alaska customers significant advantages, including an integrated rate structure, lower rates, higher service quality and more service options, and the assurance of permanent and efficient competition for their telecommunications business. AT&T's plan thus achieves the Commission's goals of rate integration and effective competition, and it also satisfies all of the Joint Board's previously stated objectives for an Alaska telecommunications structure.

A. AT&T's Plan Will Benefit Consumers More Than Any Other Plan Offered During This Proceeding.

AT&T's plan offers Alaska consumers substantially more benefits than any other proposal made since this proceeding was commenced in April, 1983. Today approximately 25% of interstate MTS calls originating in Alaska are in mileage bands 10 and 11. Elimination of these bands would create substantial savings for Alaska interstate callers. For example, under AT&T's plan, a 10 minute night/weekend call from Anchorage to New York City would be reduced from \$1.60 to \$1.30, a savings of 19%; a 10 minute evening call from Juneau to Washington DC would be reduced from \$2.10 to \$1.50, a savings of 29%; and a 10 minute daytime call from Fairbanks to Houston would be reduced from \$3.00 to 2.50, a savings of 17%. Overall, approximately 25 percent of all MTS calls originating from Alaska would

experience rate reductions of 17% to 32%. AT&T's plan will also reduce prices for approximately 25% of northbound MTS calls to Alaska, for almost half of the MTS calls to and from Hawaii and for all MTS calls from Hawaii to Alaska.² No other plan proposed during this proceeding has offered these types of direct interstate pricing benefits to customers.

In addition, AT&T will make available to Alaska interstate customers a wide array of services and optional calling plans that Alascom does not offer. This will provide Alaska customers with opportunities to receive the benefits of new features and services in addition to reducing their interstate telecommunications costs.³

AT&T's plan will also offer tangible improvements in Alaska interstate service quality and capabilities,

² Approximately forty-five percent of all MTS calls between Hawaii and the Mainland would experience rate reductions ranging from 17% to 32%. The prices for MTS calls between Hawaii and Alaska will also be substantially reduced, because AT&T will be willing to integrate the rates for calls between those two states into its nationwide rate structure once it is permitted to provide service from Alaska to Hawaii.

³ Attachment B hereto is a list of some of the AT&T services, features and pricing plans that will become available to Alaska customers. These include consumer-oriented calling plans such as AT&T's Simple Savings Plan and Special Country Plan, enhancements to existing plans such as Reach Out® America and Reach Out® World and the introduction of AT&T MultiQuest® Service. For business customers, AT&T will offer many calling plans not currently provided by Alascom as well as enhancements to 800 and WATS services not available from Alascom today.

particularly after completion of AT&T's proposed fiber optic submarine cable system. AT&T's new cable system will be constructed using state-of-the art technology and will be very reliable. AT&T's cable system will use the new SL2000 optical amplified technology, which permits service capacities on the cable to be upgraded without having to replace undersea repeaters. The new technology also eliminates the need to convert signals from optical to electrical and back in the undersea repeaters. This, in turn, reduces the number of components in the undersea repeaters and increases reliability.⁴ Moreover, unlike the Alaska Spur cable, which is a branch off the North Pacific Cable between Portland, Oregon and Japan, AT&T's new cable system will be a stand-alone facility that will not be subject to any technical problems potentially caused by other related facilities.

AT&T's new cable system will also offer very high bandwidth capabilities compared to the existing cable.⁵ AT&T's system will be able to provide advanced telecommunications applications such as cable television

⁴ In addition, AT&T's equipment is compatible with new CCITT Synchronous Digital Hierarchy ("SDH") standards, which will make it easier for customers to perform multiplexing functions on their services.

⁵ AT&T's cable system will permit customers to develop service applications requiring extremely high bandwidths, up to 5 gigabits/second per fiber pair with up to four fiber pairs permitted per system.

service, teletraining, and computer assisted design and manufacture ("CAD/CAM") applications, as well as high definition television, interactive video and data management functions. This will bring new service possibilities to Alaska customers that are not available using existing telecommunications facilities. Moreover, AT&T's planned in-Alaska network will also be designed to AT&T's high standards and will provide quality service for both interstate and intrastate customers.

Further, AT&T's Consumer Benefit Plan will also provide price and competition-enhancing advantages for Alaska intrastate customers. AT&T's proposal to the APUC will assure the growth of effective intrastate competition and provide a five year "rate ceiling" for intrastate MTS service that is at or below the rates currently available from Alascom and GCI.⁶ During this period, AT&T's direct entry into the intrastate marketplace, together with the presence of Alascom and the GCI/MCI partnership, will assure that intrastate competition will flourish. This, in turn, will establish a firm basis for long-term price competition for intrastate services.

⁶ The services which are the subject of AT&T's rate stability plan are those covered in Section 4.2.2 (D) (1) of Alascom's Tariff Alaska PUC No. 98 and Section 4.2.3(A) of GCI's Tariff APUC No. 419.

B. AT&T's Consumer Benefit Plan Assures That The Commission's Goals Of Rate Integration And Effective Competition Will Be Achieved.

The Commission's Alaska Inquiry has been focused upon the development of an Alaska telecommunications policy that balances two Commission policies: competition and rate integration. Notice of Inquiry, ¶ 14. AT&T's Consumer Benefit Plan accomplishes both.

The continuation of the Commission's rate integration policy will be assured when AT&T includes calls from Alaska in its existing interstate MTS and WATS tariffs. Rate integration for Alaska interstate services will continue to the same extent it applies generally for AT&T's domestic interstate services. This is identical to the situation that would have occurred under earlier proposals, and that created no controversy in the debate over those proposals.

AT&T's Consumer Benefit Plan will also promote the growth of interstate competition more than any other proposal that has been offered during this proceeding. Under AT&T's Plan, AT&T will enter the competition for Alaska southbound interstate services with no preexisting customers. AT&T will therefore have powerful incentives to compete vigorously to earn back AT&T's substantial investment in its new Alaska Network, an investment which can only be recovered by winning customers' business through quality service and competitive prices. Thus, AT&T's entry

into the Alaska telecommunications marketplace will enhance competition for Alaska consumers' interstate business.

C. AT&T's Plan Satisfies Each Of The Joint Board's Objectives.

AT&T's Consumer Benefit Plan also satisfies each of the five objectives identified in the Joint Board's Supplemental Order.⁷ As described above, this plan will provide for the continued availability of interstate MTS and WATS service at integrated rates for all Alaska customers.⁸ Moreover, AT&T's direct competitive entry into the Alaska interstate services market demonstrates that "market-based competitive entry" will be a reality for Alaska.⁹

AT&T's plan will also preserve the Joint Board's objective of universal service.¹⁰ After the petition is granted and AT&T commences service independent of the JSA, AT&T will be required to seek authority under Section 214 of the Communications Act if it wishes to discontinue northbound interstate services to Alaska. And even though AT&T would not, under this proposal, be a dominant carrier for southbound interstate traffic from Alaska, AT&T would be willing to accept a requirement that it obtain Section 214

⁷ Supplemental Order Inviting Comments, released January 3, 1989 ("Supplemental Order").

⁸ Id. ¶ 25.

⁹ Id. ¶ 26.

¹⁰ Id. ¶ 28.

approval before discontinuing southbound services as well. AT&T's entry into the Alaska intrastate marketplace as a separate competitive intrastate carrier would not affect Alascom's existing obligation to act as the carrier of last resort for intrastate services. Thus, AT&T's plan would fully satisfy the Joint Board's universal service concerns while simultaneously providing Alaska customers with opportunities for higher quality and lower rates on both interstate and intrastate calls.

Implementation of AT&T's plan will also establish an efficient market structure for Alaska interstate services.¹¹ AT&T's entry into the marketplace, combined with MCI's recent acquisition of a major stake in GCI clearly demonstrates that competition will be a permanent feature of the Alaska intrastate telecommunications marketplace. All IXCs competing for Alaska business will succeed or fail on the basis of their ability to provide reliable, efficient and competitively priced services to Alaska customers. This will require all competitors to provide high quality service, adopt efficient cost structures and to drive unnecessary costs out of their business.

Further, the Consumer Benefit Plan will enable Alaska intrastate customers to avoid material intrastate

¹¹ *Id.* ¶ 33.

rate-effects.¹² AT&T's entry into the intrastate switched services business under the terms proposed above will assure customers that they have the ability (barring APUC-controlled access cost increases) to avoid intrastate MTS rate increases for at least five years. This obviates any previously expressed concerns about the effects of separations rules or the impacts that an Alaska solution may have upon intrastate revenue requirements.

III. The Limited Conditions of AT&T's Plan Are Reasonable.

AT&T's willingness to proceed with the Consumer Benefit Plan upon the termination of the JSA is subject to only three conditions. First, the JSA must be terminated so that AT&T can provide service independently. Second, AT&T needs Section 214 authorization to provide interstate services directly to and from Alaska and to create (through construction, lease, purchase or otherwise) its own Alaska network. Third, AT&T requires assurance that Alascom will file interstate tariffs to permit AT&T and other IXC's to use Alascom's existing facilities to provide service from their Alaska POPs to the points served by Alascom, and that Alascom's rates for providing such service are cost-based.

¹² See Supplemental Order ¶ 31. Because AT&T's proposal is based solely upon direct competitive activity by AT&T itself, there will also be no need to make any changes to existing separations rules.

The need for AT&T's first two condition is self-evident. AT&T cannot serve Alaska independently until the JSA is terminated, and AT&T cannot serve Alaska unless it has Section 214 authorization to do so. AT&T's portion of the existing joint service does not extend beyond the "meet points" between AT&T's and Alascom's networks in Oregon and Washington. Thus the requested Section 214 authorization is a technical requirement that has raised no issues in this proceeding, even when AT&T earlier proposed to assume all of Alascom's interstate MTS/WATS service.

AT&T also requires assurance that it will be able to fulfill its quality commitment to Alaska consumers. The concurrent Section 214 application describes AT&T's proposed network design for its future Alaska Network. AT&T recognizes that final authorization for the creation of its Alaska Network must await detailed filings to comply with environmental regulations, and acknowledges that its application for radio licenses is subject to future coordination with other radio licensees. AT&T's implementation of the Consumer Benefit Plan, however, is based upon the Commission's grant of conditional approval for AT&T's proposed Alaska Network, subject only to AT&T's compliance with environmental and other technical licensing requirements.

Finally, AT&T requires assurance that Alascom will comply with its common carrier duties under Sections 201 and 202 of the Communications Act to provide service upon

reasonable request and on reasonable and non-discriminatory terms. AT&T will have to purchase access transport-like services from Alascom in order to connect AT&T's Alaska POPs with the Alaska LECs' networks while AT&T is creating its Alaska Network. Moreover, because Alascom has a de jure monopoly to provide service to the Alaska bush, AT&T will also be required to purchase these Alascom services over the long term in order to originate and terminate calls to customers in those areas.¹³

Alascom, like all common carriers, has a duty under Section 201 to furnish service upon reasonable request and upon reasonable terms and conditions. AT&T therefore requests that the order approving the Consumer Benefit Plan require Alascom to file interstate tariffs that will enable AT&T and other IXCs to purchase access transport-like services connecting their Alaska POPs with other points in the state served by Alascom. This should create no hardship for Alascom, which already has filed tariffs for similar intrastate services.

AT&T further requests that the Commission order that the rates for Alascom's services should be based upon the direct costs of providing them. In particular, AT&T needs assurance before implementing its plan that Alascom's rates for service to the Alaska bush will be based solely

¹³ Interstate equal access is not currently available from the Alaska bush.

upon the costs of the satellite and earth station network used to provide this monopoly service. Finally, since Alascom can be expected to use the same facilities to provide its own competitive interstate services, the rates Alascom charges all carriers, including itself, should be the same. This requirement is one of non-discrimination, as well as fundamental fairness, and is consistent with the obligations of independent LECs in the lower 48 states that provide similar services to their IXC affiliates.

CONCLUSION

AT&T's Consumer Benefit Plan, unlike any previous proposals in this proceeding, will maximize customer benefits resulting from the termination of the JSA. AT&T's Plan will improve service quality and offer more service options, lower rates, open the Alaska telecommunications marketplace to effective competition, and ensure that Alaska

is permanently assimilated into the national telecommunications structure. Therefore, AT&T's Consumer Benefit Plan should be adopted as proposed.

Respectfully submitted

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

By /s/Francine J. Berry
Francine J. Berry
Robert J. McKee
Richard H. Rubin

Its Attorneys

Room 3244J1
295 North Maple Avenue
Basking Ridge, NJ 07920

Dated: March 31, 1993

In the Matter of the
Application of

AMERICAN TELEPHONE AND
TELEGRAPH COMPANY

Under § 214(a) of the Communications Act for Authority to create and operate its own network by leasing, purchasing and constructing facilities for the provision of interstate service directly to and from Alaska

File No. _____

APPLICATION

American Telephone and Telegraph Company ("AT&T") hereby applies for authority to create and operate its own network for the provision of interstate service directly to and from Alaska ("AT&T's Alaska Network"). AT&T's Alaska Network will be created initially through acquiring capacity from carriers under tariff, supplemented as necessary by leasing or purchasing facilities. Thereafter, AT&T will construct an undersea cable system from the Pacific Northwest through Juneau and to a point near Anchorage, Alaska, and it may construct other facilities in Alaska substituting for or adding to the leased or purchased facilities. AT&T files this Application pursuant to Section 214(a) of the Communications Act of 1934, as amended (the "Act") and Section 63.01 of the Commission's Rules,

47 C.F.R. 63.01. In support of its application, AT&T respectfully shows:

1. AT&T is a corporation organized and existing under the laws of the State of New York, and has its principal office at 32 Avenue of the Americas, New York, New York 10013. Correspondence concerning this Application should be addressed to:

Mr. Frank Ianna
Vice-President & Chief Quality Officer
AT&T, Room 4C107
900 Route 202/206, P.O. Box 752
Bedminster, NJ 07921

A copy of any correspondence should also be addressed to:

Richard Rubin, Esq.
AT&T, Room 3252I3
295 North Maple Avenue
Basking Ridge, NJ 07920

2. AT&T is engaged in the business of furnishing interstate and foreign telecommunications services and is a "common carrier" subject to Section 214 of the Act.

3. By means of its Petition to Terminate the Joint Service Arrangement filed in CC Docket No. 83-1376 contemporaneously with the filing of this Application ("Petition") AT&T asked the Commission to terminate the Joint Service Arrangement between AT&T and Alascom, Inc. ("JSA"), pursuant to the Consumer Benefit Plan described in the Petition. The details of the Consumer Benefit Plan and the ways in which it serves the public interest are described in detail in the Petition, a copy of which is attached to this Application. The essence of AT&T's plan is

to benefit Alaska consumers by spurring the growth of efficient competition and providing Alaskans with higher quality, lower prices and more service options. Under AT&T's plan, AT&T will, upon the prompt termination of the JSA, amend its existing interstate tariffs and provide interstate MTS/WATS services directly to and from Alaska at AT&T's nationwide averaged rates. In addition, AT&T will lower rates on many interstate calls to and from Alaska by eliminating mileage bands 10 and 11 from its interstate LDMTS and Commercial Long Distance Service (collectively "MTS") tariffs.¹ In order to provide direct quality and service benefits to Alaska interstate customers, AT&T also will construct and operate a new state-of-the-art submarine fiber optic cable system that will transcend the limitations of the existing Alaska Spur cable that currently serves Alaska. AT&T will also create and operate its own high quality network within the State of Alaska.

4. In order to effectuate its Consumer Benefit Plan, AT&T requires Section 214 authorization to create and operate its own network to provide interstate service directly to and from Alaska. Such authorization is required

¹ Elimination of mileage bands could also lower prices on up to 45% of calls between Hawaii and the U.S. Mainland. Moreover, AT&T will also eliminate separate rates for Hawaii-Alaska service in its MTS and WATS tariffs, thereby integrating that service into AT&T's nationwide averaged rate structure.

because AT&T's portion of the existing joint service does not extend beyond the "meet points" between AT&T's and Alascom's networks in the northwestern Continental United States. Thus, AT&T's current operating authority does not extend to the State of Alaska.

5. AT&T will construct an undersea cable system, presently planned between Seattle, Washington and AT&T's Point of Presence ("POP") in Juneau, Alaska² and between Juneau and AT&T's POP in Anchorage, Alaska.³ This cable system will employ optical amplifier technology that is more technically advanced and reliable than the prior technology. AT&T believes that its new cable system can be constructed by the middle of 1996. However, in order to provide service upon the termination of the JSA, AT&T plans to lease currently spare capacity in Alascom's Alaska Spur cable between Pacific City, Oregon and Seward, Alaska, to lease facilities between Seward and AT&T's POP in Anchorage and to obtain distribution and access services under tariff from Alascom and other Alaska carriers, including local exchange carriers.

6. AT&T's Alaska Network will be created in stages. The first stage, in addition to the new undersea

² This will be a facilities POP consisting of Digital Access and Cross-Connect frames ("DACS").

³ This will be a switching POP containing a 5ESS[®] Switching System.

cable system, will consist of a microwave or fiber optic route between Anchorage and AT&T's POP in Fairbanks,⁴ initially obtained by lease and possibly followed by construction. Also, as part of the first stage, AT&T will construct for restoration purposes earth stations at its three POPs, permitting communications via satellite between those POPs and AT&T's earth station in Three Peaks, California. A map illustrating the first stage of AT&T's proposed network is Attachment 1. The first stage of the AT&T Alaska Network, aside from the new undersea cable system, could be constructed prior to the completion of construction of the undersea cable system. Restoration capability will, if necessary, be obtained via tariff or lease in advance of the construction of AT&T's own restoration facilities.

7. The second stage of AT&T's Alaska Network will consist of facilities connecting AT&T's Anchorage POP to the locations listed in Attachment 2, and possibly other locations in Alaska. Those facilities may be leased, purchased or constructed. They may consist of fiber optic cable, microwave radio or satellite routes. Until second stage facilities are in place to any given point, AT&T will continue to obtain distribution and access services from

⁴ This will also be a facilities POP consisting of DACS equipment.

Alascom and Alaska local exchange carriers under tariff. AT&T plans to serve the Alaska bush by means of acquiring distribution services from Alascom under tariff for as long as Alascom remains the de jure provider of monopoly services to those areas.

8. Because all the details of the AT&T Alaska Network, and the means by which that network can be best accomplished, are not known at this time, AT&T cannot provide the specific detail called for by § 63.01 of the Commission's Rules. However, AT&T's current estimate of the needed circuit capacity at the outset, measured at the DS-3 level,⁵ is five DS-3 circuits between Seattle and Juneau, seven DS-3 circuits between Juneau and Anchorage and two DS-3 circuits between Anchorage and Fairbanks. AT&T's best estimate is that the annual cost of leasing the first stage undersea cable and fiber optic facilities would be in the \$35-40 million dollar range, while the cost of constructing them would be about \$135 million. The final network configuration may consist of a mix of leased, purchased and constructed facilities. As time goes on, AT&T's Alaska Network will evolve in response to service demands, economic conditions and technological change.

⁵ Each DS-3 has a capacity of 672 equivalent 4 KHz circuits.

9. AT&T's estimate of the current and future circuit requirements from Alaska to the lower 48 states are:

<u>Terminal A</u>	<u>Terminal B</u>	<u>1994</u>	<u>1995</u>	<u>1998</u>
Seattle WA	Anchorage, AL	3243	4171	5465
Juneau, AL	Anchorage, AL	457	817	1094
Anchorage, AL	Fairbanks, AL	435	777	1042

10. AT&T cannot at this time make a precise estimate of its revenues for the new Alaska service for several reasons. The outcome of the proposed competition among AT&T, Alascom and GCI/MCI cannot now be known. Moreover, AT&T expects the growth in traffic between Alaska and other points to continue; such growth has occurred over the last decade. Finally, AT&T's proposed elimination of mileage bands 10 and 11 should cause some additional growth in traffic between Alaska and the lower 48.

11. AT&T will use the AT&T Alaska Network for the provision of AT&T's authorized services for which it may be suitable.

12. Accounting for AT&T's proposal as it is implemented in detail will be performed in accordance with the Uniform System of Accounts for Class A telephone companies, F.C.C. Rules, Part 32.

13. AT&T now requests § 214 authority to create and operate its own network by leasing, purchasing or constructing facilities from time to time for the provision of interstate and international service to and from Alaska.

That authority will, of course, be subject to the grant by the Commission of any necessary specific § 214 applications pursuant to the procedures in the Commission's rules.

Because the Commission's grant of AT&T's current application will determine that AT&T can create and operate its own network to provide service, the Commission should make it clear that proceedings on such future § 214 applications will be confined to issues regarding the specific lease, purchase or construction therein proposed, such as any environmental issues,⁶ and will not become a vehicle for relitigating the issues resolved in the current proceeding.⁷ Finally, at some future time it will be appropriate to include facilities supplementing AT&T's Alaska Network in AT&T's annual Blanket Applications.

⁶ Specific AT&T authorizations may be categorically excluded as defined by §1.1306 of the Commission's rules.

⁷ Nor should such relitigation occur in connection with any AT&T applications for radio licenses needed to serve Alaska.

CONCLUSION

For the reasons set forth above, AT&T should be granted authority pursuant to 47 U.S.C. § 214 as described herein.

Respectfully submitted,

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Dated: March 31, 1993

CERTIFICATION

The applicant certifies that no party to the Application is subject to a denial of federal benefits that includes FCC benefits pursuant to Section 5301 of the Anti-Drug Abuse Act of 1988, 21 U.S.C. 862.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

By: /s/Frank Ianna
Frank Ianna
Vice President and
Chief Quality Officer

Dated: March 31, 1993

AT&T's Proposed Alaska Interstate Network First Stage

Attachment 1

Population

Anchorage 239,500
Fairbanks 29,800
Juneau 26,000

Route Miles

Anchorage-Fairbanks 391
Anchorage-Juneau 935

LEGEND

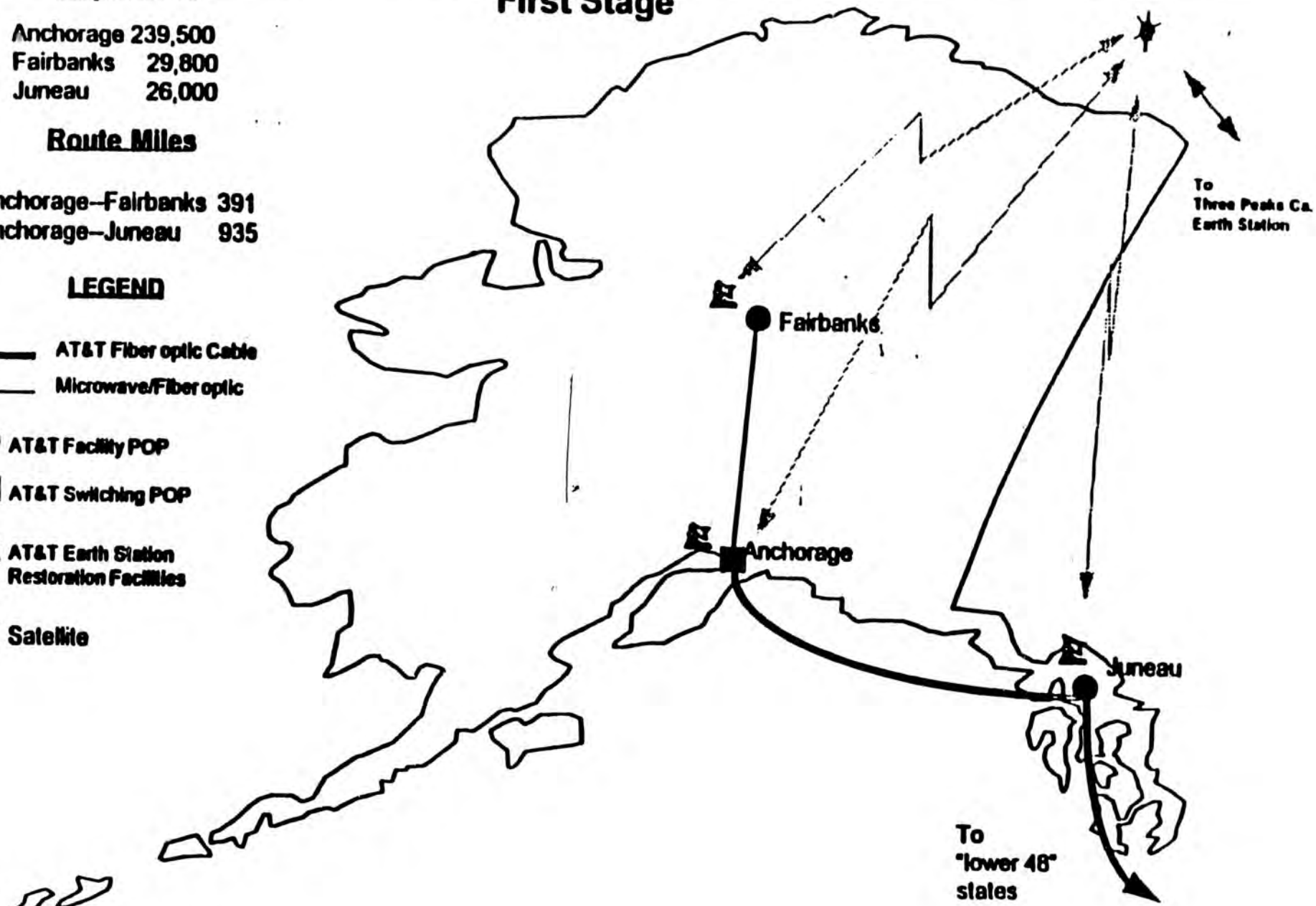
— AT&T Fiber optic Cable
— Microwave/Fiber optic

● AT&T Facility POP

■ AT&T Switching POP

⚡ AT&T Earth Station
Restoration Facilities

★ Satellite



AT&T's Proposed Alaska Interstate Network
(Second Stage)

Barrow
Bethel
Chugiak
Delta Jct
Dillingham
Eagle River
Ft. Greely
Ft. Wainwright
Glenallen
Haines
Healy
Homer
Kenai
Ketchikan
Kodiak (City)
Kodiak (U.S.C.G.)
Kotzebue

Nome
North Pole
Palmer
Petersburg
Seward
Sitka
Soldotna
Talkeetna
Valdez
Wasilla
Willow
Wrangell

ATTACHMENT B

Current AT&T Services/Features Not Offered by Alascom

AT&T Simple Savings Plan
AT&T Special Country Plan
AT&T Small Business Option (including Term Plan and Flex Plan)
AT&T MultiQuest® Service
AT&T NetPROTECT Service (Advanced and Premium)
AT&T Software Defined Network Service
AT&T Global Software Defined Network Service
AT&T Multilocation Calling Plan
AT&T FAXLine Service
AT&T Hospitality Network Service
AT&T Distributed Network Service
AT&T PRO® WATS Service
AT&T Plan D Service
AT&T Plan Q Service
AT&T Call Redirect Service
AT&T Optimum Service
AT&T EasyReach Service
AT&T MEGACOM® Plus Service
AT&T CustomNet Gold
AT&T Service Quality Guarantees
AT&T Advanced 800 Service
AT&T 800 Service - Canada
AT&T 800 Service - Overseas
AT&T 800 Service - Mexico
AT&T MEGACOM® 800 Service
AT&T MEGACOM® 800 Service - Canada
AT&T MEGACOM® 800 Service - Overseas
AT&T MEGACOM® 800 Service - Mexico
AT&T 800 Readyline® Service - Canada
AT&T 800 Service Plan K
AT&T 800 Service Plan E
AT&T 800 Service Plan P
AT&T 800 Gold Service

Current AT&T Services That Offer Additional Features
Compared to Alascom Counterparts

AT&T Reach Out® America-Basic (discount period begins 7 PM)
AT&T Reach Out® World
AT&T 800 Service
-Dialed Number Identification Service
-800 Validation
-800 Guaranteed Validation
-Make Busy Arrangement
-Alternate Number Translation
-Alternate Destination Routing

AT&T 800 Readyline® Service

- One Number Calling
- Alternate Number Translation
- Advanced 800 Service

AT&T WATS Service

- Access Line Extension (different rate center than the access line)
- Multilocation Calling Plan
- Answer Supervision
- WATS One Line Access

CERTIFICATE OF SERVICE

I, Valerie Harris, hereby certify that on this 31st day of March, 1993, a true copy of the foregoing "AT&T's Petition To Terminate The Joint Service Arrangement" was served by first class mail, postage prepaid, upon the parties on the attached list.

/s/Valerie Harris
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April 27, 1993

AT&T'S PLAN FOR ALASKA SERVICE

What is in the best interest of all Alaskan customers and Alaska's economy?

Competition has been the driving force, making customers, not carriers, the appropriate focus of attention. AT&T's Consumer Benefit Plan is a customer-focused and competition-based solution. AT&T's Plan will benefit customers by spurring the growth of efficient competition, lowering prices and providing higher service quality.

AT&T's Consumer Benefit Plan is straightforward. If AT&T's plan is approved, AT&T will enter into the competition for interstate and intrastate Alaska services. AT&T will amend its interstate tariffs to provide both northbound and southbound services at AT&T's nationwide integrated rates, and it will offer Alaska customers lower rates on many calls by eliminating mileage bands 10 and 11 from its MTS tariff. AT&T will also improve service quality and create new service capabilities for Alaskans by developing its own network to serve Alaska, including the construction of a new fiber optic submarine cable system that will connect Alaska directly with the lower 48 states. This new cable will not only make new service capabilities available to Alaskans, it will also transcend the limitations of the existing Alaska Spur cable since its inception.

The Consumer Benefit Plan will also offer benefits to Alaska intrastate customers. AT&T will apply to the Alaska Public Utilities Commission ("APUC") for authority to provide intrastate switched services. AT&T's basic intrastate MTS rates will be equal to or less than the lowest current Alascom or GCI rates for comparable services. In addition, AT&T will pledge not to raise its initial MTS rates for five years, except to pass through APUC-approved increases in intrastate access charges.

AT&T's Consumer Benefit Plan will guarantee permanent and vigorous competition for Alaska telecommunications services, and at the same time offer customers lower prices combined with higher service quality and more service options than have ever been available.

AT&T has asked the FCC for authorization to provide service to, from, and within Alaska the same way it does in the rest of the country.

Once this happens, residence and business customers in the state will be able to pay less for long distance and get improved service. AT&T will invest over \$200 million to build its own network to and within the state, establish a market presence, and compete for business, just as it is done in the rest of the United States.

To substantially improve service and pave the way for future innovations, AT&T will construct a new fiber-optic submarine cable system from the lower 48 states to Alaska, and will deploy its own switching systems and a combination of cable and microwave transmission facilities throughout the state.

The company will also change its prices so that calls made between Alaska and the lower 48 states will cost no more than coast-to-coast calls within the lower 48 states. In effect, Alaskans could have significantly lower state-to-state long distance bills.

A 10-minute night or weekend call from Anchorage to New York, for example, would be reduced by 19 percent from \$1.60 to \$1.30; a 10-minute evening call from Juneau to Washington, D.C., would be reduced by 29 percent from \$2.10 to \$1.50; and a 10-minute daytime call from Fairbanks to Houston would be reduced by 17 percent from \$3.00 to \$2.50.

AT&T will lower intrastate long distance prices to all customers as well, guaranteeing they will be equal to or lower than rates Alaska customers currently pay.

In addition, AT&T guarantees it will not increase these prices for five years, except to pass through any increases in access costs approved by the Alaska Public Utilities Commission.

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	)	CC Docket No. 83-1376
Common Carriers between the	)	
Contiguous States and Alaska,	)	
Hawaii, Puerto Rico and the	)	
Virgin Islands	)	

AT&T'S COMMENTS

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Dated: June 28, 1993

SUMMARY

The Joint Board's May 17 Tentative Recommendation and Order Inviting Comments ("TR") correctly finds (§ 25) that the conditions which justified the existing Alaska telecommunications structure no longer exist. The TR also concludes (§ 27) that the Joint Service Arrangement ("JSA") no longer serves the public interest and should be replaced with a structure that "promote[s] competition, open entry and improved efficiency incentives." Despite this conclusion, however, the TR tentatively recommends a proposal (the "TR Proposal") that would continue the JSA and delay the establishment of full competition until at least 1997. In addition, the TR Proposal establishes numerous "transition mechanisms" whose essential purpose is to extend the Alascom subsidies into the next century.

The TR Proposal is a complex and unworkable plan which is inconsistent with the findings and Commission policies cited in the TR itself and does not meet the Commission's goals and the Joint Board's objectives for Alaska. Moreover, many aspects of the proposal are legally unenforceable. In contrast, AT&T's Consumer Benefit Plan satisfies all of the Commission's goals and the Joint Board's objectives and provides additional benefits to Alaskans in the form of lower prices, higher quality service and the introduction of new services and technology.

The TR Proposal's mechanism for ensuring universal service is legally unenforceable because the Communications

Act does not give the Commission the authority to require AT&T to file a Section 214 application to provide southbound service from Alaska. In addition, a determination that AT&T is a dominant carrier for such service would be inconsistent with the Joint Board's finding that AT&T has utterly no market power in Alaska. The proposed transition mechanisms intended to assure Alascom intrastate revenue requirement neutrality do not appear to be able to achieve their objective, even with the application of a huge accelerated cost recovery program, and some of those mechanisms are also beyond the scope of the Commission's authority. Moreover, the TR Proposal's efforts to achieve a competitive and efficient telecommunications structure are negated by the delays and disincentives built into the transition process.

AT&T's Consumer Benefit Plan, in contrast, is simple and straightforward, and it satisfies all of the Joint Board's objectives for Alaska. This plan, unlike the TR Proposal, is rooted in the proven fact that competition is the most effective way to assure that customers receive the best, most complete and most efficient services from interexchange carriers. The Consumer Benefit Plan will enable Alaska rapidly to develop into a fully competitive marketplace using the same telecommunications structure that has worked everywhere else in the United States. It will assure universal service and reasonable rates for Alaska consumers, particularly residents of the Alaska Bush, and it

will also create strong marketplace incentives for carriers to become efficient and keep Alaska intrastate MTS rates at or below their current levels. In addition, the Consumer Benefit Plan provides Alaskans with new and tangible price, service and technology benefits that are not contemplated in the TR Proposal.

When compared against the simplicity and unquestionable benefits of the Consumer Benefit Plan, the TR Proposal is inefficient and ineffective policy. The Consumer Benefit Plan focuses on customers and on the known positive benefits of interexchange competition. The TR Proposal, on the other hand, focuses its attention on carriers and complex regulatory rules. The principal justification underlying this proposal appears to be the unfounded fear that competition cannot work in Alaska. Such a fear is without support in the record, and it is directly refuted by recent experience in Alaska and elsewhere.

For all of these reasons, the Commission should finally and beneficially end the outmoded Alaska telecommunications structure embodied in the JSA and promptly adopt the Consumer Benefit Plan, so that Alaska consumers can at long last receive the full benefits of competition.

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Attachment C Projected Industry View under the Consumer
Benefit Plan

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	)	CC Docket No. 83-1376
Common Carriers between the	)	
Contiguous States and Alaska,	)	
Hawaii, Puerto Rico and the	)	
Virgin Islands	)	

AT&T'S COMMENTS

Pursuant to the Joint Board's May 17, 1993 Tentative Recommendation and Order Inviting Comments ("TR"), AT&T submits the following comments on (1) the Joint Board's proposal to restructure the Alaska telecommunications marketplace (the "TR Proposal"), (2) AT&T's Consumer Benefit Plan, and (3) Alascom, Inc.'s June 7, 1993 response to the TR's request for an implementation plan (the "Alascom Implementation Plan Response").

INTRODUCTION

I. BACKGROUND

This proceeding was initiated in April, 1983, in anticipation of the divestiture of the Bell System, which, together with the 1400 Independent Telephone Companies, had historically supported the costs of Alaska telephone service through the nationwide toll settlements pool. (TR ¶ 25) After divestiture occurred in January 1984, AT&T became solely responsible for the huge Alascom subsidies required

by the Joint Service Arrangement ("JSA"), and AT&T was the only carrier forbidden to compete for interstate MTS/WATS traffic in Alaska.

In September, 1985, two and one-half years after this proceeding began, the Commission established the Joint Board and requested it to recommend an appropriate interstate telecommunications market structure for Alaska.¹ Specifically, the Joint Board was asked to make a recommendation concerning "what market structure changes, if any, are necessary to harmonize the Commission's rate integration and competition policies for the Alaska interstate telecommunications market," including any separations or other rules changes necessary to implement that structure.²

In January 1989, more than three years later, and after AT&T had demonstrated that the division of revenues under the JSA was unlawful,³ the Joint Board issued the Supplemental Order, in which it tentatively found that "changes are necessary in the existing market structure for Alaska."⁴ The Joint Board's Plan B in the Supplemental

¹ Integration of Rates and Services, 50 Fed. Reg. 41714, October 15, 1985.

² Supplemental Order Inviting Comments, 4 FCC Rcd 395, ¶3 (1989) ("Supplemental Order").

³ See AT&T's Petition for a Lawful Interim Division of Charges, filed November 5, 1987 ("Division of Revenues Petition").

⁴ Supplemental Order, ¶ 35.

Order referenced the possibility of implementing certain "transition" requirements for AT&T, but indicated that such obligations were expected to end "in the early 1990's."⁵ The Supplemental Order also stated that parties submitting comments during the 1989 comment cycle "should consider this to be their final opportunity for presentation of new market proposals."⁶ AT&T and other interested parties submitted timely comments and waited for the Joint Board to issue a recommended decision. Nothing happened.

The market, however, continued to operate, and Alascom continued to benefit from unabated AT&T support under the JSA. By 1991, GCI had become a highly effective competitor in the Alaska interstate marketplace, largely as a result of the lower prices it offered to customers.⁷ Because of changes in Alaska law which post-dated the Supplemental Order,⁸ GCI also entered the intrastate marketplace, and intrastate prices began to decline as well.

During this same period, AT&T and Alascom, seeing no action from the Joint Board, put aside their substantial

⁵ Id. ¶ 70, fn. 91.

⁶ Id. ¶ 36.

⁷ One of the reasons underlying GCI's ability to lower its prices was its ability to demand "transitional support" from AT&T during the 1980's and early 1990's because AT&T was required to provide financial support for Alascom under the JSA. See Supplemental Order fn. 31.

⁸ Alaska Statutes, Section 42.05.800 et seq., enacted 1990.

differences and developed a plan to restructure the Alaska telecommunications marketplace that would have terminated the JSA and disaggregated Alascom into several different operating entities. This plan, called the "Master Agreement", was presented to the Commission for review in January 1992. The State Members rejected the Master Agreement in November 1992;⁹ consequently the contracts underlying that plan were allowed to expire.

In January, 1993, MCI and GCI made a public announcement that will have major impact upon the Alaska telecommunications marketplace. MCI, the nation's second largest IXC, apparently seeing significant opportunities for the development of competition in Alaska, announced that it would acquire a substantial stake in GCI.

At the same time, and in light of the history of this proceeding, AT&T set about to create a new plan for Alaska that would achieve the Commission's original intent to harmonize the policies of rate integration and competition, satisfy the objectives identified by the Joint Board in the Supplemental Order, and bring substantial new value to Alaskans. This plan, aptly called the Consumer Benefit Plan, was proposed to the Commission on March 31,

⁹ Memorandum of Principles, Alaska Market Structure: The State Members' Plan, November 5, 1992 ("State Members' Plan"), pp. 1-2.

1993.¹⁰ On May 17, the Joint Board issued its own tentative recommendation for a new Alaska telecommunications structure.

II. THE TR PROPOSAL

In the TR, the Joint Board correctly finds (§ 25) that the conditions which justified the original approval of the JSA "have changed dramatically" and (§ 15) that the JSA "has not tracked the dramatic changes divestiture, competition and technology have produced" in the rest of the country. The Joint Board also recognizes (§ 21) that competition has emerged in Alaska, and it acknowledges (§ 25) that "[t]he Commission has recognized and promoted the benefits to be derived from a competitive toll market structure which encourages carriers to eliminate waste, adopt new technology, develop new services and improve customer service." Thus, the Joint Board properly concludes (§ 71) that "the changed circumstances in the Alaska market no longer make it feasible to perpetuate the JSA," and (§ 27) that

"the public interest would be better served by terminating the JSA and thereby restructuring the interstate telecommunications market in Alaska to promote competition, open entry and improved efficiency incentives."

¹⁰ AT&T's Petition to Terminate the Joint Service Arrangement, filed March 31, 1993, referred to herein as the "Consumer Benefit Plan."

Notwithstanding these findings, however, the TR Proposal (§ 50) would continue the JSA for three more years and establish a number of complex "transition mechanisms". First (§§ 44, 51), the existing "frozen" separations factor for Alascom's circuit equipment would be reduced from 86% to 75% for purposes of establishing Alascom's revenue requirements under the JSA. At the same time (§§ 52-56), the impacts of this change on Alascom would be mediated by the establishment of an Alaska Fund to be managed through a separate corporation to be created by NECA. For three years, Alascom would receive from the fund the full differential resulting from the application of the new frozen separations factor. The Alaska Fund's support for Alascom would then be reduced, on a straight line basis, beginning in the fourth year and would be phased out after ten years. Second, the TR Proposal suggests (§§ 72-73) that AT&T and Alascom should enter in to a voluntary arrangement under which AT&T alone would fund a substantial (but undefined) reduction in the book value of Alascom's plant through an accelerated cost recovery program. Third (§ 74), the TR Proposal recommends that AT&T should be required to purchase substantial amounts of its interstate access-type requirements from Alascom in the fourth through seventh years of the transition period.

In addition, the TR Proposal (§§ 4, 31) would require AT&T, after the termination of the JSA, to file a Section 214 application to provide southbound interstate

MTS/WATS service from Alaska to the lower 48 states and Hawaii and to provide such service at AT&T's integrated rates. AT&T would also (§ 39) be designated a dominant carrier for such service.

Finally, Alascom would be required (§§ 33-35) to file tariffs for its interstate "access" type services (called "Alascom Common Carrier Services") and to make them available to all IXCs on a non-discriminatory basis at geographically averaged rates. Alascom would also (§ 30) continue its Alaska Bush facilities monopoly and (§ 39) be designated a dominant carrier for MTS, private line and Alascom Common Carrier services.

III. THE CONSUMER BENEFIT PLAN

In contrast to the TR Proposal, the Consumer Benefit Plan is simple and straightforward. Under this plan, the JSA will be terminated promptly, and AT&T will enter directly into the competition for interstate and intrastate Alaska services. AT&T will file a Section 214 application and amend its interstate MTS/WATS tariffs to enable it to provide southbound services at AT&T's nationwide averaged rates. AT&T will also offer Alaskans reduced rates on many of their interstate MTS/WATS calls by eliminating mileage bands 10 and 11 from its interstate MTS tariff. AT&T will also spend up to \$220 million to construct a new Alaska network, including a state-of-the-art fiber optic submarine cable system connecting Anchorage,

Juneau and the lower 48 states.¹¹ This new network will provide higher quality service to Alaskans and give them access to an array of new broadband service capabilities.

The Consumer Benefit Plan will also provide benefits to Alaska intrastate customers. AT&T will apply to the Alaska Public Utilities Commission ("APUC") for authority to provide intrastate interexchange services. AT&T's initial intrastate MTS rates will be lower than Alascom's current rates for such services,¹² and AT&T will not increase such rates for five years, except to pass through APUC-approved LEC access charge increases.

ARGUMENT

The Consumer Benefit Plan satisfies all of the Commission's goals and the Joint Board's objectives. It preserves rate integration for Alaska interstate rates, assures the continuation of universal service, and keeps Alaska intrastate rates stable. It also guarantees permanent and vigorous competition for both interstate and intrastate Alaska telecommunications services, and provides

¹¹ Approximately \$40 million of this amount is for AT&T's Alaska terrestrial microwave network. AT&T has requested the right to construct its own facilities in Alaska, but AT&T would be willing to lease most of its terrestrial microwave facilities needs from Alascom if Alascom can provide them at reasonable cost.

¹² AT&T's proposed intrastate rate schedule is appended as Attachment A.

strong incentives for all Alaska carriers to maximize efficiency. In addition, the Consumer Benefit Plan will lower long distance rates, make new services and technologies available, and provide more reliable service for Alaskans.

The TR Proposal, in contrast, is a complex and unworkable plan which is inconsistent with the Joint Board's own findings and does not meet the Joint Board's objectives as well as the Consumer Benefit Plan. Moreover, the TR Proposal suffers from several fatal legal deficiencies.

THE CONSUMER BENEFIT PLAN IS MORE EFFECTIVE AND
EFFICIENT THAN THE TR PROPOSAL.

The TR Proposal (§ 1) attempts to create "the best balancing of the five objectives [the Joint Board has] previously articulated: universal service, rate integration,¹³ revenue requirement neutrality, competition and efficiency." These objectives, however, are accomplished more efficiently and effectively under the Consumer Benefit Plan.¹⁴

¹³ The Joint Board's goal of rate integration has not been a controversial issue under any of the recently proposed plans for the new Alaska telecommunications structure. Both the TR Proposal (§ 31) and the Consumer Benefit Plan (p. 10) propose that AT&T would offer MTS/WATS service from Alaska to the lower 48 states and from Alaska to Hawaii under AT&T's nationwide integrated rate structure.

¹⁴ Private line services have never been the primary focus of this proceeding. See Supplemental Order fn. 38. The TR recognizes that private line services are not included in the JSA and that AT&T does not currently provide such services either to or from Alaska. See § 37. The TR

I. THE CONSUMER BENEFIT PLAN PROVIDES BETTER GUARANTEES OF
UNIVERSAL SERVICE THAN THE TR PROPOSAL.

AT&T acknowledges the importance of assuring the continuation of universal service in Alaska, but the mechanism recommended in the TR Proposal for achieving this objective is inconsistent with applicable legal rules and the Joint Board's own findings. The Consumer Benefit Plan, in contrast, will fulfill the Joint Board's universal service objective and provide more protections for residents of the Alaska Bush than the TR Proposal.

A. The TR Proposal's Mechanism For Ensuring
Universal Service Cannot Be Implemented.

Under the JSA, southbound interstate services from Alaska are provided under Alascom, not AT&T tariffs (TR fn.

(footnote continued from previous page)

also recognizes (§ 36) that Alascom is the principal provider of private line services in Alaska and proposes (§ 39) that Alascom should be designated as the dominant carrier for such services. Nevertheless, the TR Proposal (§ 37) recommends that if AT&T chooses to offer interstate private line services in Alaska, it should be required to do so under the same rates, terms, and conditions as in the rest of the country and it should be obligated to make its services available statewide in Alaska to the same extent as comparable AT&T services are made available throughout the nation.

AT&T's Alaska private line services would certainly be offered pursuant to the terms of the Communications Act. However, the market for these streamlined services is significantly different from the market for MTS/WATS. Therefore, it should not be presumed that AT&T's private line rate structures, terms, and conditions, or its decisions on where and when to make private line services available, would be the same as for MTS/WATS.

25), and AT&T has no authority to serve such traffic. Therefore, in support of the Joint Board's universal service objective, the TR recommends (§ 4, 31) that, in the new Alaska telecommunications structure, AT&T should be required to obtain the necessary Section 214 authorization and to offer southbound interstate MTS/WATS services from Alaska to the lower 48 states and Hawaii. This expansion of AT&T's obligations would be supplemented (§ 39) with a declaration that AT&T is a dominant carrier for these southbound services. These recommendations are unenforceable as a matter of law and inconsistent with the Joint Board's own findings.

The TR Proposal wrongly assumes that the Commission could require AT&T to file a Section 214 application to provide southbound interstate service from Alaska. The Communications Act does not give the Commission boundless authority to impose service requirements upon carriers. Rather, the federal regulatory scheme permits each carrier to make choices about the types of services it will offer, and where those services will be made available. The Commission may then impose its policies on the carrier only if the actions the carrier proposes are unjust, unreasonable, or discriminatory, or if Congress has

otherwise provided "a specific statutory basis for the Commission's authority."¹⁵

Section 214(d) permits the Commission to require a carrier "to provide itself with adequate facilities for the expeditious and efficient performance of its service as a common carrier and to extend its line or to establish a public office." The authority of that section, however, does not grant the Commission the power to order a carrier to file an application to build new lines to a place where the carrier currently provides no service.

In ICC v. Oregon-Washington Railroad & Navigation Co., 288 U.S. 14 (1933), the Supreme Court reviewed the extent of the ICC's authority under Section 21 of the Interstate Commerce Act ("ICA"), from which Section 214(d) of the Communications Act was directly taken. Construing the same relevant statutory language, the Court there held that the ICA did not give the ICC the authority to compel a railroad to extend its line to a distant point it did not already serve. The Court stated that it would be unreasonable to construe the statutory phrase "and to extend its line or lines" to give the commission power to require

¹⁵ AT&T v. FCC, 487 F.2d 865, 872 (2d Cir. 1973). For example, the Commission has authority to review rates proposed by a carrier; it may not, however, impinge upon that carrier's right to file new rates by requiring it first to obtain the Commission's permission to file the new rates. Id. at 871-81. See also United State v. Illinois Central R., 263 U.S. 515, 522 (1924) (noting similar limitations under the Interstate Commerce Act).

the construction of new facilities in an area where a carrier did not propose to build. It held that such language did not "grant to the Commission a new and drastic power to compel the investment of enormous sums for the development or service of a region which the carrier had never theretofore entered or intended to serve."¹⁶

The TR (fn. 25) acknowledges that southbound Alaska services are provided under Alascom tariffs and (§ 4) that AT&T does not have authority to provide such service. Under such circumstances, Section 214 does not empower the Commission to require AT&T to file an application for authority to provide southbound interstate service from Alaska.

But even if AT&T did, in the exercise of its independent business judgment, seek and obtain such authority, the Joint Board's own findings preclude any determination that AT&T is a dominant carrier for Alaska-originated services and thus subject to some form of universal service obligation. In addition to the findings cited in the paragraph above, the TR (§32) expressly finds that Alaska customers (correctly) perceive that Alascom, not AT&T, is the provider of their interstate MTS services. Moreover, the TR finds (*id.*) that Alaska customers are not even aware AT&T is "involved" in the provision of such

¹⁶ 288 U.S. at 35.

services. These findings demonstrate AT&T's complete lack of market power in Alaska and rebut any assertion that AT&T could be a dominant carrier for Alaska southbound services.¹⁷

B. The Consumer Benefit Plan Fully Meets The Joint Board's Universal Service Objective.

In contrast to the TR Proposal, if AT&T is permitted to bring all of the benefits of its plan to Alaska consumers, AT&T will make the necessary applications to obtain Section 214 authorization to provide southbound MTS/WATS service from Alaska.¹⁸ In addition, as a matter of convenience, AT&T will also agree to assume the duties of a dominant carrier for MTS/WATS services from Alaska to the lower 48 states and Hawaii.¹⁹ As a result, Alaska customers will receive "double protection", because AT&T, as well as Alascom, would be required to obtain Section 214 authorization before it could terminate southbound interstate service. Such protection is not available to customers in any other state.

¹⁷ Policy and Rules Concerning Rates for Competitive Common Carrier Services (First Report and Order), 85 F.C.C.2d 1, 21 ("[W]e define a dominant carrier as a carrier that possesses market power.").

¹⁸ In anticipation of the Commission's approval of the Consumer Benefit Plan, AT&T contemporaneously filed a Section 214 application to provide service between Alaska and the lower 48 states.

¹⁹ Consumer Benefit Plan, pp. 11-12.

In addition, the Consumer Benefit Plan offers residents of the Alaska Bush assurance that facilities will always be available to serve them. Under this plan (see Part IV. below), Alascom's interstate transport rates to the Bush would be based upon its actual costs of serving such areas. Thus there is no reason to assume that Alascom would ever seek to abandon its current obligation to serve these locations.²⁰ However, if the Consumer Benefit Plan is adopted and Alascom seeks to abandon its Bush monopoly, AT&T would be willing to assume Alascom's obligations and buy Alascom's existing Bush facilities at their net book value.

- II. THE CONSUMER BENEFIT PLAN WILL ACHIEVE THE JOINT BOARD'S OBJECTIVE OF PROTECTING INTRASTATE RATEPAYERS WITHOUT THE NEED TO FOCUS ON COMPLEX REGULATORY RULES.
- A. The TR Proposal's Plan For Protecting Intrastate Customers Will Not Work.

The TR Proposal seeks to achieve the objective of revenue requirement neutrality, i.e., the protection of intrastate ratepayers, through the development of a long series of "transition mechanisms" that rely upon the application of many complex regulatory rules. First, the TR Proposal (§ 50) recommends that the JSA should be continued

²⁰ The TR Proposal (TR § 30) would continue Alascom's obligation to construct facilities to Bush communities. This is consistent with current Commission rules. AT&T has no objection to a continuation of Alascom's Bush monopoly pending resolution of GCI's separate petition for authority to construct facilities to those areas. See TR fn. 22 and GCI's Petition for Rulemaking, filed January 10, 1989.

for three years. Second (§§ 41-46, 51), it recommends establishment of a "refrozen" allocator of 75% for Alascom's circuit equipment and would require Alascom to begin using that factor immediately in calculating its revenue requirements under the JSA. Third (§§ 52-56), it recommends the creation of an Alaska Fund to be run by NECA that would reimburse Alascom for all of its reduced receipts under the JSA for the first three years and then reimburse Alascom in declining amounts over the following seven years. i.e., through 2003.²¹ Fourth (§§ 57-73), the TR Proposal recommends that AT&T and Alascom should be required to develop an accelerated cost recovery program for Alascom in an undefined amount for an undetermined period.²² Finally (§ 74), the proposal recommends that AT&T should be obligated to purchase mandatory minimum amounts of Alascom

²¹ The TR Proposal (fn. 56) recommends that carriers' responsibilities to support the Alaska Fund should be based on the same criteria as their support of the Universal Service Fund, i.e. on the basis of presubscribed access lines. The inequitable sharing of responsibilities under the Universal Service Fund should not be expanded to any special fund established for Alaska. The circuit equipment which is the subject of the TR Proposal's Alaska Fund is usage sensitive, not line sensitive. Therefore, carriers' obligations to support any such fund should be based upon their minutes of use.

²² The Joint Board states (§ 73) that "[w]ithout an acceptable solution to the accelerated cost recovery issue, it is unlikely that the Joint Board's five goals could be achieved." However, AT&T demonstrates in these Comments that the Consumer Benefit Plan will achieve all of the Joint Board's goals without the need for such a program. See pp. 14-15, 21-25, 27-29.

Common Carrier Services in the fourth through seventh years of the transition, i.e. through the year 2000.

The stated purpose of this elaborate, decade-long program (§ 49) is to "give Alascom a reasonable opportunity to adjust and reduce its operating costs to a level that will enable it to offer competitively priced Alascom Common Carrier Services and to offer competitively priced interstate MTS if it eventually chooses to engage in that business." Thus, the focus of the TR Proposal is to extend subsidies to Alascom into the next century in order to maximize the possibilities for Alascom's financial success, irrespective of the costs it will impose on customers, other carriers and competition in the rest of the country.²³

The TR Proposal will not serve Alaska customers, because it would likely lead to both short and long term increases in Alascom's intrastate revenue requirements, even if Alascom received enormous amounts of cash to decrease the book value of its plant.²⁴ Alascom's analysis shows that an accelerated cost recovery program of more than \$220 million

²³ The Commission's duty under the law, however, is to "protect competition in the interexchange marketplace, not to protect competitors from the rigors of competition." Hawaiian Tel. Co. v. FCC, 498 F.2d 771, 776 (D.C. Cir. 1974), citing FCC v. RCA Communications, Inc. 346 U.S. 86, 96-97 (1953).

²⁴ The TR Proposal would also eliminate AT&T's economic incentives to bring Alaska consumers the technological innovations and better service that would be offered through AT&T's proposed Alaska network. See Part III. below.

over three years (i.e. an increase of about 50% over the proposal in the State Members' Plan and about a doubling of AT&T's current payments under the JSA) would still lead to increases in its intrastate revenue requirements for all but one year between 1994 and 2000.²⁵ If Alascom's analysis is correct, then, there is essentially no amount of money that could satisfy its needs in an environment where revenue requirements are the only measure.

And that is the point. Revenue requirements are a regulatory tool for controlling the pricing and spending practices of monopoly carriers. They are not appropriate tools for regulating a competitive environment, in which economic, rather than historical, costs provide the true measuring rod. Alascom has attempted only to show that it would not earn its monopoly "entitlements" unless it could raise rates. Alascom, however, is no longer operating in a

²⁵ Alascom Implementation Plan Response, Exhibit J. Alascom makes no statements about where the cash generated from an accelerated cost recovery program would go. It would appear, however, that the vast majority of this money would go directly to Alascom's corporate parent PTI, and then to PTI's 87% owner PacifiCorp, a large utility conglomerate based in Portland, Oregon which has annual revenues of over \$3 billion. These are the same corporations that have received substantial dividends from Alascom every year as a result of the guarantees provided under the JSA. See TR ¶ 26. Under the Consumer Benefit Plan, in contrast, AT&T will put about the same amount of money directly into the telecommunications infrastructure and provide long term benefits for the citizens of Alaska.

monopoly environment.²⁶ Moreover, it has not demonstrated that it cannot function profitably in a competitive marketplace on the basis of economic, rather than historical, costs.

The transitional mechanisms in the TR Proposal would also injure AT&T, its customers and competition generally in the rest of the country. The vast majority of the huge subsidies required by the TR Proposal would continue to be borne by AT&T and its customers alone. This, in turn, would place a substantial drag on AT&T's ability to offer customers lower rates and provide more effective competition in the lower 48 states.

Furthermore, some of the TR Proposal's transitional mechanisms are beyond the scope of the statutory authority granted to the Commission.²⁷ The TR Proposal's accelerated cost recovery program rests upon the unfounded assumption (§ 72) that AT&T and Alascom must reach a voluntary agreement in the context of the regulatorily-based proposal described in the TR. The Commission has no authority under the Act to require AT&T to enter such an agreement, which depends upon an exercise of AT&T's business judgment. Rather, the Act leaves matters of business

²⁶ Alascom's current share of Alaska interstate MTS/WATS traffic is approximately 60% to GCI's 40%. In addition, GCI, in only two years, has captured an intrastate market share of approximately 20%.

²⁷ See AT&T v. FCC, supra, 487 F.2d at 872.

judgment to the carriers themselves.²⁸ Thus, even though the Commission and the Alaska Public Utilities Commission ("APUC") may have the authority to order accelerated depreciation for Alascom, there is no authority under which they could require AT&T to enter into a voluntary agreement under which AT&T alone would pay Alascom to accelerate cost recovery for certain of its plant.²⁹

There is also no legal basis for the TR Proposal's recommendation (§ 74) that AT&T should be required to purchase a substantial portion of its post-JSA interstate service requirements from Alascom. The JSA requirement that AT&T must make exclusive use of Alascom facilities derives from the Commission's authority under Section 201(a) to establish through routes.³⁰ Section 201, however, makes no

²⁸ See e.g., Missouri ex rel. Southwestern Bell Tel. Co. v. Missouri Pub. Service Comm. 262, U.S. 276, 289 (1923) (regulatory commission "is not the financial manager of the corporation" and cannot substitute its judgment for the corporation in the absence of abuse of discretion). See also Policy to be Followed in the Allowance of Litigation Expenses, 92 F.C.C.2d 140, 144 (1982) ("the Commission regulates rates, it does not manage the carrier's business")

²⁹ AT&T has also shown that it would be wrong for the Commission to make AT&T alone responsible to fund such a program, because such a requirement would, in effect, require AT&T to provide cost subsidies for its direct competitors. AT&T's Response to Request for an Implementation Plan, filed June 7, 1993 ("AT&T's June 7 Response"), p. 5.

³⁰ This power is subject to a requirement that the division of charges for through routes must be just and reasonable. See Section 201(b). The division under the JSA, however, has been patently unjust and unreasonable at least since divestiture. Therefore, continued

(footnote continued on following page)

provision for mandatory purchase requirements upon carriers that are not participating in a through route. Indeed, such a requirement would not only conflict with the business judgment rule, it would also be contrary to the Commission's efforts to foster the development of competitive sources of supply for access services,³¹ because AT&T would not be able to obtain such services from other suppliers, even if they are more efficient than Alascom and can supply services at lower cost.

B. The Consumer Benefit Plan Will Effectively Guard Against Intrastate Rate Increases.

In contrast to the problems and insufficiencies of the TR Proposal described above, the Consumer Benefit Plan satisfies the Joint Board's objective to protect intrastate customers by focusing upon the known effects of competition in the interexchange business. This plan also provides Alascom with excellent opportunities for success if it is able to adapt its operations by the middle of this decade,

(footnote continued from previous page)

application of the current divisions during the proposed three year extension of the JSA (§ 50) would also be unlawful. See Attachment B.

³¹ See Expanded Interconnection with Local Telephone Company Facilities, Report and Order, 7 FCC Rcd. 7369 (1992) (dedicated access transport); Expanded Interconnection with Local Telephone Companies, Second Notice of Proposed Rulemaking, 7 FCC Rcd. 7740 (1992) (switched access transport and access tandem switching).

after receiving more than ten years of enormous subsidies from AT&T and its customers.³²

The Consumer Benefit Plan shows that Alaska intrastate ratepayers can be protected from rate increases without any need to resort to the complex regulatory rules invoked in the TR Proposal.³³ Because of the actions AT&T proposes to undertake, this plan will allow the Commission to build a new competitive Alaska telecommunications structure without becoming mired in a maze of accelerated cost recovery programs, revenue requirements, and separations procedures.³⁴

³² Under the Consumer Benefit Plan, AT&T will provide Alascom with significant transitional support. AT&T would not be able to implement its own switching capabilities in Alaska for at least one year after it commenced service in 1994, and it will take approximately three years to complete the new AT&T fiber optic cable system. Thus, AT&T will need to use these types of Alascom facilities in order to provide its initial service. In addition, assuming Alascom is able to manage its microwave facilities efficiently and provide services using those facilities in a cost-effective manner, AT&T may continue to lease microwave capacity from Alascom for a longer period. See fn. 11 above. Further, AT&T will be required to use Alascom facilities to serve areas covered by Alascom's facilities monopoly to the Alaska Bush.

³³ Another advantage of the Consumer Benefit Plan is that it would not require the establishment of a separate NECA infrastructure to administer the Alaska Fund (see TR ¶ 54) or the maintenance of a regulatory infrastructure to monitor performance under the TR Proposal. See id. ¶ 78.

³⁴ The Consumer Benefit Plan makes the issue of separations changes for Alascom irrelevant. Nevertheless, the TR correctly determines (¶ 44) that the frozen factor does not properly reflect the nature of Alascom's network or a fair apportionment of its costs between jurisdictions.

Under the plan, AT&T will voluntarily enter the Alaska intrastate market offering MTS rates that are approximately 4% lower than Alascom's current rates.³⁵ AT&T will also offer customers and the APUC a rate stability plan that will prohibit it from raising those prices for five years, except to pass through APUC-approved increases for intrastate LEC access.³⁶ AT&T's fixed intrastate rates, combined with existing APUC rules and the structure of the Alaska intrastate marketplace, will create competitive pressures on Alascom and GCI/MCI to keep their own prices stable during this period, including rates for calls from Alaska Bush locations.

The APUC's rules require that retail intrastate rates must be geographically averaged.³⁷ The longest mileage band under the Alascom and GCI intrastate tariffs

³⁵ See Attachment A. These rates are also less than or equal to GCI's current intrastate rates. Moreover, the average decrease for intrastate calls in the mileage bands above 275 miles (the bands most typically used in calling the Bush) is about 7%.

³⁶ Such increases, if any, have no relation to the market structure changes proposed in the Consumer Benefit Plan. Moreover, increases in intrastate LEC access charges appear unlikely in any event. Alascom/TUA's price cap proposal in connection with the Master Agreement predicted that Alaska LECs' intrastate access charges would decline steadily through 1998. See Letter from Donn T. Wonnell, Vice President, Regulatory Affairs & Secretary of PTI, to John W. Katz, Special Counsel to the Alaska Governor, dated September 9, 1992, p. 4 and Attachment, Section D.

³⁷ 3 Alaska Administrative Code ("AAC") §§ 52.370(a), 52.399.

(and AT&T's proposed intrastate tariff) is 455 miles.³⁸

This mileage band not only covers a high proportion of calls from Bush locations but also all of the calls between Juneau and Anchorage and between Juneau and Fairbanks. Thus, if any other carrier sought to raise prices for calls from Bush locations, it would also be required to raise its prices for calls between these major cities. In doing so, it would risk losing customers in the large cities to other carriers, including AT&T, whose rate stability pledge will require it to maintain its initial rates. As a result, AT&T's rate stability plan will discourage other carriers from raising rates on calls from Bush locations.³⁹

Overall, assuming normal inflation and steady intrastate access rates, AT&T's intrastate rate stability pledge will give Alaska consumers a real cost decrease of about \$24 million over the five year period. At the end of

³⁸ All Alaska carriers' retail rates must be structured using the same time-of-day rating periods and mileage bands as Alascom's. The rates for each mileage band must be equal to or greater than the rate for the next shorter band. 3 AAC § 52.370(a).

³⁹ Similarly, even if Alascom is freed from the obligation to mirror AT&T's interstate rates, Alascom's MTS/WATS interstate rates for calls from major Alaska cities would likely be competitive with AT&T's nationwide rates and GCI/MCI's rates. After the elimination of AT&T's mileage bands 10 and 11, AT&T's interstate calls from the Alaska Bush will be in the same mileage bands as calls from highly competitive areas such as Anchorage, Fairbanks and Juneau. Therefore, unless the Commission permits Alascom to de-average its rates, Alascom will not be able to set supracompetitive interstate rates for Bush customers.

this period, Alaska intrastate competition will have been operating for eight years, including five years of direct competition among Alascom, AT&T and GCI/MCI. Experience in every other state has shown that such competition, together with the efficiencies resulting from the introduction of new technology, drive costs and prices down, rather than up. Thus, there is no reason to expect that prices would ever rise as a result of adoption of the Consumer Benefit Plan.

III. THE CONSUMER BENEFIT PLAN WILL CREATE A MORE EFFECTIVE AND EFFICIENT COMPETITIVE ENVIRONMENT FOR ALASKA THAN THE TR PROPOSAL.

The TR (§ 25) acknowledges that "[t]he Commission has recognized and promoted the benefits to be derived from a competitive toll market structure," including the incentives that a competitive marketplace give carriers to increase their efficiency, adopt new technology, offer new services, and improve customer service. In addition, competition leads to lower prices for consumers, as is borne out by direct experience in Alaska.⁴⁰ The TR Proposal (§ 27) also expresses the oft-repeated concern that the JSA has provided Alascom with "little incentive to control costs or trim its rate base."

⁴⁰ GCI, whose interstate prices are, on average, about 2-3% less than Alascom's, now carries approximately 40% of Alaska-originated interstate MTS/WATS traffic. In addition, intrastate MTS prices have declined, on average, over 25% since 1989, when intrastate interexchange competition became a topic of significant debate.

Notwithstanding the undisputed benefits of competition and efficiency, the TR Proposal denies Alaska consumers the benefits of a fully competitive and efficient telecommunications structure until after the turn of the century, and it eliminates AT&T's economic incentives to bring new technology and new services to Alaskans. The Consumer Benefit Plan, on the other hand, encourages the prompt development of full, robust and efficient competition in Alaska, which will, in turn, bring to Alaskans benefits that are already available throughout the rest of the country.

The TR Proposal has negative short-term and long-term impacts on the future of interexchange competition in Alaska, and it also discourages Alascom from implementing efficiencies in the short term. The TR Proposal (§ 50) would continue the JSA and prohibit AT&T from entering the Alaska marketplace until 1997. This prohibition would significantly limit competition in Alaska despite the fact that MCI has recently acquired a substantial stake in GCI, Alascom's principal competitor, and that MCI will likely launch major competitive efforts during the next few years. And even if AT&T did enter Alaska in 1997 or later, market conditions may very well eliminate any economic incentive for AT&T to construct the Alaska network proposed in the Consumer Benefit Plan. Moreover, under the TR Proposal,

Alascom will continue to receive all of the economic support it currently receives through 1996.⁴¹ This will substantially dampen Alascom's incentives to make its operations more efficient in the short term.

Under the Consumer Benefit Plan, on the other hand, AT&T will become a full and active participant in the Alaska marketplace in 1994, and it will provide Alascom and all other carriers with significantly "improved efficiency incentives." (TR ¶ 27) Alaska consumers will benefit immediately from competition among three large carriers and will also receive the benefits of AT&T's Alaska network, which will introduce new technology and new service offerings to Alaskans. There should be no concern about Alaska's ability to sustain competition among at least three carriers. There are at least three facilities-based IXC's providing intrastate services in every other state, including sparsely populated states such as Wyoming. Furthermore, Attachment C is a projected industry view which shows that the entire Alaska telecommunications structure will remain profitable under the Consumer Benefit Plan.

The benefits of AT&T's proposed fiber optic submarine cable system should be of particular importance to Alaskans. AT&T's system will be constructed with newer and

⁴¹ An accelerated cost recovery plan would, if adopted, provide Alascom with even more financial support during this period.

more expandable technology than the Alaska Spur,⁴² and it will provide Alaskans with more reliable service. AT&T's cable will also connect two Alaska cities (Anchorage and Juneau) with the lower 48 states, rather than just one.⁴³ The AT&T Alaska cable will make a whole array of new broadband telecommunications capabilities available to Alaskans. Applications such as cable television, high definition television, teletraining, computer assisted design and manufacturing (CAD/CAM), and interactive video and data management capabilities could be made available over fiber optic facilities, providing new opportunities for consumers and businesses in Alaska.

The Consumer Benefit Plan will also create substantial efficiency incentives for Alaska carriers. As AT&T has previously explained⁴⁴, under the Consumer Benefit Plan, it will enter the Alaska marketplace as a competitive carrier with no customers. As a result, AT&T must attract callers to its network with low prices and high quality services or risk losing its large investment in its Alaska network. AT&T will have no guarantees of a return on this investment and will thus be compelled to implement maximum

⁴² See Consumer Benefit Plan, p. 8.

⁴³ Thus AT&T's cable will be used to transport intrastate traffic between Anchorage and Juneau in addition to interstate service.

⁴⁴ AT&T's June 7 Response, p. 8.

efficiencies as it constructs and maintains its Alaska facilities. These actions will create competitive marketplace pressures on all other carriers to be more efficient so that they can keep their own prices competitive.

In sum, there can be no question that the Consumer Benefit Plan will foster the prompt development of an efficient and competitive telecommunication structure for Alaska better than the TR Proposal.

IV. Alascom Should File Appropriate Tariffs To Enable IXCs To Provide Alaska Service.

The TR Proposal (§ 33) correctly recognizes that Alascom must file tariffs to provide interstate "access" services. AT&T strongly agrees with the TR Proposal's requirement that Alascom file cost-based tariffs that will enable IXCs to purchase what the TR calls "Alascom Common Carrier Services", i.e. interstate transport and switching services within Alaska.⁴⁵ These services should be offered on a non-discriminatory basis to all carriers. In addition, Alascom should be required to maintain cost-based tariffed rates for the use of Alascom's Alaska Spur cable until there

⁴⁵ See Consumer Benefit Plan, pp. 14-15. Such services would also include transport to locations where no LEC exists. TR fn. 28.

are competitive fiber optic facilities available between Alaska and the lower 48 states.⁴⁶

AT&T also supports the TR Proposal's position that Alascom's costs for competitive Alaska transport services should not become embedded in its rates for service to the Alaska Bush, which is provided pursuant to Alascom's de jure facilities monopoly.⁴⁷ Establishment of general geographically averaged rates for Alascom Common Carrier Services (see TR ¶ 35) would not, however, accomplish that objective as well as the establishment of a separate study area covering Alascom's monopoly service to Bush locations. Establishment of such a study area, which would include all of Alascom's costs for service to the Bush, and exclude all of Alascom's other costs, is the clearest and simplest way to assure that Alascom cannot recover the costs of providing competitive services in its rates for services on monopoly routes.⁴⁸

⁴⁶ AT&T does not object to the fact that some of these services are offered pursuant to contracts, provided that the contracted services continue to be made available on similar terms and conditions to all similarly situated carriers.

⁴⁷ See TR ¶ 35. "We generally concur . . . that Alascom not be able to lower its rates in the competitive urban areas and recover all or virtually all of its costs in the bush areas, where it is the monopoly provider . . ."

⁴⁸ Establishment of such a study area would be consistent with the unique status of Alascom's Bush monopoly. It would also enable the Commission to review the actual costs of serving the Bush and to examine whether the assumptions underlying its original establishment of the Bush facilities monopoly remain valid.

If a study area is established to cover Alascom's unique Bush monopoly, the rates for Alascom's transport service to those areas are likely to be very high compared to the price of transport elsewhere. In addition, AT&T is the only carrier required to provide northbound service to the Bush under either of the plans now being considered. Under these unique circumstances, and consistent with the proposal in the earlier State Members' Plan, AT&T should not be "forced to carry Alaska traffic for its competitors on terms which are unduly favorable to those competitors and unduly costly to AT&T."⁴⁹ Rather, AT&T should be permitted to require its IXC competitors to purchase Bush transport services directly from Alascom. This will place all competing IXCs on an equal footing in providing services that require the use of Alascom's monopoly facilities.

⁴⁹ See State Members' Plan, p. 25.

CONCLUSION

The Consumer Benefit Plan offers Alaskans more advantages, and fulfills the Commission's goals and the Joint Board's objectives, better than the TR Proposal. Therefore, the Consumer Benefit Plan should be adopted and permitted to go into effect as soon as possible.

Respectfully submitted,

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

By /s/ Francine J. Berry
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Its Attorneys

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Dated: June 28, 1993

Attachment A

AT&T's Proposed Alaska Intrastate Basic Schedule Rates

Mileage bands	DAY		EVENING		N/W	
	INT'L MIN	ADD'L MIN	INT'L MIN	ADD'L MIN	INT'L MIN	ADD'L MIN
0 to 34	0.31	0.130	0.251	0.104	0.157	0.065
35 to 64	0.35	0.170	0.281	0.136	0.176	0.085
65 to 94	0.38	0.190	0.304	0.152	0.190	0.095
95 to 124	0.41	0.230	0.327	0.184	0.204	0.115
125 to 154	0.44	0.250	0.350	0.200	0.219	0.125
155 to 184	0.47	0.280	0.372	0.224	0.233	0.140
185 to 214	0.50	0.320	0.403	0.256	0.252	0.160
215 to 274	0.53	0.340	0.426	0.272	0.266	0.170
275 to 334	0.54	0.350	0.433	0.280	0.271	0.175
335 to 394	0.54	0.350	0.433	0.280	0.271	0.175
395 to 454	0.54	0.350	0.433	0.280	0.271	0.175
over 455	0.55	0.360	0.441	0.288	0.276	0.180

ATTACHMENT B

The following memorandum describes in detail the unlawfulness of the division of revenues under the JSA.

THE PROPOSED CONTINUATION OF THE EXISTING DIVISION OF CHARGES UNDER THE JSA IS UNLAWFUL.

In November, 1987, AT&T filed with the Commission a Petition for a Lawful Interim Division of Charges.¹ In that Petition and its subsequent Reply Comments,² AT&T demonstrated that the division of charges effected under the JSA is unlawful because it requires AT&T to pay Alascom more than 100% of the revenues derived from the joint service. Such an arrangement exceeds the Commission's authority under Section 201 of the Communications Act³ to establish a "just and reasonable" division of charges for through routes. Therefore, AT&T requested the Commission to issue an order that would divide the charges for the joint Alaska service based upon the proportionate costs each carrier incurs in providing that service. The Commission has never acted upon AT&T's Petition.

¹ AT&T's Petition for a Lawful Interim Division of Charges, filed November 5, 1987 ("Division of Revenues Petition").

² Reply Comments of American Telephone and Telegraph Company, January 11, 1988 ("AT&T's Reply Comments").

³ 47 U.S.C. § 201.

The JSA has required AT&T to incur all of its own costs for the joint service without the opportunity to retain any of the revenues from that service. It has also required AT&T to pay all of Alascom's costs, including a rate of return on Alascom's investment. Thus, Alascom is fully reimbursed for all of its costs, irrespective of the actual revenues received for the entire joint service. It is this very fact, i.e., the fact that Alascom's revenue requirements (and thus its guaranteed revenues under the JSA) increase whenever it spends more money, that has given rise to the Joint Board's own concern that the JSA fails to provide Alascom with appropriate incentives to be efficient.⁴

The disproportionate burden the JSA places upon AT&T was recognized by the Commission in one of its earliest orders in this proceeding:

"It is uncontested that [the JSA] results in Alascom . . . receiving considerably more from the settlements process to cover its costs and provide it a return on its investment than is recovered in revenues from interstate MTS/WATS service to and from Alaska."⁵

⁴ See TR ¶ 26 ("As long as the JSA exists, there is little incentive for Alascom to control costs or trim its rate base as both its revenue requirement and a customer for its interstate services are virtually assured."). See also Memorandum of Principles, Alaska Market Structure: The State Members' Plan, November 5, 1992 ("State Members' Plan"), p. 2 ("[I]t has been recognized that the JSA creates disincentives for economic efficiency . . .").

⁵ Memorandum Opinion and Order, CC Docket No. 83-1376, released December 11, 1984, ¶ 15. (emphasis added)

Nevertheless, no Commission action has been taken to rectify this unjust division.

The existing arrangements under the JSA "divide" the revenues for the Alaska joint service by giving Alascom more than 100% of such revenues and AT&T less than 0%. Such an apportionment violates any possible reading of Section 201's mandate that "through routes and charges applicable thereto and the division of such charges" must be "just and reasonable."

Further, the division of revenues under the JSA is unlawfully confiscatory. AT&T, like any other carrier involved in providing a joint service, is entitled to receive fair consideration for its costs "fairly attributed to the service covered by the divisions." Baltimore & Ohio R.R. v. United States, 298 U.S. 349, 373 (1936) ("Baltimore & Ohio R.R."); see also I.C.C. v. Hoboken Manufacturers' R.R., 320 U.S. 368, 379 (1943).⁶ Under the JSA, however,

⁶ These cases were decided under parallel provisions of the original Interstate Commerce Act ("ICA"). See 49 U.S.C. §§ 1(4), 1(5), 16(5). The Commission's authority to prescribe divisions of revenues under Section 201 of the Communications Act is based upon these provisions. See, e.g., United Telephone Company v. FCC, 559 F.2d 720, 724 n.7 (D.C. Cir. 1977). Indeed, numerous provisions of the Interstate Commerce Act were copied into the Communications Act, and "[any] variances or departures from the text of the Interstate Commerce Act [were] made for the purpose of clarification in their application to communications, rather than as a manifestation of congressional intent to attain a different objective." S. Rep. No. 781, 73rd Cong., 2d Sess. 2 (1934). See generally ABC v. FCC, 643 F.2d 818, 820-21 (D.C. Cir. 1980); AT&T v. FCC, 487 F.2d 865, 879 (2d Cir. 1979).

AT&T receives less than nothing for its costs incurred in providing Alaska service.

This principle has been directly applied under Section 201 of the Communications Act. In Rogers Radio Communications Service, Inc. v. FCC,⁷ the D.C. Circuit held that Illinois Bell could not be required to provide service to another carrier where the service would be provided at a loss. The Court expressly rejected arguments based upon Rogers' "erroneous belief" that Illinois Bell's entire business had to "be in the red before the noncompensatory nature of any service can be raised as [a valid] business justification" to refuse to provide service.⁸

Alascom's earlier arguments against AT&T's Petition⁹ are unavailing. Contrary to Alascom's claim,¹⁰ it has not participated with the post-divestiture AT&T in "a joint enterprise to provide public switched interstate telephone services throughout the United States." The only traffic covered by the JSA is switched traffic between Alaska and the lower 48 states. Thus, Alascom is "entitled to receive by divisions only its just and equitable share of

⁷ 751 F.2d 402, 415 (D.C. Cir. 1985).

⁸ Id. n. 17.

⁹ Opposition of Alascom, Inc. to AT&T Petition for a "Lawful" Interim Division of Charges, filed December 18, 1987 ("Alascom Opposition").

¹⁰ Id. at 6.

the proceeds of the joint . . . service rendered," and no more. Hoboken Manufacturers' R.R., 320 U.S. at 379. It "cannot claim as part of its share the costs of a service which is not part of the . . . service called for by the joint rates." (Id.) Just as the railroads in Baltimore & Ohio R.R. were only entitled to a division of the "citrus fruit net revenues,"¹¹ Alascom is only entitled to a division of the revenues derived from the joint Alaska service.

Alascom has been unable to point to a single similar arrangement in which one carrier has been required to pay to another carrier more than 100% of the revenues it has earned from any joint service. In the New England Divisions Case cited by Alascom¹², the Supreme Court expressly noted that there was "no claim that the apportionment results in confiscatory rates." Rather, the Court found that the division at issue had been limited to "the amount properly apportioned out of the joint rate."¹³ There was no suggestion that any participating carrier would be required to pay any amounts out of the general revenues

¹¹ 298 U.S. at 374.

¹² 261 U.S. 184 (1923). See Alascom Opposition, pp. 17-18.

¹³ Id. at 195.

it had derived from services outside of the joint arrangement.¹⁴

Furthermore, Alascom's attempt to frame arguments based upon the pre-divestiture voluntary pooling arrangements in the telephone industry has no foundation in fact or in law after the dissolution of the Bell System.¹⁵

¹⁴ Id. at 196. In the New England Divisions Case, the Court upheld ICC rulings pursuant to statutory provisions that authorized it to establish mandatory and involuntary pooling arrangements for railroads. The ICC's rulings raised rates for all carriers and required economically stronger railroads to pay a larger share of joint service costs than weaker carriers. In addition to the fact that the case did not involve any claim of confiscation, Alascom's reliance upon this case is misplaced for two reasons. First, the ICC's power to require mandatory pooling arrangements for railroads was repealed in 1933. See North Carolina v. United States, 325 U. S. 507, 515 n. 4 (1945). This was before the Communications Act was adopted, and exactly at the time when the Communications Act was being debated. No similar powers were ever incorporated into the Communications Act. See also Reply Comments of AT&T, filed January 11, 1988, pp. 4-5. Second, the case involved the ICC's regulation of the entire railroad industry. Unlike the JSA, the ICC's ruling did not attempt to burden one single carrier with disproportionate costs. Rather, those burdens were shared among all carriers in the industry.

¹⁵ Prior to divestiture, the Bell System and the Independent Telephone Companies established voluntary pooling arrangements to provide a collective support structure for all carriers. The earlier existence of such arrangements, which the Commission expressly found were voluntary, see MTS-WATS Market Structure Inquiry, 92 F.C.C.2d 787, 791 (1982); MTS-WATS Market Structure Inquiry, 81 F.C.C. 2d 177, 189-92 (1980), does not support the involuntary arrangement mandated by the JSA. Unlike the pre-divestiture arrangements, which were established on a voluntary industry-wide basis, the JSA requires a single competitive carrier (AT&T) involuntarily to provide service at an enormous loss in order to subsidize another carrier.

Unlike the old ICA, the Communications Act has never referenced "pools" of any kind. Rather, Section 201 expressly limits the Commission's authority to the designation of through routes and requires that the charges for service on those routes be subject to a just and reasonable division. The "division" of charges under the JSA that has been imposed upon the separated AT&T since 1984 is neither just nor reasonable.

Alascom's argument that the adoption of a lawful division of charges would lead to discrimination under Section 202 is also erroneous.¹⁶ The fact that Alascom must mirror AT&T's rates for calls from Alaska to the lower 48 states¹⁷ does not support Alascom's claim that it is entitled to a subsidy derived solely from revenues AT&T has received for providing service outside of the JSA. Any support necessary for Alascom to comply with the rate integration requirement must come from an appropriately established support mechanism (e.g. an Alaska High Cost Fund) that places fair proportional economic responsibilities on all carriers, not just AT&T.¹⁸

¹⁶ Alascom argues (Alascom Opposition, pp. 19 et seq.) that it would be unable to meet its obligation to charge AT&T's integrated rates for interstate calls originating in Alaska if it were no longer guaranteed to recover all of its costs and its rate of return directly from AT&T.

¹⁷ See Alascom Opposition, p. 19 n.36.

¹⁸ See, e.g., AT&T's discussion of such a fund in its April 13, 1989 comments in response to the Joint Board's Supplemental Order Inviting Comments, pp. 25-29.

In sum, there has never been any legal basis to impose the JSA's "division" of the joint service revenues on the post-divestiture AT&T. The Joint Board's own findings in the TR concerning the radically changed conditions affecting the Alaska marketplace make any continuation of the unfair and disproportionate burdens of the JSA even more untenable.¹⁹ Therefore, the Joint Board's proposal to continue the JSA through 1996 violates Section 201 of the Communications Act and cannot be lawfully implemented.

¹⁹ See TR ¶¶ 15, 25.

CONSUMER BENEFIT PLAN

These assumptions apply to Attachment C:

(i) The industry structure revenues are Alaska billed revenues only.

(ii) The minute growth rate forecast is as follows:

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Intrastate & International:	2.958%	3.291%	3.212%	3.018%	2.989%	3.232%	3.251%	3.251%	3.251%	3.251%
Interstate	3.944%	4.445%	3.969%	3.573%	3.825%	4.171%	4.470%	4.387%	4.920%	4.920%

(iii) Private line revenues are forecast to be flat, because private line growth is expected to be offset by conversion of some private line services to switched services.

(iv) In the industry structure the expense to revenue ratio is assumed to be 85%.

(v) Price reductions are calculated as follows:

Interstate : Mileage bands 10 & 11 are eliminated.

Intrastate: See Attachment A.

(vi) The price/demand elasticities are assumed to be as follows:

Interstate : -0.547

Intrastate: -0.58

(vii) The effective tax rate is assumed to be 35%.

(viii) AT&T will build facilities between Anchorage, Fairbanks, and Juneau and will lease terrestrial microwave network capacity from Alascom.

(ix) Alascom will retain its earth station/satellite monopoly in the Bush.

**CONSUMER BENEFIT PLAN
INDUSTRY STRUCTURE
(DOLLARS & MINUTES IN MILLIONS)**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
MINUTES:										
INTRASTATE	311.11	320.14	330.42	340.40	350.56	362.24	374.13	386.40	399.08	412.17
INTERSTATE - ALASKA BILLED	579.88	595.88	629.67	652.17	677.12	705.38	736.89	780.22	807.08	848.77
INTERNATIONAL	24.55	25.30	26.20	26.90	27.80	28.72	29.67	30.64	31.64	32.68
REVENUES:										
INTRASTATE	\$98.70	\$102.45	\$105.74	\$108.93	\$112.18	\$115.92	\$119.72	\$123.65	\$127.70	\$131.89
INTERSTATE - ALASKA BILLED	122.13	127.88	132.61	137.35	142.61	148.55	155.19	162.88	169.97	178.34
INTERNATIONAL	25.58	26.43	27.27	28.19	29.94	29.90	30.88	31.90	32.94	34.02
PRIVATE LINE	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00
OTHER REVENUES	58.69	72.22	49.83	44.44	48.64	51.81	51.05	53.72	56.08	57.78
TOTAL REVENUES	\$380.06	\$403.96	\$394.48	\$393.82	\$407.38	\$421.18	\$432.45	\$446.27	\$461.68	\$477.03
TOTAL EXPENSES:	\$323.05	\$343.11	\$328.78	\$334.74	\$346.25	\$358.80	\$367.58	\$379.33	\$392.43	\$405.48
OPERATING INCOME	\$57.81	\$60.55	\$57.67	\$59.07	\$61.10	\$63.18	\$64.87	\$66.94	\$69.25	\$71.55
NET INCOME	\$37.06	\$39.36	\$37.48	\$38.48	\$39.72	\$41.06	\$42.16	\$43.51	\$45.01	\$46.51
CAPITAL INVESTMENT NET										
ALASCOM	\$259.18	\$236.82	\$213.47	\$191.48	\$207.39	\$183.78	\$160.53	\$137.67	\$126.13	\$108.87
AT&T	\$44.20	\$80.68	\$127.40	\$104.19	\$80.25	\$77.45	\$89.27	\$82.43	\$57.05	\$51.95
ALL OTHER	\$46.80	\$47.80	\$48.00	\$49.00	\$50.00	\$51.80	\$52.00	\$53.00	\$54.00	\$55.00
TOTAL	\$349.38	\$373.88	\$388.87	\$344.86	\$341.84	\$312.20	\$281.80	\$253.10	\$237.18	\$215.82
NEW										
ALASCOM	\$11.00	\$11.00	\$11.00	\$11.00	\$51.00	\$11.00	\$11.00	\$11.00	\$11.00	\$11.00
AT&T	\$49.00	\$62.88	\$64.04	\$5.35	\$5.35	\$5.21	\$5.38	\$5.22	\$5.51	\$5.51
ALL OTHER	\$6.00	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11
TOTAL	\$66.00	\$79.77	\$81.15	\$22.46	\$62.46	\$22.32	\$22.47	\$22.33	\$22.62	\$22.62
RATE OF RETURN	10.61%	10.53%	9.64%	11.14%	11.40%	13.15%	14.96%	17.19%	18.98%	21.55%

CERTIFICATE OF SERVICE

I, Karen Mitchell, do hereby certify that on this 28th day of June, 1993, a copy of AT&T's Comments has been served by first class mail, postage prepaid, upon the following parties:

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JOINT
BOARD

the
Communications Commission
Washington, D.C. 20554

FCC 93J-1

In the Matter of

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

Tentative Recommendation
and Order Inviting Comments

Adopted: May 17, 1993

Released: May 17, 1993

By the Federal-State Joint Board

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2

THE
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I. Introduction

1. In this Tentative Recommendation and Order Inviting Comments, we adopt a tentative recommendation for the creation of a new market structure for the provision of interstate telecommunications service between Alaska and the contiguous states (Lower 48) and between Alaska and Hawaii. We tentatively conclude that this market structure represents the best balancing of the five objectives that we have previously articulated: universal service, rate integration, revenue requirement neutrality, competition, and efficiency. We require the American Telephone & Telegraph Company (AT&T) and Alascom, Inc. (Alascom) to submit joint or separate plan(s) to implement this new market structure. We invite all interested parties to comment on the new proposed market structure and on AT&T's and Alascom's implementation plan(s). We additionally invite comment on a separate proposal by AT&T for resolution of the issues in this proceeding. It is our intent that after review of all the comments and proposals, we will then issue a final recommendation to the Federal Communications Commission (Commission).

II. Executive Summary

2. Alaska interstate message telephone service and wide area telecommunication service, hereinafter collectively referred to as MTS, is now provided under a Joint Service Arrangement (JSA) between AT&T and Alascom. Under the JSA, Alascom and AT&T serve Alaska jointly with AT&T providing northbound service and Alascom providing southbound service. Alascom furnishes facilities in Alaska and connects with AT&T in the Lower 48. AT&T reimburses Alascom for all expenses it incurs in its provision of interstate MTS service with AT&T. Pursuant to a "frozen" allocator, approximately 86% of Alascom's circuit equipment costs are assigned to the interstate jurisdiction. Private line service is not governed by the JSA and is furnished on a statewide basis principally by Alascom. We tentatively conclude that, subject to institution of suitable transition mechanisms, the JSA should be terminated and its service arrangements replaced by our proposed market structure. This termination is tentatively effective three calendar years after the date the Commission adopts a final order in this proceeding establishing effective transition mechanisms.

3. MTS between Alaska and Hawaii is provided by AT&T under arrangements with both Alascom and GCI Communications, Inc. (GCI). Any contracts between AT&T and Alascom for service to Hawaii would also terminate within three calendar years, and service shall thereafter be provided via tariff.

4. Under our proposed market structure, AT&T would provide interstate MTS between Alaska and the Lower 48 (northbound and southbound) at integrated rates and under the same terms and conditions applicable to its provision of service in the Lower 48. AT&T would also be obligated to furnish interstate MTS service between Alaska and Hawaii at integrated rates. To provide these services, AT&T must obtain the requisite authority pursuant to Section 214 of the Communications Act of 1934 (Communications Act), 47 U.S.C. § 214. After the JSA is terminated, Alascom may provide interstate

MTS independently from AT&T under its own tariff with no obligation to charge AT&T's integrated rates. Our market structure would not involve any mandatory requirements for transfer of customers in Alaska between Alascom and AT&T. To the extent the parties envision such transfers, these will need to be submitted and approved in transition plans.

5. We tentatively conclude that, in view of the prohibition against construction of duplicate facilities in rural Alaska, any services provided to interexchange carriers (IXCs) by Alascom under tariff should ultimately be offered on a non-discriminatory basis at geographically averaged tariffed rates. We also would require that Alascom continue to provide interstate private line service upon reasonable request pursuant to its existing federal tariffing and Section 214 obligations.

6. We also tentatively conclude that the cost separations factor applicable to Alascom's interexchange circuit equipment should be reduced over a 10-year period from its current level of approximately 86% to 75%. However, payments for Alascom's interstate services would be made as if a 75% allocator were in effect. Alascom would recover the difference between 86% (or the current transition level) and 75% from a special, temporary fund called the Alaska Fund. The Alaska Fund would be administered by the National Exchange Carrier Association, Inc. (NECA). At the end of 10 years the 75% separations factor would be fully phased-in and the Alaska Fund fully phased-out.¹

7. In addition, our tentative recommendation would require a reduction of Alascom's interstate and intrastate revenue requirement, funded by AT&T. We tentatively conclude that this is necessary to achieve a more competitive market for Alaska services and to protect against harmful jurisdictional cost shifts which are two of our five goals. Such a reduction in revenue requirement could be achieved through accelerated cost recovery and would be the subject of an implementation plan(s) to be filed by AT&T and Alascom.

8. Finally, under our tentatively recommended market structure, AT&T would be required to use Alascom's facilities for its Alaska traffic for three years with a phase-out of this obligation over the succeeding four years. At the end of seven years, AT&T would be permitted to provide service to and from Alaska without a requirement to use any Alascom facilities. Lastly, our tentative recommendation addresses a number of miscellaneous issues pertinent to the new market structure.

9. This Order solicits comments in response to a tentative recommendation for restructuring the Alaska interstate market but does not endeavor to specify all details of implementation of that market structure. This level of refinement necessarily follows adoption of the basic form and

¹ United Utilities, Inc. (UII) would also be required to use the 75% allocator for its interexchange circuit equipment and, concomitantly, would be eligible for payments from the Alaska Fund.

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transition mechanisms for the market. The implementation plans and comments should assist in defining these details and in establishing the final timetable to be used for various aspects of the proposed market structure.

III. Background

10. Alaskan telecommunications issues have been before the Commission for over twenty years. Since 1985 the Alaska Joint Board has been attempting to determine the appropriate interstate telecommunications market structure for Alaska. During this period, interested parties have had numerous opportunities to comment in response to information requests by the Alaska Joint Board and several market proposals offered by the Alaska Joint Board and other parties.

A. Supplemental Order

11. On January 3, 1989, the Alaska Joint Board issued a Supplemental Order inviting comments on five objectives to govern the resolution of this proceeding and two alternative market structure options. Parties were also invited to present additional market structure proposals to suggest improvements in the current arrangement in the event that an acceptable alternative was not found.² The five objectives we identified to govern the resolution of this proceeding were: (1) preservation of universal service; (2) continuation of rate integration; (3) market based competitive entry; (4) increased efficiency; and (5) jurisdictional revenue requirement neutrality.

B. Master Agreement and GCI Petition

12. On January 29, 1992, AT&T, Alascom, Pacific Telecom, Inc. (PTI), and Telephone Utilities of Alaska, Inc. (TUA) filed a Joint Petition seeking approval of a Master Agreement (MA) for the provision of Alaska telecommunications services. General Communication Incorporated (GCI) also filed a petition on that date requesting that the Commission initiate a new proceeding independent of the CC Docket No. 83-1376 Joint Board to resolve Alaska market structure issues.³

13. Key terms contemplated under the Master Agreement were: (1) the JSA would be dissolved and AT&T could establish points of presence (POPs) in Alaska; (2) AT&T would be responsible for provision of interstate MTS at integrated rates and would purchase Alascom's customer list and capacity on the Alaska Spur to make service possible; (3) AT&T would make payments

² 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, 4 FOC Rcd 395 (1989) (Supplemental Order).

³ On March 4, 1992, the Joint Board issued a Public Notice requesting comments and reply comments on the MA and the GCI proposal.

totalling \$330 million to PTI and its holding companies; (4) Alascom would transfer a portion of its facilities to TUA;⁴ (5) the restructured TUA would provide interstate service pursuant to NECA (1991) and intrastate service in Alaska using a non-statewide state and local exchange carrier (LEC) separations factor for circuit payment;⁵ (6) TUA would promise no intrastate rate increases during a five year transition; (7) AT&T and TUA would enter into various lease agreements; and (8) PTI, Alascom, and TUA would not compete against AT&T for provision of interstate and international MTS services for three years. The MA was conditioned on regulatory approval of the Joint Petition and all related documents by November 1, 1992. This deadline was later extended to January 15, 1993.⁶

C. State Members' Plan: Alaska Market Structure

14. In response to the MA, other plans, and pleadings filed by commenting parties, the State Members of the Alaska Joint Board released a Memorandum of Principles - Alaska Market Structure: The State Members' Plan on November 5, 1992.⁷ Major points of the State Members' Plan were: (1) the JSA would be eliminated after a suitable transition period; (2) there would be no consolidation of TUA and Alascom; (3) Alascom could continue to provide interstate MTS, but if it chose not to, it would be required to provide a plan for the smooth transition of its customers to alternate carriers; (4) Alascom would be required to provide interstate interexchange switching and transport facilities to all IXCs on a non-discriminatory basis; (5) Alascom would be required to provide intrastate and private line services; (6) Alascom would not participate in NECA; (7) AT&T would be responsible for interstate MTS at integrated rates; (8) Alascom would remain a dominant carrier; (9) during a three year transition, AT&T would be required to purchase its switching and transport services from Alascom and to make additional annual payments to allow Alascom to employ accelerated depreciation to reduce its interstate and intrastate net plant by at least an additional \$50 million per year; and (10) Alascom would continue to employ the frozen circuit equipment factor.

⁴ All of Alascom's communications facilities would be transferred to TUA, except for Alascom's interests in the Alaska Spur, certain assets necessary to provide interstate and international private line services, and assets necessary to serve Magadan, Russia.

⁵ Changes from the IXC to the LEC separations factor would occur under a five year transition mechanism (Alaska Market Adjustment).

⁶ In January, 1993, AT&T notified us that the MA had expired and that the parties had elected not to extend its effective date. In light of this development, the MA is moot. Given that it is no longer pending, we will not further address the merits of the MA in this Order.

⁷ On December 2, 1992, a Public Notice was issued to invite comments on the State Members' Plan.

IV. Market Structure

A. Introduction

15. The current structure of the interstate MTS market for Alaska was basically set in the late 1970s in response to the Commission's requirement for full rate integration. At that time, AT&T and Alascom entered into the JSA. While this Alaska market structure resembles the toll pool and settlements environment of the Lower 48 in the late 1970s, it has not tracked the dramatic changes that divestiture, competition, and technology have produced since then in the Lower 48.

16. There are few, if any, advocates for the current market structure's preservation. On this issue alone, we find substantial agreement among interested parties that the market structure in Alaska needs to be changed. In this tentative recommendation, we outline a proposal for the termination of the JSA and for creation of a market structure similar to that in the Lower 48 with mechanisms to preserve universal service and provide for transitional cost support while Alascom adjusts to a competitive environment.

B. Existing Market Conditions and Structure

17. The Supplemental Order profiled the demographic composition of the Alaska market and took note of the characteristics that had required, and to some extent still do require, a unique market structure. It was reported in the Supplemental Order that the State of Alaska then had the lowest population density of any state, with the majority of the residents located in small communities of less than 500 people. Both per-capita income and cost-of-living for Alaska residents were higher than comparable national averages, with the gap between the national and state specific statistics being greater for cost-of-living than for per capita income.⁸

18. Twenty three exchange carriers provide local service in Alaska to approximately 270,000 access lines in about 250 exchanges.⁹ Both intrastate and interstate equal access is available in most, if not all, of the exchanges served by competitive IXCs.

19. Alascom furnishes both interstate and intrastate long distance services over a mix of owned and leased satellite, microwave, and cable facilities located in Alaska, the Lower 48, and Canada.¹⁰ Alascom provides

⁸ Supplemental Order, 4 FCC Rcd at 409, n. 18.

⁹ APUC Annual Report to the Legislature, 1992.

¹⁰ Alascom is a dominant carrier under the Commission's Rules. Policies and Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorizations Thereof, 98 FCC 2d 1191, 1201 n.33 (1984).

interstate MTS in conjunction with AT&T pursuant to the JSA, an agreement jointly developed by Alascom and AT&T implementing rate integration and approved by the Commission. Interstate private line services are offered independently from the JSA, and AT&T has not significantly participated in the Alaska private line market. Generally, private line services are offered on an "end-on-end" basis, with each carrier developing separate rates for the portion of the circuit it provides based on its own costs.¹¹

20. For MTS between Alaska and the Lower 48, Alascom interconnects its facilities with AT&T's network in the Lower 48. Communications signals are transmitted by Alascom between the connection point in the Lower 48 and gateway entry locations at or near Anchorage, Fairbanks, or Juneau. Each gateway location has one or two earth station antenna systems and a Class IV entry switch. Almost all of the AT&T/Alascom interstate message traffic passes through one of these switches to reach Alaska exchange carrier facilities.¹²

21. GCI, a nondominant carrier under the Commission's rules, provides interstate and intrastate message and private line services primarily through a satellite-based network of its own. It also uses access services obtained from other carriers. GCI's interstate MTS consists of both northbound and southbound offerings, with service provided both to end-users and to other carriers. GCI is the primary competitor to Alascom for the provision of interstate and intrastate service in Alaska.¹³ In addition, a number of nondominant resellers also operate in the Alaska interstate interexchange market.

C. New Market Structure

1. Elimination of the JSA

a. Parties' Recommendations

22. In the Supplemental Order, we identified deficiencies in the JSA and stated five objectives to be followed in finding a resolution to the issues in this proceeding. We concluded that the JSA gave Alascom "little reason to control costs," that it could create incentives for a carrier "to inflate its rate base in order to increase earnings," and that it "complicates the determination of the rates that other IXCs should be charged for their use of the Alascom network."¹⁴

23. Most parties in this proceeding have opposed the long term continuation of the JSA, and even Alascom has participated with AT&T in an

¹¹ Supplemental Order, 4 FCC Rcd at 396, para. 11.

¹² Id. at para. 10.

¹³ Id. at para. 12-14.

¹⁴ Id. at para. 58.

attempt to propose an alternative to the JSA.¹⁵ AT&T strongly opposed the JSA, stating that the JSA was inappropriate and should be terminated as soon as possible.¹⁶ AT&T has indicated that it has no desire to remain in a long term partnership arrangement with Alascom for the provision of service.¹⁷

24. The Alaska Telephone Association, Inc. (ATA) called for elimination of the JSA, after a suitable transition period, due to its anticompetitive effects.¹⁸ The State of Alaska urged that we adopt the principle that the JSA may be terminated after a reasonable transition period.¹⁹ GCI asserts that the "JSA is inconsistent with our objectives, the competition policies established by the Alaska Legislature, and the public interest."²⁰ MCI stated that the JSA should be terminated after a suitable transition period but urged that Alascom not be given "some protection or relief" from competition in order to end the JSA.²¹

b. Discussion

25. Conditions have changed dramatically since 1980 when the Commission accepted the JSA. The interstate toll settlements pool has been eliminated and replaced by a competitive market structure with cost-based access charges. Multiple carriers now vie for interexchange customers, competing on price and quality of service. The Commission has recognized and promoted the benefits to be derived from a competitive toll market structure which encourages carriers to eliminate waste, adopt new technology, develop innovative services, and improve customer service. Local and toll access competition is now emerging and promises to bring the same incentives for economic efficiency, quality, and competitive prices to these markets.

26. Alascom, however, has not felt the presence of formidable interstate competition. As long as the JSA exists, there is little incentive for Alascom to control costs or trim its rate base as both its revenue requirement and a customer for its interstate services are virtually assured.

27. Based on current conditions and comments, we tentatively conclude that the public interest would be better served by terminating the JSA and thereby restructuring the interstate telecommunications market in Alaska to promote competition, open entry, and improved efficiency

¹⁵ Master Agreement, filed January 29, 1992.

¹⁶ AT&T's Comments, December 18, 1992 at 4.

¹⁷ Supplemental Comments of AT&T, March 12, 1990 at 1-2.

¹⁸ ATA Comments, December 17, 1992 at 2.

¹⁹ State of Alaska Reply Comments, January 15, 1993 at 5.

²⁰ General Communication, Inc. Comments, December 18, 1992 at 7.

²¹ MCI Comments, December 18, 1992, at 1.

incentives. Merely terminating the JSA, however, does not, by itself, adequately address the market structure problems in Alaska. This action taken in isolation could harm carriers and adversely affect the public by accomplishing the goals of competition and efficiency at the expense of the goals of universal service and revenue requirement neutrality. Therefore, we tentatively recommend here that several transition mechanisms be implemented and that the JSA be terminated in conjunction with the transition mechanisms recommended in this order. We seek comment on this proposal.

2. Long Term Market Structure

28. We have developed an Alaska interstate market structure that we believe could be advanced to the Commission as our final recommendation, subject to consideration of the implementation plans and any comments that are filed. In the following sections we will explain the various aspects of our tentative recommendation and the reasoning behind its development. We seek comments on all aspects of our proposed long term market structure.

a. Facility Issues

29. Under the proposed long term market structure, Alascom and AT&T, after obtaining appropriate authorizations, may each individually build or lease facilities in order to provide their services under the same regulatory requirements that are applicable to dominant IXCs today in the rest of the nation, subject to any prohibition against construction of duplicative facilities in rural Alaska.²²

30. A situation may arise where customers in a remote area of the state require interexchange service, but no facilities exist. Currently, Alascom has a commitment to build facilities to serve communities of 25 or more that request interexchange services.²³ We would tentatively recommend that this commitment on the part of Alascom continue and that Alascom be required to build facilities to meet the transport and switching requirements of its carrier customers.²⁴

b. Service Issues

i) MTS

31. As stated in the Supplemental Order, we strongly support the objectives of universal service and rate integration. Consistent with these

²² Whether duplicative facilities should be allowed in the Alaska bush is the subject of a separate proceeding.

²³ State of Alaska Comments, November 13, 1992 at 25.

²⁴ A requirement that Alascom meet all reasonable requests for service from its carrier customers is especially critical since duplicative facilities are not currently allowed in the Alaska bush.

objectives, one or more carriers must be responsible for ensuring that interstate MTS is available at reasonable rates to all those requiring such service. AT&T currently has the obligation of providing MTS to Alaska at rate-integrated levels. We propose that AT&T should continue to be responsible for providing Alaskan consumers with interstate MTS at the same integrated rate levels and under the same terms and conditions available to other AT&T customers in the rest of the nation. This requirement would be broadened to include provision by AT&T of interstate MTS service between Alaska and Hawaii at integrated rates.

32. Alascom/AT&T MTS customers in Alaska currently perceive Alascom as the interstate IXC providing MTS in Alaska.²⁵ Customers are not generally aware that AT&T is involved in the provision of "Alascom's" service. If Alascom does not propose to provide interstate service under the new market structure, Alascom would be required to file under Section 214 of the Communications Act for authority to exit the market.²⁶ Among other things, that filing should include a proposal for the smooth shifting of Alascom's customers to alternative carrier(s) that allows sufficient time for the changeover to occur in an orderly fashion. The public interest requires that Alascom not be allowed to leave the MTS market until it is clear that service to its present customers will not be interrupted as a result of Alascom's business decision.²⁷

ii) Alascom Common Carrier Services

33. We propose that Alascom provide other IXCs with what it terms interstate "access" services to the facilities of LECs in Alaska.²⁸ Alascom would offer all interstate interexchange transport and switching services (hereinafter referred to as Alascom Common Carrier Services) needed to complete the long distance service of other carriers up to the Alascom point

²⁵ Southbound MTS services are offered under tariff filed by Alascom (rather than AT&T) with the Commission. Alascom bills and markets the southbound service in Alaska. AT&T was not listed as an option on the interstate presubscription ballot in Alaska nor is AT&T's involvement in this service publicized by Alascom.

²⁶ Alascom would not be allowed to leave the interstate MTS market prior to termination of the JSA.

²⁷ To achieve this end, Alascom may, at its discretion, sell its customer list to another carrier after the termination of the JSA. MCI stated that Alascom should not be allowed to sell its customer list, but provided no evidence or argument to support its position. MCI Comments, December 18, 1992 at 3. If Alascom sells its customer list to another carrier, customers must be notified of the change.

²⁸ Alascom Comments, December 18, 1992 at 9-11. Alascom would also continue to provide transport to existing locations where no LEC existed and to extend its facilities to serve new locations where no LEC existed, under the same conditions as it does today.

of interconnection with each Alaska local carrier. Under the proposed market structure, Alascom would be required to provide Alascom Common Carrier Services on a non-discriminatory tariffed basis to all carrier customers requesting interexchange switching and transport service.²⁹

34. GCI has requested that both Alascom and AT&T be required to geographically average the access charges that they assess their carrier customers.³⁰ GCI stated that without a geographic rate averaging requirement, Alascom would be able to assign all of its network costs to the rural, non-competitive areas of the state. It is argued that IXCs would have no option but to pay Alascom's rates because Alascom retains a facilities monopoly in those areas. AT&T also supports statewide averaging of Alascom's Common Carrier Service rates stating a concern that costs for competitive services could be inappropriately allocated to other services for which Alascom is the sole provider.³¹

35. We generally concur with the concerns expressed by GCI and AT&T that Alascom not be able to lower its rates in the competitive urban areas and recover all or virtually all of its costs in the bush areas, where it is the monopoly provider and where all carriers with statewide service termination must pay Alascom's rates. Accordingly, we propose that a geographic averaging requirement be placed on Alascom's rates for its interstate Common Carrier Service in Alaska.

iii) Private Line Services

36. Alascom is the primary carrier providing statewide interstate and intrastate private line services to the Alaskan public, with some competition from GCI and presumably other carriers.³² To insure that Alaska's private line services continue, we propose to recommend that the new market structure include a requirement that Alascom provide interstate private line services statewide.³³

²⁹ Alascom states it "has no objection to reselling its services to other IXCs." Alascom Comments, December 18, 1992 at 30.

³⁰ GCI Comments December 18, 1992. GCI would also require geographic rate averaging for Alascom's end user customers.

³¹ AT&T Reply Comments, January 15, 1993 at 9.

³² Unlike MTS, private line services are not governed by the JSA.

³³ Alascom has stated no intention to leave the interstate private line market. If it decides to leave the interstate private line market, it must demonstrate to the Commission that its abandonment of service is in the public interest and consistent with Commission policy and that a suitable mechanism exists for shifting its private line customers smoothly to alternate carriers.

37. Today, AT&T does not directly serve as a private line carrier in Alaska. Under the proposed new market structure if AT&T chooses to provide interstate private line services in Alaska, it would be required to do so under the same rates, terms, and conditions as it does in the rest of the nation. Similarly, if AT&T chooses to provide private line services in Alaska, it must obtain the requisite Section 214 authority and make available its services statewide to the same extent as comparable AT&T services are available throughout the nation.

c. Dominant Carriers

38. The parties' comments reflect differing viewpoints regarding the dominance of AT&T and Alascom in the Alaska market.³⁴ AT&T has argued that it would be deemed nondominant for its southbound Alaska MTS if it had no Section 214 authority and no initial southbound customer base. AT&T further stated that there has been no finding that AT&T's "alleged dominance in the lower 48 states extends to southbound Alaska traffic".³⁵ GCI argued that AT&T's dominance in the Alaska market is a consequence of its dominant national position in the United States.³⁶

39. We propose to recommend that both Alascom and AT&T retain their status as dominant carriers while the JSA is in effect. Because of AT&T's ongoing obligation to provide interstate MTS service in the Alaska market at integrated rates after the JSA is eliminated, we tentatively recommend that AT&T be deemed dominant in the provision of both northbound and southbound MTS services and that it be required to obtain all necessary authority to serve the southbound market. AT&T would also be considered dominant in the Alaska-Hawaii market and would need to acquire the requisite Section 214 authority for this service. We further propose to recommend that after elimination of the JSA, Alascom continue to be considered dominant in its provision of MTS and private line service and also be designated a dominant carrier for Alascom Common Carrier Services. That conclusion is based upon Alascom's primary control over the Alaska Spur, Alascom's statewide network, and Alascom's service and facilities monopolies in those areas where duplicative earth station construction is not allowed.³⁷

V. COST ALLOCATIONS

A. Allocation Factor for Alascom Circuit Equipment

1. Background

³⁴ AT&T Comments, December 18, 1992, at 10 n. 10, 15.

³⁵ *Id.* at 15.

³⁶ GCI Reply Comments, January 15, 1993 at 19.

³⁷ Alascom's dominant status for interstate MTS may be reviewed after the proposed transition period.

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40. The parties in this proceeding have historically taken divergent positions regarding what circuit equipment separations factor should be used by Alascom. AT&T has contended that Alascom, which currently employs a frozen mileage/minute based interexchange circuit equipment factor under Section 36.126(e)(3) of the Commission's rules, 47 C.F.R. § 36.126(e)(3),³⁸ instead should either employ the termination/minutes-based LEC procedures or phase-in a reduction of the mileage used to calculate Alascom's separations factor to levels reflected by actual usage. It is argued that the current frozen mileage factor is an arbitrary, non-mileage sensitive basis; unfair, due to the high percentage (about 86%)³⁹ of costs allocated to the interstate jurisdiction; and likely to make it difficult for Alascom to compete in the interstate market.⁴⁰ Alascom argues that by virtue of its provision of "access" services and its proposed withdrawal from the interstate MTS market, it would no longer be an interstate IXC and, therefore, it would be inappropriate for Alascom to employ the IXC separations factor.⁴¹ Proponents of retaining the current separations factor, primarily the ATA, the State of Alaska, GCI, MCI, and UII, argued for maintenance of the frozen allocator and claimed that no rationale exists for treating Alascom as a LEC.⁴² It is further argued by GCI, the State of Alaska, and UII that revision of the circuit equipment factor could lead to

38 A large part of Alascom's total costs are associated with radio and satellite communications transmission equipment (other circuit equipment). 47 C.F.R. § 36.126(e)(3) states that "Other Interexchange Circuit Equipment - Category 4.23" shall be allocated based on a company specific factor frozen at the levels reached on December 31, 1985. Both AT&T and Alascom employ this provision to allocate their other circuit equipment costs. The term "Circuit Equipment" encompasses the Radio Systems and Circuit Equipment recorded in Accounts 2230-2232 of the Uniform System of Accounts respectively. The term includes central office equipment, other than switching equipment and automatic message recording equipment, used to derive communications transmission channels or for the amplification, modulation, regeneration, testing, or balancing of control of signals transmitted over communications transmission channels. Examples of circuit equipment in general can be found at 47 C.F.R. § 36.126 (a).

39 Alascom estimates the frozen circuit equipment factor at about 86%. Response of PTI to Questions of the State Members of the Alaska Joint Board, October 4, 1991, Volume 1, Tab 10 at 5-1.

40 Alascom Comments December 18, 1992 at 5-13, 46; Attachment B, 23-27; Alascom Reply Comments January 18, 1993 at 12, 25; AT&T Comments, December 18, 1992 at ii, 9-12; AT&T Reply Comments, January 15, 1993 at 4.

41 Alascom Comments, December 18, 1992 at 11.

42 ATA Comments, December 17, 1992 at 9; GCI Comments, December 18, 1992 at 22; MCI Comments, December 18, 1992 at 5; UII Comments, December 18, 1992 at 1; State of Alaska Comments, November 13, 1992 at ii, 22; State of Alaska Reply Comments, January 15, 1993 at 4.

unacceptable and unreasonable increases in the intrastate revenue requirement. Estimates for the increase vary from \$30 million to \$50 million or more.⁴³

2. Discussion

41. Our proposed market structure, by terminating the JSA, will eliminate the current mechanism under which Alascom is reimbursed for expenses incurred in provision of Alaska Common Carrier Service. Instead of virtually guaranteed reimbursement from AT&T via JSA payments, Alascom would recover its expenses through tariffed service charges. After transition mechanisms have concluded, Alascom would compete on equal footing with all other carriers for the provision of transport and switching services to IXCs like AT&T. For this and other reasons, it is apparent that our proposal would increase the competitive pressures faced by Alascom.

42. Under this new, more competitive market structure, we tentatively conclude that the separations rules applicable to Alascom should be changed. On the basis of the information before us, it does not appear, however, that Alascom provides "telephone exchange service" as the term is customarily understood under section 3(r) of the Communications Act, 47 U.S.C. § 153(r). The vast majority of services provided by Alascom are for the transmission and switching of communications between exchanges, and, thus, the LEC circuit equipment allocator would not, by its own terms, be applicable. We propose instead that the frozen separations allocator be transitioned down to 75% over a period of 10 years.

43. A modification in the separations factor that would assign relatively less to the interstate jurisdiction and somewhat more to the intrastate jurisdiction would reduce a substantial barrier to Alascom's ability to effectively compete in the interstate market. In addition, it could also promote competition in the intrastate market by assuring that other carriers would not be required to compete against Alascom's intrastate rates based on an assignment of only 14% of costs to the intrastate jurisdiction under the separations rules.

44. A 75% allocator would be more consistent with the character of Alascom's costs than the current 86% allocator. Alascom's satellite costs, which are a uniquely significant portion of its circuit equipment costs, are not mileage-sensitive in nature. Therefore, the current mileage-based factor does not lead to a cost-based allocation of this investment. We recognize as well, however, Alascom's use of microwave systems, the costs of which are mileage sensitive. Alascom owns or leases microwave facilities throughout the southeastern Alaskan panhandle, along the Alyeska Pipeline, and from Fairbanks through southcentral Alaska linking major population centers.⁴⁴ Thus, we propose that we not use a wholly non-distance-sensitive allocator

⁴³ UII Comments, December 18, 1992 at 2.

⁴⁴ Numerous situations also exist where either microwave or radio links are employed to connect outlying villages with nearby earth stations.

for Alascom's circuit equipment costs, either.⁴⁵ On balance, our analysis suggests that a more accurate recognition of the non-distance sensitive nature of satellite costs would warrant a reduction in the circuit equipment allocation factor to 75%. However, the reduction to 75% appears to be the maximum decrease to the interstate circuit equipment factor possible without compromising the goals we have identified.⁴⁶ We note that any future changes to Alascom's separations factor for circuit equipment would be considered by a Joint Board.

45. Given the features of our proposed transition plan designed to protect against immediate intrastate cost shifts, we tentatively conclude that a transition to a 75% frozen allocator would not cause an undue increase in intrastate rates. Further, as discussed, it would substantially promote our goal of a more competitive market for interstate and intrastate Alaska communications. We believe that a 75% allocator would best achieve our goals of promoting competition and protecting intrastate ratepayers.

46. Accordingly, we tentatively recommend that the Commission amend the separations rules to establish a 75% frozen allocator for Alascom's circuit equipment phased-in over a transition period as discussed in Section VI. We seek comments on this recommendation.⁴⁷

B. Allocation Factor for UUI Circuit Equipment

47. UUI is a small independent local exchange carrier operating in

45 Various parties have recognized that if Alascom employed a non-mileage based factor similar to the LEC separations factor, its interstate circuit equipment allocator would decrease. This is demonstrated by the data filed by PTI where it is shown that when applied to Alascom, the non-distance-sensitive allocator currently used by LECs yields an allocation of approximately 62% to the interstate jurisdiction. See Second Set of Responses from PTI, Inc. to Questions of the State Members of the Federal-State Joint Board (CC Docket No. 83-1376) Posed Apr. 21, 1992 (Response dated May 8, 1992), Vol. 1, Tab 1. Sixty-two percent is the average of the interstate percentages of relative use forecast by PTI for the years 1992 to 1997.

46 We invite the parties to submit their estimates of the intrastate jurisdictional cost increase resulting from the change in frozen allocator from 86% to 75%.

47 Changes in the separations factors applicable to other carriers are beyond the scope of this Joint Board. Consequently, our recommendation is applicable only to circuit equipment of Alaska carriers. Alaska is the only state where an extensive satellite system exists for the provision of interstate and intrastate long distance services. This separate treatment for Alaska would reflect the unique characteristics of the Alaska market.

many of the remote areas of Alaska.⁴⁸ As a result of a past Commission decision, UUI was allowed an opportunity to obtain a one-half interest in a number of the earth stations that were then owned and operated by Alascom.⁴⁹ Historically the costs of UUI's joint venture earth stations were allocated between the jurisdictions based on Alascom's (not UUI's) separations factors.

48. We believe that for consistency in treatment, UUI should employ the same separations factor as Alascom for its portion of the earth station costs. We believe that the change in allocation factor to UUI would not prove a hardship since we also recommend that UUI be allowed to phase-in the separations factor change and to participate in the Alaska Fund described in the transition section of this order. We seek comments on this aspect of our recommendation.

VI. Transition Mechanisms

A. JSA Termination

49. Taken as a whole, our recommendation is designed to create an open and competitive market in Alaska without threatening intrastate rates or disrupting interstate toll service and integrated rates. It is, however, desirable to provide a transition period for Alascom during which it can focus on the network and administrative reorganizations that will be necessary when it no longer is assured full revenue requirement recovery, as it is now under the JSA. A transition period also would provide the time required for development of appropriate Alascom tariffs and for implementation of certain transition mechanisms. Therefore, we propose that the JSA be continued for a period of three years after the Commission approves the new market structure, including effective transition mechanisms. We believe that this, together with the implementation of other transition mechanisms we propose in this Order, will also give Alascom a reasonable opportunity to adjust and reduce its operating costs to a level that will enable it to offer competitively priced Alascom Common Carrier Services and to offer competitively priced interstate MTS if it eventually chooses to engage in that business.⁵⁰

⁴⁸ The Alaska Public Utilities Commission in its Annual Report to the Legislature for 1992, indicates that UUI had approximately 3,444 access lines and net plant of about \$17 million during 1991. The Annual Report lists UUI as typically serving small Alaskan communities such as Akiak, Beaver, Chuathbaluk, and Eek.

⁴⁹ UUI's participation in the joint venture began in November, 1986. Comments of UUI, April 13, 1989 at 1.

⁵⁰ Alascom has vigorously argued that the services it would provide to IXCs after termination of the JSA should be classified as "access" services of the nature that local exchange carriers provide to IXCs. (See Alascom Comments, December 18, 1992 at 10-13 and Alascom Reply Comments, January,

50. We seek comments on our tentative recommendation to continue the JSA for a three-year period as part of our market structure and on whether any changes to the terms of the JSA are necessary to accomplish our goals and implement the recommended market structure. We are also interested in comments regarding the feasibility of terminating the JSA immediately upon the implementation of our market structure proposal and associated transition mechanisms and how this would affect the technical aspects of our tentative recommendation.⁵¹ We seek comments as well on all other transitional mechanisms proposed in Section VI.

B. Alascom Common Carrier Services

51. As previously stated, we tentatively recommend that Alascom be required to make its Alascom Common Carrier Services available to all IXCs pursuant to tariff, concurrent with termination of the JSA.⁵² Even though the reduction of the current frozen allocator to the 75% level will occur over a 10 year period (as described below), Alascom would begin using the 75% level immediately under the JSA and in its future tariff filings. The difference between the 75% and the transitional level of the allocator would be recovered through the Alaska Fund as described below.

C. Separations Factor Transition

52. Our tentative recommendation that Alascom separate its costs by using the 75% circuit equipment allocator will give AT&T an immediate reduction in its cost of doing business in Alaska under the JSA that would shift revenue requirements to the intrastate jurisdiction. The small size of the Alaskan customer base from which this cost shift must be collected⁵³ makes it appropriate that this cost shift be phased-in over time. Consequently, we recommend that the interstate circuit equipment separations factor be reduced from current levels to 75% over 10 years. During the first three years of that 10-year period, the interstate separations factor would remain at current levels (about 86%). During the remaining seven years, the

15, 1993 at 23-29). Whether Alascom exits the interstate MTS market or not, Alascom will not become a local exchange carrier by virtue of elimination of the JSA.

51 For example, what modifications, if any, to the JSA would be needed to prevent duplication of cost recovery as a result of revenues from other sources (e.g., the Alaska Fund, Alascom tariffs) under our proposal. In addition, we note that it may well be possible to implement our transition mechanisms at an earlier date and terminate the JSA at that time.

52 Alascom states it "has no objection to reselling its services to other IXCs." Alascom Comments, December 18, 1992 at 30.

53 There are only about 269,000 main access lines statewide in Alaska. APUC Annual Report to the Legislature, Statistical Information, Fiscal Year 1992, 63.

interstate separations factor would gradually be reduced to 75% in equal increments. These reductions simplify and facilitate the accelerated cost recovery aspect of our recommendation as discussed below. It would also reduce the level of unpredictability in the transition to the new market structure, thus easing development of the tariff system that is to replace the JSA and ensuring better control over all aspects of the transition. Perhaps most importantly, the gradual change in separations factors, co-joined with accelerated cost recovery, would tend to mitigate any cost shifts to the intrastate jurisdiction and reduce rates in both jurisdictions.

D. Alaska Fund

53. As previously stated, during the transition, the proportion of circuit equipment costs allocated to the interstate jurisdiction for Alascom should initially continue at the current frozen level and then be reduced to 75%. However, in balancing the objectives of providing a more competitive market in Alaska and ensuring universal service, we have concluded that the incremental interstate revenue requirement represented by this difference (i.e., 86% - 75%) in jurisdictional allocation should be recovered from all interexchange carriers, not just AT&T which would continue to be the primary purchaser of Alascom's tariffed services under the recommended transitional purchase obligation. Specifically, we propose that 75% of Alascom's total circuit equipment costs be recovered through Alascom's Common Carrier Services rates and the remaining amount, represented by the difference between 86% (i.e., current interstate levels) and 75%, be recovered from a special temporary fund called the Alaska Fund, with charges assessed against IXCs providing service in the United States.

54. We tentatively recommend that the Alaska Fund be administered by the NECA⁵⁴ and that NECA file, on behalf of Alascom and UII, a tariffed charge that will be applicable to, and assessed against, IXCs that contribute to the Universal Service Fund. We recommend that the charge be computed by NECA on a monthly basis by dividing one-twelfth of the projected annual

⁵⁴ We further tentatively recommend that NECA be required to establish a separate, wholly owned corporation to administer this fund; and that no employee, agent, or director of NECA who is directly or indirectly affiliated with, or otherwise has any financial interest in, Alascom or its affiliates (including Pacific Telecommunications, Inc.) or UII or its affiliates shall be involved, in any way, with the administration of this fund. We further recommend that, when the Alaska Fund terminates, the subsidiary corporation be dissolved and NECA be required to distribute all net assets remaining from the operation of that corporation to interexchange carriers who have contributed to the Alaska Fund. We further recommend that the distribution to each carrier be directly proportional to payments to the Alaska Fund and, upon dissolution, that NECA be required to provide independently audited statements of the operations of the subsidiary to Alascom, UII, and to each interexchange carrier that made a payment to the Alaska Fund. Unless the context indicates otherwise, the term "NECA" hereafter is synonymous with the subsidiary corporation.

Alaska Fund revenue requirement⁵⁵ by the number of presubscribed access lines in the United States.⁵⁶ Beginning on January 1, 1994, NECA would bill and collect the charge, and disburse on a monthly basis the revenue associated therewith, less reasonable administrative expenses, to Alascom and UII.

55. We further tentatively recommend that Alascom, UII, and the interexchange carriers that will be billed by NECA, be required to provide to NECA the data necessary to compute the charge. In the case of Alascom and UII, these data would include account balances in the total circuit equipment category and would also include all associated other expenses, the revenue requirement total, the amount of revenue requirement to be recovered from the Fund, and well developed support materials that document the revenue requirement calculations.⁵⁷ Required information concerning the Alaska Fund would be filed with the NECA on June 30 and December 30 of each year, except for the first such submission, which would be filed on December 1, 1993.

56. The temporary Alaska Fund would be computed based upon the existing circuit equipment allocator for the first three years after the Commission adopts a final order establishing transition mechanisms. During the next seven years, Alascom's frozen circuit equipment allocator would start to phase-down to 75%.⁵⁸ The reduction in the circuit equipment factor would correspondingly reduce the Alaska Fund until the Fund is zero. The amount of monies phased-out of the Alaska Fund would be recovered through the state jurisdiction. We would expect that the anticipated intrastate cost shift would be minimized by Alascom through improved efficiencies, cost cutting, increased demand, and accelerated cost recovery.

E. Accelerated Cost Recovery

57. As more fully explained below, we have concluded that an accelerated cost recovery mechanism is necessary to help reduce the cost shifts to the intrastate jurisdiction that might result under the proposed

55 The projected Alaska Fund revenue requirement would include a projection of NECA's expenses of administering the Fund.

56 Our intention in this regard is that Alaska Fund support obligations be apportioned among interexchange carriers in the same proportions that are used for Universal Service Fund obligations.

57 For the purpose of computing this revenue requirement, we recommend that Alascom be required to utilize the lesser of the authorized interstate rate of return applicable to exchange carriers (currently 11.25%) or the intrastate rate of return authorized for switched traffic in Alaska unless Alascom, by clear and convincing evidence, is able to justify a different rate of return for its interstate operations.

58 Beginning January 1, 1997, the current allocator would be reduced at the annual rate of one-seventh (1/7) of the difference between the current allocator and seventy-five (75) percent.

new market structure. Consequently, we have included this transition mechanism as an integral part of our tentative recommendation.

1.a. State Members' Plan

58. The State Members' Plan stated that Alascom built its network while competition did not exist and at a time when regulators' primary policy objective was to create an interexchange network capable of providing dependable and high quality service to remote locations in Alaska under adverse conditions. After competition was introduced to the Alaska market, the JSA continued to insulate Alascom from competitive pressures by providing for a cost-plus reimbursement mechanism. To the extent that competitors' operations were developed without the influence of the cost-plus reimbursement from the JSA, without a historical requirement to build the first network under regulatory oversight, and without a requirement to serve statewide, those competitors may offer more attractive rates to AT&T and other interexchange carriers, thereby enticing interexchange carriers to bypass Alascom.

59. To address these concerns, the State Members' Plan proposed that Alascom would be required to accelerate depreciation of its interstate and intrastate plant to reduce, but not eliminate, its rate base and associated expenses. The State Members reasoned that this would significantly reduce the threat of stranded plant and extreme cost shifts to the intrastate jurisdiction. Funding for the additional accelerated depreciation was to come from AT&T through three annual payments of at least \$50 million each during the transition period. These payments, and the associated accelerated depreciation expense, would be an exclusive obligation of AT&T. AT&T funding of Alascom's accelerated cost recovery was designed to help minimize cost shifts to the intrastate jurisdiction. The accelerated depreciation would also reduce AT&T's Alaska costs for services it purchases from Alascom in the future and would place Alascom in a more effective competitive posture.⁵⁹

1.b. Positions of Parties

60. In its comments on the Master Agreement, the State of Alaska also suggested that an asset write-down would be an important element for meeting the policy objectives of jurisdictional revenue requirement neutrality and universal service.⁶⁰ The State of Alaska reasoned that the write-down would be justified by the increase in competition and the demise of the JSA, both of which would make Alascom's interexchange assets less productive and less valuable.

61. In its market structure proposal, GCI had proposed that

⁵⁹ State Members' Plan, November 5, 1992 at 20-21.

⁶⁰ These comments were offered in response to the MA. Alaska Comments, April 20, 1992 at 30-31.

Alascom should accelerate depreciation of its interstate assets.⁶¹ GCI stated that the use of accelerated depreciation would dramatically reduce Alascom's costs while compensating Alascom for its investment made in reliance upon the JSA.⁶²

62. Alascom and AT&T each found the proposed accelerated cost recovery for Alascom to be objectionable. Alascom first argued that it is arbitrary and capricious to justify this action on the basis that there are disincentives for economic efficiency.⁶³ According to Alascom, investments must first be found to have been imprudent as a prerequisite to compelling a write-down.⁶⁴ Second, it argued that the State Members' Plan would make Alascom incapable of providing universal service that meets present standards and quality.⁶⁵ Alascom also stated that the constitutional claims of confiscation that it raised with respect to GCI's proposed write-down applied with equal force to the State Members' Plan.⁶⁶ Finally, it challenged the legal basis for applying accelerated depreciation to both its intrastate and interstate plant.⁶⁷

63. AT&T claimed that the requirement that it alone fund the accelerated cost recovery raised a serious issue of unconstitutional taking, given its belief that under the JSA it had already paid for much of the plant that would be written down.⁶⁸ Further, AT&T posited that it is inequitable to place this financial responsibility on AT&T, given that Alascom alone made investment decisions without any input from AT&T. AT&T also contended that the proposal would fall short of accomplishing the intended goals of accelerated cost recovery. Last, AT&T questioned the legal basis for compelling the use of accelerated cost recovery to Alascom's interstate and intrastate plant.⁶⁹

64. GCI disputed the claims made by Alascom and AT&T. First, GCI argued that Alascom's calculations of the financial impact of the \$150 million accelerated cost recovery were flawed because they inaccurately and improperly assumed the elimination of the frozen allocator for separating

61 GCI Proposal, October 2, 1992 at ii.

62 *Id.* at 2.

63 Alascom Comments, December 18, 1992 at 41-42.

64 *Id.* at 42; Alascom Reply Comments, January 15, 1993 at 14 n. 14.

65 *Id.* at 5-6.

66 Alascom Reply Comments, January 15, 1993 at 14 n. 14.

67 Alascom Comments, December 18, 1992 at 42, Attachment B at 22-23.

68 AT&T Comments, December 18, 1992 at 6.

69 AT&T Reply Comments, January 15, 1993 at 2.

circuit equipment. GCI also noted that the accelerated cost recovery was designed to reduce, and not totally eliminate, Alascom's costs. Consequently, GCI stated that there could be some intrastate cost impact arising from the new market structure that was not mitigated by the accelerated cost recovery. GCI stated that the payments to fund accelerated cost recovery should not be viewed as related to the JSA, since termination of the JSA could be ordered via regulatory action without any concomitant compensation. If anything, in GCI's view, the payments should be considered as a reward to Alascom for any conceivable reliance interest it may have in the JSA. As to the requirement that AT&T fund the accelerated cost recovery, GCI stated that such an action would be fair in light of the enormous economic and operational benefits conferred on AT&T as a result of the JSA termination.⁷⁰

2. Discussion

65. Our tentative recommendation would allow AT&T to achieve its ultimate objective of serving Alaska through its own facilities or in any other manner it chooses. However, we recognize that if AT&T were to immediately cease using Alascom's facilities, it could result in a significant increase in the intrastate revenue requirement. Cost shifts to the intrastate jurisdiction in excess of the amount resulting from the reduced interstate circuit equipment allocator would raise significant questions with respect to achievement of our revenue requirement neutrality goal. Therefore, we have concluded that an accelerated cost recovery mechanism should be used to ameliorate any cost shift as well as reduce Alascom's costs so that Alascom may better adapt to the proposed new market structure.

66. The arguments raised by AT&T and Alascom in opposition to the proposal for accelerated cost recovery funded by AT&T appear to have little merit. Alascom's argument that there must first be a finding of imprudence before accelerated cost recovery could be ordered is not accurate. Accelerated cost recovery could be implemented, for example, by prescribing higher depreciation rates and shortened service lives. The authority to accelerate cost recovery through depreciation rates, service lives, and charges for providing common carrier communication services has been given to the Commission and the Alaska Public Utilities Commission. The exercise of that authority presumes that the associated investment was prudent; there is no legal basis for approving recovery of depreciation expense for imprudent investment.

67. Not only is accelerated cost recovery through depreciation within the authority of the Commission and the Alaska Public Utilities Commission but also may well be justifiable under the circumstances. A decision to terminate the JSA is likely to significantly affect Alascom's network and operations plant, and thus could warrant a re-examination of the prescribed depreciation rates in light of such a development.

⁷⁰ GCI Reply Comments, January 15, 1993 at 9.

68. In our view, Alascom's concerns about the financial impairment that it would experience with accelerated cost recovery appear to be misplaced. Any financial impairment that Alascom perceives relates not to the use of accelerated cost recovery but, instead, to the elimination of the guaranteed revenue source, (i.e., AT&T) to which it has likely grown accustomed under the JSA.⁷¹ However, the changed circumstances in the Alaska market no longer make it feasible to perpetuate the JSA.

69. Alascom's constitutional claims of confiscation raised with respect to GCI's proposed accelerated cost recovery plan also are inapplicable to the State Members' proposal. Whereas GCI's proposal contemplated the funding of the accelerated cost recovery from payments made to Alascom from AT&T under the MA, the State Members' plan clearly stated that AT&T's accelerated cost recovery payments would be separate from, and in addition to, any other payments that AT&T must make.⁷² In that regard, no argument can be sustained, therefore, that Alascom would be required to apply one payment to two purposes. Moreover, Alascom's argument rests on the improper assumption that it has a property interest in a continuation of the JSA. While the MA was structured to provide contractual compensation in conjunction with the termination of the JSA, we are not persuaded that Alascom can rightfully demand that this compensation be part of regulatory action terminating the JSA.

70. Alascom has been on notice since the inception of this proceeding that the arrangement requiring AT&T purchase of Alascom's services, along with other benefits under the terms of the JSA, was not likely to be permanent.⁷³ Alascom has also been on notice that AT&T has been an unwilling party to the JSA.⁷⁴ In fact, AT&T previously filed pleading requesting termination of the JSA, and argued that the JSA was violative of Section 201 of the Communications Act.⁷⁵ Clearly, the JSA continues only through regulatory assent. Any claim by Alascom of a right to the continuation of the JSA, as implied in its constitutional challenge, is not borne out by the record.⁷⁶

71. AT&T's and Alascom's challenge to applying accelerated cost recovery for plant that provides both interstate and intrastate services cannot lie under the Communications Act and Title 42 of the Alaska Statutes.

⁷¹ Under the JSA, AT&T is required to compensate Alascom for its interstate expenses, including accelerated depreciation expenses.

⁷² State Members' Plan, Nov. 5, 1992 at 20 & n. 18.

⁷³ AT&T Comments, December 18, 1992 at 6.

⁷⁴ AT&T Supplemental Comments, March 12, 1990 at 5-6.

⁷⁵ See AT&T Petition for a Lawful Interim Division of Charges, November 6, 1987.

⁷⁶ *Id.* at pp. 5-8.

For example, the FCC can prescribe depreciation charges for Alascom under the Communications Act,⁷⁷ and take cognizance of those charges in determining whether Alascom's interstate rates are unjust, unreasonable, or unreasonably discriminatory.⁷⁸ Similarly, the Alaska Public Utilities Commission is authorized to make a congruent determination for intrastate purposes.⁷⁹

72. Moreover, Alascom and AT&T may conclude independently that it is in the best interest of the shareholders of both companies if Alascom were voluntarily to propose to reduce the value of its regulated telecommunications common carrier assets⁸⁰ in exchange for a lump sum payment, or series of payments. Such a proposal, if approved, would not only reduce Alascom's costs of providing service to intrastate ratepayers in Alaska but would also reduce the cost of providing interstate MTS to and from the State of Alaska and simultaneously make Alascom a more competitive source of supply to AT&T and other intrastate and interstate interexchange carriers.

73. In light of the considerations raised in this section, it is evident that some direct method to reduce Alascom's costs of operation through accelerated cost recovery must be an integral part of any transition to a new market structure. Accordingly, we direct AT&T and Alascom to provide either joint or separate implementation plan(s) discussing methodologies that might be employed to resolve this issue in a way that satisfies the concerns set forth above.⁸¹ Without an acceptable solution to the accelerated cost recovery issue, it is unlikely that the Joint Board's five goals can be achieved. In that eventuality, this Joint Board is unlikely to recommend termination of the JSA with the other terms and conditions that have been previously described in this order.

F. AT&T Purchase Obligation:

74. As previously stated, the potential for unforeseen jurisdictional revenue requirement shifts could be realized if AT&T immediately stopped using Alascom upon termination of the JSA. To further

⁷⁷ 47 U.S.C. § 220.

⁷⁸ 47 U.S.C. §§ 201-202.

⁷⁹ Alaska Stat. § 42.05.471 (1992).

⁸⁰ We recommend that any accelerated cost recovery would apply to regulated plant used to provide service to the public; plant dedicated to providing service to specific customers and non-regulated plant would be excluded. Alaska Spur facilities would not be subject to accelerated cost recovery.

⁸¹ AT&T and Alascom are requested to develop the necessary accounting procedures to implement this proposal. The implementation proposals should also include any special conditions, timing considerations, and waivers necessary to fully implement all aspects of the Joint Board's tentative recommendation.

reduce this potential, we recommend that AT&T be required to purchase Alascom Common Carrier Services for all of AT&T's Alaska Interstate MTS traffic during the first three years of transition to a new market structure.⁸² In the four subsequent years, after other transition mechanisms have been implemented, we recommend that this obligation be lessened and ultimately eliminated, by reducing the traffic that AT&T will be required to place on Alascom's facilities. This reduction would occur in equal increments or on a schedule proposed by the parties and accepted by the Commission. At the conclusion of the seventh year of transition, AT&T would no longer be obligated to use any Alascom facilities and may choose to self-provision or to use the services of another carrier or carriers to satisfy all its requirements for providing Alaska service. We have tentatively concluded that this condition is necessary to stave off the potential jurisdictional revenue requirement shift that could occur should AT&T immediately stop using Alascom's facilities.⁸³

VII. Miscellaneous

⁸² We have tentatively concluded that, pending termination of the JSA, AT&T should be obligated to carry all of its Alaska interstate MTS traffic on Alascom facilities as it does today. Thereafter, the amount of AT&T's traffic that must be placed on Alascom's system would decrease from 100% to 0% in four equal annual increments from the volume of MTS traffic that AT&T carried during the third year. However, we invite comment on whether AT&T's obligation to use Alascom should be limited during any (or all) of these years, such as to a given percentage of AT&T's current traffic on the Alascom network and, if so, what base period should be used for this purpose.

⁸³ ATA and GCI comments to the State Members' Plan supported a must purchase requirement placed on AT&T. See ATA Comments, December 17, 1992 at 7-8; GCI Comments, December 18, 1992 at 20-22. ATA noted that this condition would guard against stranding significant Alascom investment and shifting jurisdictional cost shifts by as much as \$25.7 million per year if AT&T bypassed Alascom facilities for terminating and originating interstate minutes for Anchorage, Juneau and Fairbanks. The State of Alaska recommended that after a five-year transition during which all of AT&T's interstate traffic would be carried on Alascom's network, AT&T would continue to be required to place 10% of its traffic on Alascom's network. See State of Alaska Comments, November 13, 1992, at iv. MCI and AT&T objected on the basis that Alascom should not be insulated against the potential for AT&T bypass and the concomitant stranded investment that would occur. See MCI Comments, December 18, 1992 at 2, 5; AT&T Comments, December 18, 1992 at 4-9, 12-3. Our principal reason for imposing this obligation on AT&T relates to universal service and jurisdictional revenue requirement neutrality and not protection of Alascom against the effects of competition. In fact, we have proposed that this obligation be imposed for only a limited time to allow competition to evolve in the Alaska market as expeditiously as possible without its evolution impeding achievement of our goals of universal service and jurisdictional revenue requirement neutrality.

A. Tariffs, Leases, and Contracts

75. Alascom must file interstate tariffs for its Alascom Common Carrier Services and its MTS with the Commission. We propose to recommend that any contracts or leases for use of Alascom or AT&T interstate services also must be filed for review by the Commission.

B. Alaska Spur

76. We further propose that Alascom shall make public and have on file with the Commission all contracts and agreements for interstate service on the Alaska Spur, including any technical standards that may be incident thereto. All contracts, agreements, and standards shall be subject to review by the Commission and to other requirements deemed applicable by the Commission.⁸⁴

C. Monitoring

77. We tentatively recommend that the Commission obtain information to monitor progress in achieving the market structure described in this order. We tentatively conclude that most of the information needed to monitor progress in the Alaska market can be obtained from existing sources. For example, the Alaska Public Utilities Commission has information about intrastate rates in Alaska, and the CC Docket 80-286 Joint Board publishes a Comprehensive Monitoring Report on Telephone Service, including information on subscribership and penetration levels. In addition, as part of our proposed market structure proposal, NECA would be required to file tariffs for the Alaska Fund that would be useful in monitoring the charges to carriers from the Alaska Fund. To the extent that there are existing reporting requirements that provide the types of information needed to monitor the proposed market structure, it is possible that no new reporting requirements would be required. We request comments on this aspect of our proposal.

78. Parties providing comments on a monitoring program for the Alaska market structure should respond regarding: costs and benefits of establishing a monitoring reporting requirement, parties that should be required to report, information that should be included in the reporting requirement, frequency of reporting, and relative importance of specific information for monitoring the Alaska market. Parties should also comment on the availability of the recommended reporting items from existing reports.

VIII. AT&T Petition to Terminate the Joint Service Arrangement

79. On March 31, 1993, AT&T filed a Petition proposing a "Consumer Benefit Plan" to replace the JSA. The AT&T Consumer Benefit Plan proposes that the JSA be terminated immediately upon all regulatory approvals. At that

⁸⁴ See Alascom Inc. Section 214 Application, Memorandum Opinion and Order, WRC - 6520, May 13, 1991.

time, AT&T would: 1) directly provide interstate MTS to and from Alaska at nationwide integrated rates; 2) eliminate bands 10 and 11 from its interstate tariff, thereby offering lower rates to Alaska interstate callers; 3) make available services and optional calling plans that Alascom does not currently offer; 4) construct a new fiber optic submarine cable between Alaska and the Lower 48 states and other facilities necessary to provide service; and 5) provide intrastate switched services in Alaska. AT&T states that its basic intrastate MTS rates would be equal to or lower than the lowest current Alascom or CCI standard MTS rates. AT&T would pledge not to raise its initial MTS rates for five years, except to pass through state-approved increases in intrastate access charges.

80. AT&T's Section 214 application for authority to provide service to and from Alaska indicates that initially AT&T would acquire capacity from carriers under tariff, supplemented as necessary by leasing or purchasing facilities.⁸⁵ Thereafter, AT&T states that it would construct the undersea cable system from the Pacific Northwest through Juneau to a point near Anchorage, and it may construct other facilities in Alaska substituting for, or adding to, the leased or purchased facilities. Until second stage facilities are in place to any given point, AT&T states that it would continue to obtain distribution and access services from Alascom and Alaska local exchange carriers under tariff. AT&T states that it would agree to subject itself to 214 requirements for withdrawal from providing southbound service from Alaska, even though it does not believe it should be subject to such requirements, and in addition to northbound service for which it is also subject to 214 requirements. AT&T's proposal assumes no change in separations. AT&T states that it would purchase Alascom services to originate and terminate calls to the bush, because of the prohibition against construction of duplicate earth stations in rural Alaska. AT&T states that it would begin to provide southbound service without preexisting customers, i.e., AT&T would not purchase Alascom's interstate customer list.

81. AT&T states that it would implement its Consumer Benefit Plan if three conditions were granted: 1) prompt termination of the JSA; 2) approval of AT&T's Section 214; 3) an order or assurance that Alascom will file nondiscriminatory interstate tariffs to permit AT&T and other IXCs to use Alascom's existing facilities to provide service from their Alaska POPs to the points served by Alascom including the Bush; and 4) that Alascom's rates for providing such service to the Bush were based on direct costs.

IX. Ex Parte Rules

82. This proceeding involves broad policy issues and shall be treated as non-restricted for purposes of the Commission's ex parte rules. See 47 C.F.R. §§ 1.1200(a), 1.1206. Ex parte presentations are permitted, except during the Sunshine Agenda period, provided that they are disclosed as

⁸⁵ AT&T's Section 214 application to service Alaska will be the subject of a separate proceeding instituted by the Commission.

provided in Commission rules. See generally 47 C.F.R. §§ 1.1202, 1.1203, and 1.1206(a).

X. Regulatory Flexibility Act

83. We certify that the Regulatory Flexibility Act of 1980 does not apply to this proceeding because the proposed rule amendments, if promulgated, would not have a significant economic impact on a substantial number of small business entities, as defined by Section 601(3) of the Regulatory Flexibility Act. Alascom and AT&T, two of the three major entities that would be directly subject to the proposed tentative decision, are large corporations or affiliates of large corporations. Interexchange carriers that might be otherwise affected by the tentative decision are also large corporations or their affiliates. UUI a provider of earth station facilities for the Alaska bush, is not considered a small entity because it is a monopoly provider of local exchange service. The Secretary shall send a copy of this Tentative Recommendation and Order Inviting Comment, including the certification, to the Chief Counsel for Advocacy of the Small Business Administration in accordance with § 603(a) of the Regulatory Flexibility Act, Pub. L. No. 96-354, 94 Stat. 1164, 5 U.S.C. § 601 et seq (1981).

XI. Implementation Plan and Comment Dates

84. This tentative recommendation and order requesting comments is intended to present, and seek comments on, the Joint Board's tentative recommendation on how to resolve the outstanding issues in this proceeding and provide a new interstate market structure for Alaska that is consistent with the objectives previously identified by this Joint Board. Accordingly, we require that AT&T and Alascom submit either a joint or separate detailed plan(s) describing how they would implement the proposed market structure specified in this tentative recommendation on or before June 7, 1993.

85. Interested parties may file individual or consolidated comments, and/or reply comments with respect to: (1) the Joint Board tentative recommendation; (2) the implementation plan filed by AT&T and Alascom in response to this tentative decision; and (3) the AT&T Consumer Benefit Plan. Comments shall be filed on or before June 28, 1993 and replies thereto on or before July 12, 1993. An original and five copies should be filed with the Secretary, Federal Communications Commission, 1919 M Street, N.W., Washington, D.C. 20554. Additional copies should be sent to the following: six copies to Peggy Reitzel, Common Carrier Bureau, Federal Communications Commission, 1919 M. Street, N.W., Washington, D.C. 20554; and one copy to ITS, Inc. the Commission's contractor for public records duplication, 2100 M Street, N.W., Suite 140, Washington, D.C. 20037, (202) 857-3800. The AT&T petition and filings in response to this Tentative Recommendation and Order Inviting Comment, will be available for inspection and photoduplication in Room 239, 1919 M. Street, N.W., Washington, D.C. 20554 (which is open from 9:00 AM to 4:30 PM, Monday through Friday). Copies may also be obtained from ITS, Inc.

86. Petitions to reject, comments, informal comments, and replies on AT&T's Section 214 Application to serve the State of Alaska may be filed in the proceeding established to address AT&T's Section 214 application, and not here.

87. Parties should also send copies of filings to the following Alaska Joint Board Members and their staffs: Hon. Bruce Hagen, North Dakota Public Service Commission, State Capitol Building, Bismarck, North Dakota 58505; Hon. Susan M. Knowles, Alaska Public Utilities Commission, 1016 West 6th Avenue, Suite 400, Anchorage, Alaska 99501; Hon. Dean J. "Joe" Miller, Idaho Public Utilities Commission, 472 West Washington, Boise, Idaho 83702; Hon. David Rolka, Pennsylvania Public Utilities Commission, P.O. Box 3265, Harrisburg, Pennsylvania 17105; Lorraine Kenyon, Alaska Public Utilities Commission, 1016 West 6th Avenue, Suite 400, Anchorage, Alaska 99501; Eileen Benner, Idaho Public Utilities Commission, 472 West Washington, Boise, Idaho, 83702; Debra Kriete, Pennsylvania Public Utilities Commission, P.O. Box 3265, Harrisburg, Pennsylvania 17105; Ronald G. Choura, c/o Michigan Public Service Commission, 6545 Mercantile Way, P.O. Box 30221, Lansing, Michigan, 48910; Rowland Curry, Texas Public Service Commission, 7800 Shoal Creek Blvd. Suite 400N, Austin, Texas 78757.

XII. Ordering Clauses

88. ACCORDINGLY, pursuant to Sections, 1, 4, 5, 201-205, 214, 218, 403, and 410 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154, 155, 201-205, 218, 403, and 410 IT IS ORDERED that this Tentative Recommendation And Order Inviting Comment IS HEREBY ADOPTED to give notice of the tentative recommended decision described herein, and that interested parties may file comments and reply comments on this proposal;

89. IT IS FURTHER ORDERED, pursuant to Sections 1, 4, 5, 201, 202, 205, 218, 403, and 410, 47 U.S.C. §§ 151, 154, 155, 201, 202, 205, 218, 403, and 410, that AT&T and Alascom SHALL FILE, not later than June 7, 1993, either a joint or separate detailed implementation plan consistent with the tentative recommendation of the Joint Board discussed herein;

90. IT IS FURTHER ORDERED that interested parties may file individual or consolidated comments, and/or reply comments with respect to: (1) the Joint Board tentative recommendation; (2) the AT&T and Alascom implementation plan(s) filed in response to this tentative recommendation; and (2) AT&T's Petition to Terminate the Joint Services Agreement. Comments shall be filed on or before June 28, 1993, and replies thereto on or before July 12, 1993.

FEDERAL COMMUNICATIONS COMMISSION

Donna R. Searcy
Secretary

STATE
OF
ALASKA

July 12, 1993

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

REPLY COMMENTS OF
THE STATE OF ALASKA

To: The Federal-State Joint Board

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

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

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

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

The Joint Board's Tentative Recommendation

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

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

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

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

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

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

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

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

AT&T's Consumer Benefit Plan

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

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

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

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

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

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

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

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

Conclusion

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

²

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

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

Respectfully submitted,

THE STATE OF ALASKA

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June 28, 1993

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DEPARTMENT OF LAW

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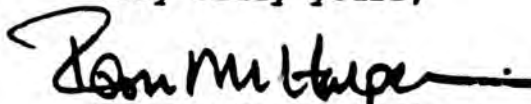
Re: Integration of Rates and Services
CC Docket No. 83-1376, RM 4436

Dear Ms. Searcy:

Transmitted herewith on behalf of the State of Alaska are an original and five copies of "Comments of the State of Alaska" 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

Enclosures

bcc: Stephen C. Slotnick
John W. Katz
Karl Korsmo
Linda K. Smith

In the Matter of

CC Docket No. 83-1376
RM 4436

**COMMENTS OF
THE STATE OF ALASKA**

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June 28, 1993

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SUMMARY

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

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

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

In the Matter of

CC Docket No. 83-1376
RM 4436

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

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

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

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

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

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

The Joint Board's Tentative Recommendation

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

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

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

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

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

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

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

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

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

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

⁴ Id. at 15.



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

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

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

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

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

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

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

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

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

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

AT&T's Consumer Benefit Plan

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

⁶ Id. at 15-16.

⁷ Id. at 16.

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

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

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

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

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

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

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

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

¹⁰ See Tentative Recommendation and Order Inviting Comments at 10.

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

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

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

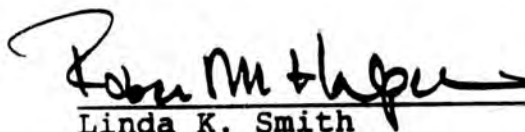
Conclusion

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

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

Respectfully submitted,

THE STATE OF ALASKA



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June 28, 1993

CERTIFICATE OF SERVICE

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


Robbin R. McKeever

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JUN 28, 1993

Mr. William F. Caton
Acting Secretary
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Room 222
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Washington, D.C. 20554

Re: 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

Dear Mr. Caton:

Enclosed herewith for filing with the Commission are the original
and five copies of the National Exchange Carrier Association,
Inc.'s Comments in the above-captioned matter.

Please acknowledge receipt hereof by affixing a notation on the
duplicate copy of this letter furnished herewith for such
purposes and remitting same to bearer.

Very truly yours,

Joanne S. Bochis
Joanne S. Bochis

JSB/bas
Enclosures

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

COMMENTS

The National Exchange Carrier Association, Inc. (NECA)¹ submits its comments in response to the Federal-State Joint Board's (Joint Board) May 17, 1993 Tentative Recommendation in the above-captioned proceeding.² The Joint Board seeks comments on its recommendation for the creation of a new market structure for the provision of interstate telecommunications service between Alaska and the contiguous states and between Alaska and Hawaii.

As part of the evolution to the new Alaska market structure, the Joint Board recommends establishing a temporary Alaska Fund (Fund) that would be administered by NECA.³ NECA agrees that such an assignment would be consistent with its existing functions, and expresses here its willingness to administer a special support

¹ NECA is a not-for-profit, membership association, serving over 1300 local exchange carrier study areas. NECA members include all local exchange carriers in the United States, Puerto Rico and the U. S. Virgin Islands.

² 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, Tentative Recommendation and Order Inviting Comments, (FCC 93J-1) released May 17, 1993 (Tentative Recommendation).

³ Id. at 19.

program for Alaska if one is finally adopted by the Commission.

The Tentative Recommendation proposes that NECA should establish a separate, wholly-owned corporation to administer the Fund.⁴ According to the Tentative Recommendation, no one with NECA should be involved in administering the Fund if they have associations or interests in the parties that will receive payments from the fund.⁵ If ordered, NECA would set up a separate subsidiary to administer the Alaska Fund. A separate subsidiary, however, does not appear to be necessary to satisfy the Joint Board's goals.

NECA believes that existing controls, many of which are already reviewed and approved by the Commission, will provide the same protection that would be afforded by a separate subsidiary. For example, NECA has a detailed cost accounting manual (CAM) on file with the Commission. NECA would also agree to take steps that would assure that no employee, agent, or director of NECA who is directly or indirectly affiliated with, or otherwise has any financial interest in, Alascom or its affiliates (including Pacific Telecommunications, Inc.) or UUI or its affiliates would be involved, in any way, with the administration of the Fund.

NECA believes it would be more efficient and less costly to administer the Fund if a separate subsidiary were not required. The estimated size of the proposed Alaska Fund is less than 1 percent of the current funds and pools that NECA administers. Economies of

⁴ Id. at n. 54.

⁵ Id.

scale from NECA's current operations would be more readily accessible absent stringent separation requirements. Also, while numerous areas of NECA's functional expertise might be utilized from time-to-time, Alaska Fund administration would not appear to require a dedicated staff.

There are two other items concerning the provision of data to NECA that warrant consideration. First, the Tentative Recommendation states that the interexchange carriers (IXCs) that would be billed by NECA would be required to provide data to NECA. If, as proposed, Fund support obligations are apportioned among IXCs based on the presubscribed line counts used to determine Universal Service Fund and Lifeline Assistance (USF/LA) obligations, it is not clear what information the IXCs would be providing to NECA.⁶ The presubscribed line counts used for USF/LA are currently provided by the exchange carriers twice a year.⁷ The Commission should specify what data the IXCs must provide to NECA.

Secondly, the Joint Board stated that Alascom and UUI must provide data which would include total circuit equipment category account balances, associated other expenses, the revenue requirement total and the amount of revenue requirement to be recovered from the Fund.⁸ In addition the Joint Board recommends that UUI and Alascom provide documentation to support their

⁶ See Tentative Recommendation at ¶ 55 and n. 56.

⁷ See 47 C.F.R. §§ 69.116 and 69.117.

⁸ Tentative Recommendation at ¶ 55.

calculations.⁹ Consistent with NECA's practice which requires exchange carriers to certify their USF/LA and cost study data, NECA requests that the Commission require that Alascom and UUI certify that its data submissions, both initial and future ones, are audited and fully comply with applicable Commission rules.

NECA will assist the Joint Board in achieving the integration of rates and services between Alaska and the lower 48 States as ordered by the Commission. It stands ready to implement and administer an Alaska Fund, and suggests that the proposals described above would accomplish the Fund's purposes most efficiently.

Respectfully submitted,

NATIONAL EXCHANGE CARRIER
ASSOCIATION, INC.

Albert L. Thomas
Regulatory Manager

By /s/Joanna Salvatore Hochis
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Its Attorney

June 28, 1993

⁹ Id.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Comments were served this 28th day of June, 1993, by mailing copies thereof by United States Mail, first class postage prepaid, to the persons listed.

By /s/Susan Stocker
Susan Stocker

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PRIVILEGED AND CONFIDENTIAL

STIPULATION AND AGREEMENT

The State of Alaska (State), American Telephone & Telegraph Company (AT&T), and Pacific Telecom, Inc. (PTI), for itself and its subsidiaries, Alascom, Inc. (Alascom), and the ACCS Carrier described herein (and collectively, the Parties), hereby stipulate and agree to the following matters in connection with the proceedings now before the Federal Communications Commission (FCC) in FCC CC Docket No. 83-1376:

- (1) The Federal-State Joint Board in the above-referenced docket has released a Tentative Recommendation dated May 17, 1993, proposing a resolution of the issues in that proceeding in accordance with the principles set forth therein. The State, AT&T, and PTI have each reviewed and analyzed the proposals contained in the Tentative Recommendation, and each has independently concluded that those proposals form an acceptable basis upon which to resolve the issues currently under consideration and to terminate this proceeding. Accordingly, the State, AT&T, and PTI hereby enter into this Stipulation and Agreement (Stipulation) and agree to be bound by the terms hereof, as set forth herein.
- (2) The Joint Service Agreement, dated April 23, 1980, and under which AT&T and Alascom are currently providing interstate MTS/WATS service for Alaska, shall terminate on January 1, 1994, and shall, from and after that date, be of no further force and effect.
- (3) A fixed allocator of 75% in connection with the jurisdictional separation of certain interexchange circuit equipment (Category 4.23) shall be utilized from and after January 1, 1994 by the ACCS Carrier with respect to all such circuit equipment transferred from Alascom to the ACCS Carrier, as provided for hereinafter, the application and use of such allocator to conform to the proposal contained in the Tentative Recommendation.
- (4) PTI shall:
 - (a) cause Alascom to sell and to transfer to AT&T two-thirds of the remaining capacity (being equal to six (6) DS-3 units of capacity) in the Alaska Spur undersea fiber optic cable;
 - (b) establish a separate corporate subsidiary, denominated for purposes here the "ACCS Carrier," and transfer all other operating

PRIVILEGED AND CONFIDENTIAL

facilities and assets from Alascom to the ACCS Carrier:

- (c) shall cause Alascom to sell and to transfer to AT&T Alascom's complete existing interstate MTS/WATS customer list;
 - (d) shall cause Alascom to retain, separately from the ACCS Carrier, its intrastate MTS/WATS and its intrastate and interstate private line customer lists; and
 - (e) shall cause Alascom to implement a five-year rate stabilization plan with respect to its intrastate MTS/WATS rates, acceptable to and accepted by the Alaska Public Utilities Commission (APUC).
- (5) The ACCS Carrier shall provide non-discriminatory interstate access services, comprehending switched access, special access and transport, on an unbundled basis under tariffs publicly filed with and approved, from time-to-time, by the FCC. Further, the ACCS Carrier shall file with the APUC appropriate "carrier's carrier" or "wholesale tariffs" to provide service on a non-discriminatory basis to other intrastate interexchange carriers, but not to "retail" or "end-user" customers.
- (6) AT&T shall maintain interconnection with the ACCS Carrier for a minimum period of ten (10) years, sufficient to avoid any change in jurisdictional allocations contrary to the revenue requirement neutrality principles set forth in the Tentative Recommendation.
- (7) AT&T shall assume and shall perform the obligations of carrier-of-last-resort for interstate MTS/WATS service for the entire State of Alaska, including the responsibility for future necessary facilities.
- (8) Alascom shall apply for and obtain appropriate 214 authority to exit from the interstate MTS/WATS market.
- (9) The ACCS Carrier shall provide, on a statewide basis, the "last thousand mile" link for private line service throughout Alaska under appropriate federally filed "special access" or equivalent tariffs. For the provision of such private line service, the ACCS Carrier shall undertake to interconnect, from time to time, with any interstate interexchange carrier (IXC) at any established point of presence (POP) of that IXC in Alaska.
- (10) The ACCS Carrier shall file with the appropriate regulatory agency any and all agreements, contracts, or

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tariffs relating to the provision of access or carrier's carrier services, for public inspection of same.

- (11) All changes, actions, or approvals set forth in or necessitated by this Stipulation shall be pursued and to the extent practicable, accomplished in a manner permitting implementation of the new Alaska market structure created hereby on January 1, 1994, or as soon thereafter as possible.
- (12) The Parties stipulate and agree that the terms of this Stipulation are intended to promote a balance among the requirements of universal service, rate integration, revenue requirement, neutrality, competition, and efficiency identified by the Federal-State Joint Board in its Supplemental Order Inviting Comments, dated January 3, 1989, in the above-referenced docket. Further, the Parties stipulate and agree that the terms of this Stipulation are intended to reflect and to adopt, to the greatest degree practicable, the proposals contained in the Tentative Recommendation of the Federal-State Joint Board, dated May 17, 1993, in the above-referenced docket.
- (13) The Parties stipulate and agree that nothing in this Stipulation is intended to or shall be used to restrict access by any IXC to the interstate access facilities or services, or to the intrastate carrier's carrier facilities or services, of the ACCS Carrier, which access shall be made available by the ACCS Carrier to all IXCs on non-discriminatory terms and conditions.
- (14) The terms and conditions hereof shall become binding upon the Parties from and after the approval by the FCC of this Stipulation, in its present form.
- (15) The Parties agree to file with and to recommend to the Federal-State Joint Board and to the FCC the adoption of this Stipulation and the termination of the above-referenced docket on the basis of the provisions hereof.

In witness whereof, the Parties have executed this Stipulation on the __ day of July, 1993.

STATE OF ALASKA

By: _____

AMERICAN TELEPHONE & TELEGRAPH COMPANY

By: _____

PACIFIC TELECOM, INC.

By: _____

STATE

OF

HAWAII

7ND-141

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

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

COMMENTS OF THE STATE OF HAWAII

THE STATE OF HAWAII

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June 28, 1993

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

In the Matter of)
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Integration of Rates and Services)
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tions by Authorized Common)
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States and Alaska, Hawaii, Puerto)
Rico, and the Virgin Islands)
)

COMMENTS OF THE STATE OF HAWAII

The State of Hawaii, by its attorneys,¹ hereby
submits the following comments in response to the
Commission's Tentative Recommendation and Order Inviting
Comments ("Tentative Recommendation").²

I. SUMMARY AND INTRODUCTION

Consistent with its comments throughout this
proceeding, the State of Hawaii takes no position on most of
the specific proposed changes to the telecommunications

-
- 1/ These comments are submitted by the State of Hawaii,
acting through its Governor and the State's Department
of Commerce and Consumer Affairs.
- 2/ Tentative Recommendation and Order Inviting Comments,
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,
FCC 93J-1 (released May 17, 1993) [hereinafter
"Tentative Recommendation"].

market structure in Alaska. The State will address only certain statements made in the Joint Board's Tentative Recommendation, American Telephone and Telegraph Company's ("AT&T's") Consumer Benefit Plan,³ Alascom, Inc.'s Implementation Plan,⁴ and AT&T's Implementation Plan.⁵ Specifically, the State of Hawaii is concerned about the impact some of these statements may have on the Commission's rate integration rule and its geographic rate averaging policy.

Throughout this proceeding, the State of Hawaii consistently has demonstrated its long-standing commitment to rate integration for all telecommunications services between and among Hawaii, Alaska, and the contiguous states (sometimes referred to as the "lower 48 states" in this proceeding). The State has sought to clarify the appropriate scope of rate integration and has sought to clarify the distinction between the concepts of rate

3/ AT&T's Petition to Terminate the Joint Service Arrangement, CC Docket No. 83-1376 (filed Mar. 31, 1993) [hereinafter "AT&T's Consumer Benefit Plan"].

4/ Response to Request for Implementation Plan of Alascom, Inc., CC Docket No. 83-1376 (filed June 7, 1993) [hereinafter "Alascom's Implementation Plan"].

5/ AT&T's Response to Request for an Implementation Plan, CC Docket No. 83-1376 (filed June 7, 1993) [hereinafter "AT&T's Implementation Plan"].

integration and geographic rate averaging.⁶ The present comments reiterate this important distinction as well as explain that rate integration is not limited by service or carrier.

In addition, the State of Hawaii urges the Commission to prescribe a nationwide geographically averaged rate structure for at least MTS. Finally, the State wishes to express concern that a record of the July 1, 1993 hearing to be held in Alaska may not be available for review in time for the filing of reply comments on July 12, 1993.

II. DISCUSSION

A. There are Important Distinctions Between the Concepts of Rate Integration and Geographic Rate Averaging.

The State of Hawaii has previously described in detail the distinction between the concepts of rate integration and geographic rate averaging.⁷ Briefly, "rate integration" refers to the requirement that a carrier use the same rate structure for rates and services in the noncontiguous states as that carrier uses in the lower 48 states. This rule does not mandate the use of any specific

^{6/} See generally, Comments of the State of Hawaii, CC Docket No. 83-1376 (filed Apr. 20, 1992) (appended as Attachment A hereto); Reply Comments of the State of Hawaii, CC Docket No. 83-1376 (filed May 20, 1992).

^{7/} See Comments of the State of Hawaii, CC Docket No. 83-1376, at 5-7 (filed Apr. 20, 1992).

rate structure. By contrast, "geographic rate averaging" is one type of rate structure that carriers may choose to adopt as a method for determining how the costs of providing a particular service will translate into rates for customers. Under an "averaged" rate structure, rates for any given point-to-point link do not necessarily reflect the actual underlying costs of providing service on that specific route. A nationwide geographically averaged rate structure, therefore, allows for the provision of the same services, at the same rates, for the same distance regardless of the location of terminal points throughout the 50 states, Puerto Rico, and the District of Columbia.

Thus, a carrier may choose to adopt geographic rate averaging as the applicable rate structure. If it does so, however, the rule of rate integration requires the carrier to extend the same rate structure uniformly and nationwide to include the noncontiguous states. Historically, the application of the rate integration requirement has had the effect of imposing a geographically averaged rate structure for interstate services to Alaska and Hawaii, since that is the rate structure that carriers typically choose to apply in the lower 48 states.

B. The Commission's Rate Integration Policy
is Not Limited to Any Carrier or Class
of Service.

The State of Hawaii has previously shown that the application of the rule of rate integration is not limited to any class of service, transmission media, or technology.⁸ Similarly, the State of Hawaii has also previously shown that the rate integration rule applies to all relevant carriers.⁹ The State of Hawaii, however, is concerned that the Commission and various interested parties continue -- we believe inadvertently -- to make comments which suggest that rate integration only applies to certain services or carriers. At times, the discussion of rate integration focuses only on MTS.¹⁰ At other times, the discussion focuses on both MTS and WATS.¹¹ The discussion also often focuses on certain carriers, such as AT&T.¹²

^{8/} See id. at 8-10 (providing documentation showing that rate integration is not limited to any class of service, transmission media, or technology).

^{9/} See Comments of the State of Hawaii, CC Docket No. 83-1376, at 4 (filed Apr. 13, 1989); Comments of the State of Hawaii, CC Docket No. 83-1376, at 9-10 n. 18 (filed Apr. 20, 1992).

^{10/} See, e.g., Tentative Recommendation at ¶ 31.

^{11/} See, e.g., AT&T's Consumer Benefit Plan at 11; see also Comments of the State of Hawaii, CC Docket No. 83-1376, at 2-4 (filed Apr. 20, 1992) (explaining the factors that have led to the focus on MTS and WATS services in the context of rate integration in this proceeding).

^{12/} See, e.g., Tentative Recommendation at ¶ 31.

It is important that such comments do not lead to any misinterpretation of the rate integration rule that can have precedential significance. While it may be appropriate to focus on certain services and carriers in this proceeding, the State of Hawaii requests that the Joint Board and the Commission carefully avoid any suggestion that the rule is limited to certain services or carriers.

1. Certain Imprecise Statements
Have Been Made With Respect to
Rate Integration.

The Joint Board in its Tentative Recommendation has proposed to require rate integration for AT&T's MTS rates for Alaska-Mainland and Alaska-Hawaii services,¹³ as well as for AT&T's interstate private line services.¹⁴ The State of Hawaii agrees that rate integration certainly applies to these services and welcomes this conclusion. However, it wishes to clarify that the failure of the Joint Board to mention other services or other carriers does not indicate that rate integration is limited.¹⁵ As mentioned above,

^{13/} See id. at ¶ 4, 31.

^{14/} See id. at ¶ 37.

^{15/} For example, the rule of rate integration would cover the full range of new services and features that AT&T proposes to make available to its Alaska customers pursuant to its Consumer Benefit Plan. See AT&T's Consumer Benefit Plan at 7 n.3. (A complete listing of these services and features is appended as Attachment B.) The failure to include such services and other AT&T services as covered by the rate integration rule (Footnote 15 continued on next page)

rate integration is a requirement that extends to all services and all carriers.

The State of Hawaii also wishes to address certain imprecise statements that AT&T continues to make with respect to rate integration. In its Consumer Benefit Plan, for example, AT&T mentions rate integration only with regard to interstate MTS and WATS services.¹⁶ Again, Hawaii emphasizes that this statement is inappropriate if it attempts to confine the rate integration rule to those services.

Similarly, in its recently filed implementation plan, AT&T also notes that:

[T]he Consumer Benefit Plan will continue to meet the Joint Board's goal of providing Alaska consumers with the benefit of rate integration for their interstate MTS/WATS calls, including calls between Alaska and Hawaii.¹⁷

This is an appropriate and welcome commitment. The State of Hawaii agrees with AT&T that calls between Alaska and Hawaii are certainly included in the Commission's rate integration

(Footnote 15 continued from previous page)
would improperly penalize the economies of the noncontiguous states. Examples of other services covered by the rule of rate integration include AT&T MEGACOM 800 Service, AT&T Software Data Defined Network Service ("SDDN"), and AT&T 56 Kbps Switched Digital Services.

^{16/} See AT&T's Consumer Benefit Plan at 11.

^{17/} AT&T's Implementation Plan at 7.

requirement. But, again, AT&T's focus on interstate MTS/WATS services must not be construed as limiting the rate integration rule to those services.

AT&T also makes a misleading statement in noting that it will be "willing to integrate the rates" for calls between Alaska and Hawaii once it is permitted to provide Alaska-Hawaii service.¹⁸ The State of Hawaii reiterates that, with regard to rate integration, what AT&T is "willing" to do is irrelevant, because rate integration is a requirement.¹⁹

In addition, AT&T's Consumer Benefit Plan ambiguously states that:

The continuation of the Commission's rate integration policy will be assured when AT&T includes calls from Alaska in its existing interstate MTS and WATS tariffs. Rate integration for Alaska interstate services will continue to the same extent it applies generally for AT&T's domestic interstate services.²⁰

AT&T's comment may indicate a lingering confusion about the important distinction between rate integration and

^{18/} AT&T's Consumer Benefit Plan at 7 n.2.

^{19/} See also Initial Response of Alascom, Inc. to AT&T's Petition to Terminate the Joint Service Arrangement, CC Docket No. 83-1376, at 9 (filed Apr. 15, 1993) (pointing out that AT&T's offer to provide MTS/WATS rate integration is "illusory" since rate integration is an FCC policy to which AT&T is already bound).

^{20/} AT&T's Consumer Benefit Plan at 10 (emphasis added).

geographic rate averaging. The State of Hawaii emphasizes that, while geographic rate averaging may be voluntary in certain instances, the requirement to integrate rates is mandatory.²¹

C. Now is the Time for the Commission to Prescribe a Nationwide Geographically Averaged Rate Structure.

The State of Hawaii submits that it would be appropriate for the Commission to take this opportunity to prescribe nationwide geographic rate averaging for at least MTS.²² As the Commission has amply demonstrated, geographic rate averaging helps to ensure the economic and social integration of noncontiguous areas, which is an important element of national telecommunications policy.²³ In this proceeding, AT&T has committed to amend its existing MTS/WATS tariffs and begin providing interstate services directly to and from Alaska at nationwide averaged rates.²⁴

^{21/} AT&T's comment may be an attempt to remind the Commission of AT&T's position that it can abandon the geographic rate averaging structure if it so chooses. This issue will be addressed further below.

^{22/} The State of Hawaii has previously pointed out the Commission's strong commitment to geographic rate averaging (especially for MTS, WATS, and 800 services) for the purpose of achieving universal service. See Comments of the State of Hawaii, CC Docket No. 83-1376, at 6 n.10 (filed Apr. 20, 1992).

^{23/} See, e.g., Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd 2873, 3133 (¶ 539) (1989).

^{24/} See AT&T's Consumer Benefit Plan at 3.

AT&T has repeated this commitment in its application pursuant to Section 214 of the Communications Act.²⁵ Accordingly, the State of Hawaii believes that now is the time for the Commission to prescribe the use of nationwide geographic rate averaging as the appropriate rate structure for these services.

D. The July 1, 1993 Joint Board Hearing May Raise Scheduling Problems.

The State of Hawaii has received the Commission's Public Notice regarding the Alaska Joint Board hearing to be held July 1, 1993.²⁶ Although the State of Hawaii encourages open discussion and participation in this proceeding, it is concerned that the record of this hearing will not be available for review prior to the July 12, 1993 deadline for the filing of reply comments in the present proceeding.

^{25/} Application of American Telephone and Telegraph Company Under §214(a) of the Communications Act, W-P-C-6861, at 3 (filed Mar. 31, 1993).

^{26/} "Alaska Federal-State Joint Board to Convene a Hearing in Anchorage Alaska on Thursday, July 1, 1993," FCC Public Notice, DA 93-755, at 1-2 (June 23, 1993).

III. CONCLUSION

For the reasons stated above, the State of Hawaii requests that the Commission: (1) clarify the distinction between rate integration and geographic rate averaging; (2) clarify that rate integration applies to all services and all carriers; and (3) prescribe the use of a nationwide geographically averaged rate structure for at least MTS.

Respectfully submitted,

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June 28, 1993

ATTACHMENT A

**TO
STATE OF HAWAII COMMENTS
CC Docket No. 83-1376**

(June 28, 1993)

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

In the Matter of)

)
Integration of Rates and Services)
for the Provision of Communica-)
tions by Authorized Common)
Carriers between the Contiguous)
States and Alaska, Hawaii, Puerto)
Rico, and the Virgin Islands)
)

CC Docket No. 83-1376
RM 4436

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Federal Communications Commission
Office of the Secretary

COMMENTS OF THE STATE OF HAWAII

THE STATE OF HAWAII

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

In the Matter of)
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Integration of Rates and Services)
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Carriers between the Contiguous)
States and Alaska, Hawaii, Puerto)
Rico, and the Virgin Islands)
)

COMMENTS OF THE STATE OF HAWAII

The State of Hawaii ("State" or "Hawaii"), by its attorneys,¹ hereby submits the following comments in response to the Commission's Public Notice in the above-captioned proceeding.²

I. SUMMARY AND INTRODUCTION

Consistent with its comments throughout the Alaska proceedings, the State of Hawaii takes no position on the Alaska market structure as proposed in the petitions that are currently under consideration.

-
1. These comments are submitted by the State of Hawaii, acting through its Governor and the State's Department of Commerce and Consumer Affairs.
 2. Joint Petition and Associated Filings by AT&T, Alascom, and TUA regarding Alaska Telecommunications Services and Petition to Establish Regulatory Policies Concerning the Alaska Telecommunications Market Structure Filed by General Communications, Inc., FCC Public Notice, DA 92-236 (released Mar. 4, 1992).

The State submits these comments for the limited purpose of addressing the important rule of rate integration, the scope of which is threatened by certain confusing statements made in the course of this proceeding. Both the Commission and certain parties, for example, have incorrectly suggested that the application of rate integration may be limited to MTS and WATS. Because of this confusion, the State believes it is important, at this juncture, for the Commission to clarify that rate integration is not limited to MTS and WATS.

In addition, the State urges the Commission to adopt the Joint Board's tentative decision to fully integrate rates and services on the Hawaii-Alaska route.

II. THE COMMISSION SHOULD CLARIFY THAT RATE INTEGRATION IS NOT LIMITED TO MTS AND WATS

A. The Focus on MTS and WATS in this Proceeding Has Contributed to Some Confusion Regarding Rate Integration.

Throughout the Alaska proceedings, both the Commission and interested parties have focused on MTS and WATS services in their discussion of rate integration.³ This emphasis on MTS and WATS is a result of a number of factors,

3. Indeed, the entire Alaska proceedings have concentrated on the integration of MTS and WATS. See, e.g., Integration of Rates and Services, 4 FCC Rcd 395, 398 n.38 (1989) (noting, for example, that the Alaska private line market structure is "not the primary focus of this proceeding").

which include the prominence of MTS and WATS, as well as the general lack of carrier enthusiasm to integrate rates for MTS and WATS into the geographically averaged rate structure prevailing on the Mainland.⁴ In addition, the integration of rates for MTS and WATS into the Mainland rate structure has involved a highly contentious dispute over payments and subsidies.⁵ All of these factors have led the Commission to devote considerable attention to the impact of integrating rates for MTS and WATS. Consequently, there are numerous examples of the Commission addressing only MTS and WATS in its discussion of rate integration.⁶

-
4. Carriers have historically been reluctant to implement rate integration. The focus on integrating the basic communications services therefore dates back to the initial adoption of the rate integration rule. See, e.g., Letter from Walter R. Hinchman, Chief, Common Carrier Bureau, FCC, to certain common carriers, Ref. No. 9510 at 2 (May 27, 1976) (noting difficulties in getting carriers to fulfill rate integration requirements, and that, consequently, "negotiations centered on message toll telephone service (MTS)"); Integration of Rates and Services, 61 FCC 2d 380, 384-85 (1976) (discussing difficulties in getting carriers to propose implementation schedules for MTS). See generally infra text accompanying note 15 (discussing Senate Resolution No. 318, which was adopted primarily because of unacceptable carrier delay in submitting rate integration proposals to the Commission).
 5. See, e.g., Integration of Rates and Services, 4 FCC Rcd at 399-406 (11 35-90) (1989).
 6. See, e.g., Referral of Questions from GCI, Inc. v. Alascom, Inc., 2 FCC Rcd 6479, 6480-82 (11 7-14) (1987) (describing rate integration policy as applicable to MTS and WATS, without addressing other services).

Although the focus on MTS and WATS need in no way limit the application of rate integration, the State is concerned that this focus has, over time, contributed to some confusion regarding the scope of that rule. For example, the Commission has -- perhaps inadvertently -- suggested that rate integration may be limited to MTS and WATS.⁷ Similarly, parties in this proceeding have incorrectly interpreted that rate integration may not be applicable to all services.⁸ From the standpoint of the State of Hawaii -- and users who will communicate to and from points within Hawaii as well as to all states -- it is not sufficient to focus only on MTS and WATS. A host of other switched and private line services are important to the economic development and social integration of all the states of the United States, particularly the States of Hawaii and Alaska.

7. See Integration of Rates and Services, 4 FCC Rcd 395, 398 (¶ 25 n.38) (1989). See also Integration of Rates and Services, 96 FCC 2d 567, 570-71 (¶ 7) (1984).

8. See, e.g., Ex Parte Letter from Charles R. Naftalin, representing Alascom, to Donna R. Searcy, Secretary, FCC at attachment at 5, CC Docket No. 83-1376 (filed Jan. 30, 1992) (incorrectly stating that rate integration has not been applied to private line services). Although, it is true that the geographic averaging policy has not been applied to private lines, as discussed below, this is not the case with respect to rate integration.

B. The Confusion Regarding Rate Integration is Rooted in the Lack of a Separate Discussion of Geographic Averaging.

The State believes that the apparent confusion about the scope of rate integration is rooted in the lack of a separate discussion of the Commission's geographic rate averaging policy. In order to avoid further confusion in this regard, it may be helpful at this point to reiterate the primary distinctions between the rate integration rule and the geographic averaging policy.

"Geographic rate averaging" can be described as one type of rate structure that carriers may choose to adopt as a method for determining how the costs of providing a particular service will translate into rates for customers. Under an "averaged" rate structure, rates for any given point-to-point link do not necessarily reflect the actual underlying costs of providing service on that specific route. A nationwide geographically averaged rate structure, therefore, allows for the provision of the same services, at the same rates, for the same distance regardless of the location of terminal points throughout the 50 states, Puerto Rico, and the District of Columbia. Geographic averaging was the prevailing rate structure for MTS in the lower 48 states before the adoption of rate integration.⁹ Although

9. Carriers generally have chosen to adopt an averaged rate structure for publicly switched communications (Footnote 9 continued on next page)

the Commission has, on numerous occasions, recognized the importance of maintaining a geographically averaged rate structure for MTS and WATS.¹⁰ this recognition neither disposes of the State's concerns regarding rate integration, nor does it address the significance of this rule.

In contrast to the geographic averaging policy, the rate integration rule does not contemplate the application of, nor does it mandate, any particular rate structure.¹¹

(Footnote 9 continued from previous page)

services, such as MTS, WATS, and 800 services. Carriers have sometimes only partially averaged rate structures for private line services. The Commission generally has concurred with this distinction. See, e.g., Integration of Rates and Services, 65 FCC 2d 324, 328-29 (1977) (permitting deaveraged rate structure, but requiring rate integration, for private line services). See also MTS and WATS Market Structure Inquiry (Phase II), 92 FCC 2d 787, 836-37 (1982).

10. The Commission is strongly committed to geographic averaging, primarily for purposes of achieving universal service. In the price cap proceeding, for example, the Commission affirmed its long-standing support of the averaging policy for MTS, WATS, and 800 services, and it pledged to suspend and investigate any tariff that deaveraged rates for these services. See, e.g., Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd 2873, 3133 (¶ 539) (1989). The State believes this commitment is appropriate and important.
 11. In adopting the rate integration rule, the Commission stated that the objective was to ensure that "service between Alaska, Hawaii, and Puerto Rico and all Mainland points shall be provided at rates and on terms comparable to those obtaining within the contiguous states." Establishment of Domestic Communications Satellite Facilities by Non-Governmental Entities, 35 FCC 2d 844 [hereinafter "DOMSAT II"], on recon., 38 FCC 2d 665, 695 (1972) [hereinafter "DOMSAT III"]. The Commission determined that, with the advent of satel-
- (Footnote 11 continued on next page)

Rate integration only requires that whatever rate structure a carrier chooses to adopt for the Mainland -- whether it be averaged or not averaged -- the same structure must be extended uniformly and nationwide to include Hawaii and the other noncontiguous points. The rule is fundamentally grounded in sections 201(b) and 202(a) of the Communications Act of 1934, which require just and reasonable rates, and generally prohibit undue discrimination or disadvantage based on locality, among other things.¹²

(Footnote 11 continued from previous page)

lite technology, it was "feasible to minimize, on a sound economic basis, the rate and service distinctions between" communications traffic between points located on the Mainland and traffic among the Mainland and these noncontiguous points. See, e.g., Integration of Rates and Services, 65 FCC 2d 324, 326 n.1 (1977) (citing DOMSAT II and DOMSAT III). The Commission also determined, however, that the application of rate integration is not dependent on the technology selected by the carrier. See, e.g., Integration of Rates and Services, 62 FCC 2d 693, 695 (¶ 6) (1976) ("rate integration does not, and cannot, depend on the actual use of domestic satellite facilities . . . [and applies whether service] is routed via cable or satellite, or a combination of both").

12. See 47 U.S.C. §§ 201(b), 202(a) (1988). With respect to Hawaii in particular, the Commission has found that "the goal of placing Hawaiian communications and charges on an equal footing with those of the contiguous 48 states was of fundamental importance," primarily because of an historical pattern of discrimination in the provision of communications services. Hawaiian Tel. Co. v. FCC, 589 F.2d 647, 656 (D.C. Cir. 1978) (citing DOMSAT II, 35 FCC 2d at 856-59; DOMSAT III, 38 FCC 2d at 695-96).

C. Rate Integration is Not Limited to MTS and WATS.

Since adopting rate integration in 1972, the Commission has reaffirmed the rule on numerous occasions.¹³ The rate integration rule also has been endorsed both by the U.S. Court of Appeals¹⁴ and by Congress. In 1975, for example, the U.S. Senate unanimously adopted a resolution directing the Commission to

take such action pursuant to law as is necessary in order to provide that the advent of domestic communications satellite service will be accompanied by the integration of all interstate services between the Mainland and Alaska, Hawaii, and Puerto Rico into an enlarged domestic rate pattern.¹⁵

Similarly, both chambers of Congress enacted legislation in 1980, again without a dissenting vote, to amend section 222 of the Communications Act to include Hawaii within the definition of "Continental United States."¹⁶ As Senator Daniel K. Inouye stated, this legislation was intended to "make

13. See, e.g., Commission orders cited infra at note 18.

14. See, e.g., Hawaiian Tel. Co. v. FCC, 589 F.2d at 658 (affirming Commission's authorization of facilities in Hawaii and noting "[t]here is no question that the Commission's position before this court would have been indefensible had it ignored rate integration").

15. S. Res. 318, 94th Cong., 1st Sess. 6 (1975) (emphasis added).

16. See Act of Dec. 24, 1980, Pub. L. 96-590, 94 Stat. 3414. See also S. Rep. No. 389, 95th Cong., 1st Sess. 1 (1977).

available to Hawaii the same modern telecommunications facilities, services, and ratemaking principles which are now or will be enjoyed throughout the Continental United States."¹⁷

The extensive documentation establishing and reaffirming rate integration makes it abundantly clear that its application is not limited to any class of service, transmission media, or technology.¹⁸ As noted above,

17. 126 Cong. Rec. at S16203 (daily ed. Dec. 11, 1980).

18. See, e.g., DOMSAT II, 35 FCC 2d at 858 (finding that rate integration is "necessary to achieve our objective of integrating [Alaska, Hawaii, Puerto Rico, and the Virgin Islands] into domestic rate patterns for all services"); DOMSAT III, 38 FCC 2d at 695 (affirming that "the advent of domestic satellite service will be accompanied by the integration of all interstate services . . . into an enlarged domestic rate pattern"); Id. at 696 (affirming the Commission's "goal that all interstate services to these three points shall be integrated into domestic rate patterns"); Integration of Rates and Services, 61 FCC 2d at 392 (ordering AT&T to implement full rate and service integration for MTS and WATS, as well as "for all other services it participates in providing to Hawaii, Alaska, and Puerto Rico/Virgin Islands"); Id. at 387 (indicating that approval of "services other than MTS" will be conditioned upon satisfactory rate and service integration proposals); Integration of Rates and Services, 62 FCC 2d 88, 91-92 (1976) (attaching rate integration as a condition to all authorizations for any facilities used by international record carriers ("IRCs") to serve Hawaii); Application of GTE Corp. and Southern Pacific Co. for Consent to Transfer Control of Southern Pacific Communications Co. and Southern Pacific Satellite Co., 94 FCC 2d 235, 262-63 (¶ 71) (1983) (requiring GTE, as a condition to acquiring Southern Pacific Satellite Company, to integrate into the rate structure prevailing on the Mainland all of "GTE Sprint's" current and future services to Hawaii). In specific contexts, the (Footnote 18 continued on next page)

however, certain statements made in the instant proceedings suggest that there is some confusion regarding the scope of the rate integration rule. With respect to the State of Hawaii and other noncontiguous points, this confusion could result in the application of discriminatory rate structures -- and, therefore, discriminatory rates -- for a wide variety of switched and private line services, which are increasingly important to the economic development and social integration of all states. The State of Hawaii, therefore, urges the Commission to clarify that rate integration is not limited to MTS and WATS. Any other decision would violate sections 201(b) and 202(a) of the Communications Act.

D. This Proceeding is an Appropriate Place for
the Commission to Address the Scope of Rate
Integration.

Commission action in this proceeding is necessary to avoid further confusion about the scope of rate integra-

(Footnote 18 continued from previous page)

policy has been applied to a variety of carriers, including for example: AT&T, GTE, and the IRCs (as noted above); GTE Hawaiian Telephone Company, Inc., see Integration of Rates and Services, 61 FCC 2d at 394; and the domestic satellite carriers, see, e.g., American Satellite Corp., 65 FCC 2d 267 (1977); American Satellite Corp., 65 FCC 2d 279 (1977); RCA American Communications, Inc., 65 FCC 2d 354 (1977), each of which was affirmed sub nom. Hawaiian Tel. Co. v. FCC, 589 F.2d 647 (D.C. Cir. 1978). As noted above, rate integration applies to whatever media carriers choose to use for the provision of services. See supra note 11.

tion. Although rate integration is not currently the focus of the recently filed petitions and is often conceded by interested parties, the rule is central to the Alaska proceedings, as well as to national policy expressed in the Communications Act. This proceeding is the Commission's only on-going docket that directly addresses the issue of rate integration. This proceeding has also been the source of statements that may contribute to inaccurate interpretations of the rate integration rule.¹⁹ It is, therefore, appropriate for the Commission to address these important issues at this time and in this proceeding.

III. THE COMMISSION SHOULD ADOPT THE TENTATIVE DECISION TO INTEGRATE RATES AND SERVICES ON THE HAWAII-ALASKA ROUTE

As an additional matter, the State of Hawaii urges the Commission to adopt the Joint Board's tentative decision that rates and services on the Hawaii-Alaska route should be fully integrated into domestic patterns.²⁰ This proposal is generally unopposed.²¹ As discussed above, there is no

19. See, e.g., supra notes 3-12 and accompanying text.

20. See, e.g., Integration of Rates and Services, 4 FCC Rcd at 407 (¶ 95) (1989).

21. In its Joint Petition, AT&T concedes that if it acquires Alascom's interstate MTS and WATS services, it would be subject to rate integration requirements on the Hawaii-Alaska route. See Joint Petition to Approve Master Agreement, Terminate Joint Service Arrangement, Continue NECA Participation, and for Limited Waiver of (Footnote 21 continued on next page)

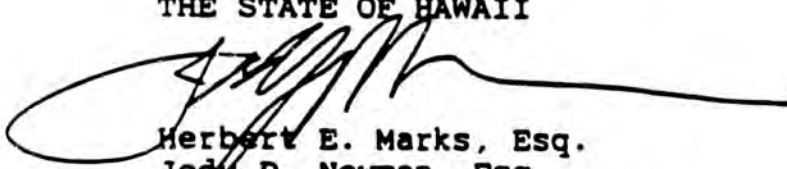
basis for limiting, in any way, the application of rate integration. Thus, whatever carrier arrangements are adopted, the Commission should affirm that rate integration applies to the Hawaii-Alaska route.

IV. CONCLUSION

For the reasons stated above, the State of Hawaii requests the Commission to clarify that rate integration generally is not limited to MTS and WATS, and to adopt the Joint Board's tentative decision to fully integrate rates and services on the Hawaii-Alaska route.

Respectfully submitted,

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(Footnote 21 continued from previous page)
Separations Rules and Resolution and Termination of
Regulatory Proceedings, CC Docket No. 83-1376 at 25 n.*
(filed Jan. 29, 1992).

ATTACHMENT B

TO
STATE OF HAWAII COMMENTS
CC Docket No. 83-1376

(June 28, 1993)

ATTACHMENT B

Current AT&T Services/Features Not Offered by Alascom

AT&T Simple Savings Plan
AT&T Special Country Plan
AT&T Small Business Option (including Term Plan and Flex Plan)
AT&T MultiQuest® Service
AT&T NetPROTECT Service (Advanced and Premium)
AT&T Software Defined Network Service
AT&T Global Software Defined Network Service
AT&T Multilocation Calling Plan
AT&T FAXLine Service
AT&T Hospitality Network Service
AT&T Distributed Network Service
AT&T PRO® WATS Service
AT&T Plan D Service
AT&T Plan Q Service
AT&T Call Redirect Service
AT&T Optimum Service
AT&T EasyReach Service
AT&T MEGACOM® Plus Service
AT&T CustomNet Gold
AT&T Service Quality Guarantees
AT&T Advanced 800 Service
AT&T 800 Service - Canada
AT&T 800 Service - Overseas
AT&T 800 Service - Mexico
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AT&T MEGACOM® 800 Service - Canada
AT&T MEGACOM® 800 Service - Overseas
AT&T MEGACOM® 800 Service - Mexico
AT&T 800 Readyline® Service - Canada
AT&T 800 Service Plan K
AT&T 800 Service Plan E
AT&T 800 Service Plan P
AT&T 800 Gold Service

Current AT&T Services That Offer Additional Features
Compared to Alascom Counterparts

AT&T Reach Out® America-Basic (discount period begins 7 PM)
AT&T Reach Out® World
AT&T 800 Service
-Dialled Number Identification Service
-800 Validation
-800 Guaranteed Validation
-Make Busy Arrangement
-Alternate Number Translation
-Alternate Destination Routing

AT&T 800 Readyline® Service

- One Number Calling
- Alternate Number Translation
- Advanced 800 Service

AT&T WATS Service

- Access Line Extension (different rate center than the access line)
- Multilocation Calling Plan
- Answer Supervision
- WATS One Line Access

CERTIFICATE OF SERVICE

I, Dana M. Pass, hereby certify that copies of the foregoing Comments of the State of Hawaii were served by hand or by First Class U.S. mail, postage prepaid, upon the parties on the attached service list this 28th day of June, 1993.

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ATU

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

COMMENTS OF THE ANCHORAGE TELEPHONE UTILITY

The Anchorage Telephone Utility ("ATU"), by its attorneys, submits its comments in response to the Tentative Recommendation and Order Inviting Comments ("Tentative Recommendation") by the Federal-State Joint Board in this proceeding,¹ as well as the June 7, 1993 first responses of Alascom and AT&T on the Tentative Recommendation. ATU provides local telephone service and interstate and intrastate access services throughout the Municipality of Anchorage and surrounding areas. ATU's 130,000 subscribers represent approximately one-half of all telephone subscribers in the State of Alaska. ATU urges the Joint Board to assure that the proposal for Commission action in this proceeding would not put upward pressure on local telephone rates by unfairly encumbering ATU and other local exchange companies ("LECs") as they compete for interstate and intrastate access business.

ATU commends the Joint Board for its effort and recognizes the importance of the Tentative Recommendation in moving this longstanding proceeding toward resolution. ATU is concerned, however, that neither the Joint Board, AT&T nor Alascom has paid adequate attention to the effects of their proposals on LEC access costs and rates, and ultimately

¹ FCC 93J-1, released May 17, 1993.

on rates for local exchange service. The Tentative Recommendation does not indicate that, in developing its proposal, the Joint Board considered this important aspect of any restructuring of the Alaska interexchange telecommunications market. In its comments, Alascom explicitly excludes any analysis of either the effects of its proposals on access charges or the effects of access charges on its proposals.² Similarly, in both its petition proposing a "Consumer Benefit Plan" and its comments on the Tentative Recommendation, AT&T expressly qualifies its commitments concerning its intrastate interexchange rates by excluding increases in access charges approved by the Alaska Public Utilities Commission ("APUC").³

Under any of the plans now before the Joint Board, unit costs for intrastate access and therefore rates for intrastate access services may well increase. Through the operation of the Commission's cost allocation and separations rules, LEC rates for interstate and intrastate access services depend in substantial part on the markets for interstate and intrastate interexchange services -- i.e., demand. The Joint Board acknowledges that the Tentative Recommendation would lead to increases in intrastate interexchange rates,⁴ suggesting a decrease in intrastate interexchange demand. Because at least some intrastate access costs are non-traffic sensitive, this traffic decrease could

² Comments of Alascom, June 7, 1993, p. 12.

³ AT&T's Petition to Terminate the Joint Services Agreement, March 31, 1993, p. 13; AT&T's Response to Request for an Implementation Plan, June 7, 1993, pp. 10-11.

⁴ Tentative Recommendation, para. 45.

increase intrastate access unit costs and rates. The modifications to the Tentative Recommendation proposed by Alascom are apparently designed to minimize increases to its intrastate revenue requirement. It is nevertheless clear that Alascom's proposals would still produce increases in intrastate interexchange rates,⁵ with corresponding potential decreases in intrastate interexchange traffic and access demand. While AT&T proposes a five-year ceiling on intrastate interexchange rates, it provides no assurance that its plan would not lead to increases in intrastate access rates⁶ -- which it has excluded from its proposed ceiling. *? If charged by LECs primarily APIC.*

It bears emphasizing that the Alaska LECs will have had no part in causing the increased costs and rates that could result from the proposals in this proceeding. In simplest terms, those cost and rate increases will make it harder for ATU and other Alaska LECs to compete for access customers and traffic. ATU, for example, already confronts significant competition from Alascom and GCI for access customers and traffic, which AT&T's proposed market entry will surely heighten.

ATU does not shy from that competition. Indeed, ATU recently withdrew from the NECA traffic-sensitive pool and filed its own interstate access tariff in order to enhance its ability to compete in the access market. ATU is understandably concerned about any regulatory

⁵ Comments of Alascom, June 7, 1993, Exhibit J and p. 15.

⁶ AT&T's proposal not to increase intrastate interexchange rates contrasts with its proposal to lower interstate interexchange rates. AT&T Petition to Terminate the Joint Service Arrangement, March 31, 1993, pp. 3-4, 6-7. The result is likely to be an increase in unit costs for non-traffic sensitive intrastate access.

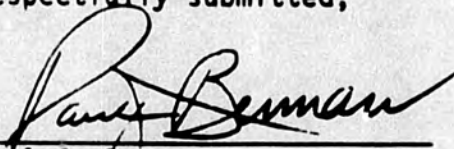
action that threatens to reduce its growing control over its access costs and rates.

Important public interest issues are at stake in this proceeding. Competition for access customers and traffic could be reduced. Especially large-volume access customers could be prompted to leave the LEC network, leaving fewer and smaller customers to pay for the costs of that network. Inevitably, pressure would mount to increase rates for local service.

ATU therefore urges the Joint Board to consider carefully the effects of its Tentative Recommendation, as well as the proposals of the parties, on access costs, rates and competition in access services and, ultimately, on rates for basic local telephone service. The Joint Board needs to assure that, in the name of restructuring the market for interexchange services, it does not propose to increase rates for local service by sacrificing competition in access services or the ability of ATU and other LECs to participate fairly in that competition.

Respectfully submitted,

By:



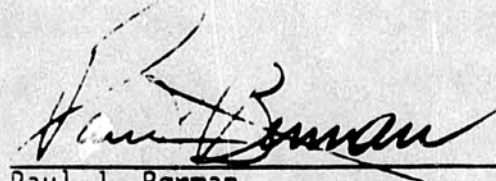
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June 28, 1993

CERTIFICATE OF SERVICE

I hereby certify that, on this 28th day of June 1993, I caused copies of the foregoing "Comments of the Anchorage Telephone Utility" to be sent via first-class mail, stage prepaid, to the parties on the attached list.

A handwritten signature in dark ink, appearing to read "Paul J. Berman", is written over a horizontal line.

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Director
Regulatory Affairs

June 28, 1993

Ms. Donna Searcy
Secretary
Federal Communications Commission
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Re: CC Docket No. 83-1376

Dear Ms. Searcy:

Enclosed for filing are the original and five copies of
MCI's comments in the above captioned proceeding. Please affix a
proper notation to mark as received for filing.

Yours truly,



Donald F. Evans

MCI

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

MCI COMMENTS

MCI Telecommunications Corporation (MCI) herein provides its comments in the above captioned proceeding. MCI generally agrees with the Joint Board proposal to eliminate the current joint services arrangement between AT&T and Alascom. However, MCI cannot agree that it is in the public interest to require all interexchange carriers to pay for the so-called Alaska fund.

The Tentative Recommendation and Order Inviting Comments proposes to have NECA establish an Alaska fund to compensate Alascom for its transition to a fixed circuit equipment allocator. This is completely against the public interest. Alascom should not be entitled to receive any monies from any entities which do not utilize its interstate facilities to transport calls to and from Alaska. To the extent that any fund is required, only those entities which utilize Alascom facilities -- not including any bush facilities -- should be required to pay into this fund. The State Members Plan requires that AT&T pay Alascom to accelerate the depreciation of plant in place. There is no public interest or benefit reason for the Alaska fund to operate any differently, if any fund is required.

To the extent that the Joint Board does not listen to reason and allows an Alaska fund to be established and requires all entities providing service to Alaska -- regardless if they do or do not utilize Alascom facilities -- to pay into this fund, MCI urges the Joint Board to initiate a joint state/federal audit of Alascom. The objective of this audit should be to determine which of Alascom's assets and costs are reasonable and if Alascom is in compliance with state and federal accounting rules. To the extent that the audit detects that Alascom has kept on its regulated books assets that are not used or useful in providing telecommunications services, these costs should be ordered removed and any appropriate fines and forfeitures levied for such violations.

Respectfully submitted,

MCI TELECOMMUNICATIONS CORPORATION



Donald F. Evans
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Dated: June 28, 1993

STATEMENT OF VERIFICATION

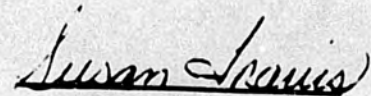
I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on this twenty eighth day of June 1993.



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I, Susan Travis, do hereby certify that copies of the foregoing MCI Reply Comments were sent via first class mail, postage paid, to the following on this 28th day of June, 1993:


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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 83-1376

To: The Federal/State Joint Board

**COMMENTS OF GENERAL COMMUNICATION, INC.
ON THE TENTATIVE RECOMMENDATION**

General Communication, Inc. (GCI), by its attorney hereby comments on the Tentative Recommendation and Order Inviting Comments, FCC 93J-1, CC Docket No. 83-1376, released May 17, 1993 by the Federal/State Joint Board herein ("Tentative Recommendation"). GCI supports the Tentative Recommendation and urges that it be implemented as outlined below.

I. INTRODUCTION

The Joint Board's Tentative Recommendation is the product of a great deal of effort over more than a year by Federal and State regulators to craft a solution to the long-standing Alaska market structure problem. The Tentative Recommendation will achieve all five goals (universal service, rate integration, revenue requirement neutrality, competition and efficiency) established by the Joint Board in its Order¹ of January 3, 1989. The Joint Board Tentative

¹ Integration of Rates and Services, 4 FCC Rcd 395 (1989).

Recommendation also represents a workable compromise² between the positions of Alascom and AT&T and is fully capable of being implemented in accordance with the schedule proposed therein. GCI urges the Joint Board to finalize its Tentative Recommendation and specify that implementation commence no later than the beginning of 1994.³

II. THE WRITE-DOWN SHOULD BE RESTRICTED TO ASSETS USED FOR INTERSTATE MTS SERVICES

The Joint Board has recommended a write-down of Alascom's assets in connection with the transition from the Joint Services Arrangement (JSA) to a competitive market structure. GCI supports the write-down approach and urges that the write-down be applied specifically to assets used for the provision of interstate MTS services. While the Tentative Recommendation does not define how the write-down should be applied, GCI believes that any such funds should be used to write-down interstate MTS assets. It is important that the Joint Board clarify this issue because it appears from

² AT&T and Alascom substantially achieve their objectives but do not receive everything they might have sought. Alascom, though losing the Joint Services Arrangement (which all agree must end), receives substantial compensation which will enable it to effect a successful transition to a competitive market. (See Attachment 1) AT&T, while not freed of transitional requirements, achieves the objectives which it has sought throughout the proceeding (termination of the Joint Services Arrangement, spreading of burdens to other interexchange providers, reduction of interstate cost assignments and freedom to provide Alaska service in the manner of its choosing).

³ Alascom has agreed that implementation of the plan may commence beginning in 1994 and AT&T has already filed a Section 214 application proposing service to Alaska.

Alascom's Implementation Plan filing⁴ that Alascom would, in the absence of such a clarification, apply the write-down of assets across all services - not only to interstate MTS assets but also to those used for intrastate services, and "other services" (presumably including private line) as well. These latter services have not been provided under the Joint Services Arrangement and thus should not be affected by the write-down process.

III. AT&T'S SECTION 214 APPLICATION SHOULD BE GRANTED CONSISTENT WITH THE JOINT BOARD'S FINAL RECOMMENDATION

On March 31, 1993, AT&T filed a Section 214 application proposing direct service to Alaska.⁵ As GCI indicated in its Comments regarding the application filed June 25, 1993, the AT&T application should be granted subject to conditions making the grant consistent with the Joint Board's final recommendation. In particular, AT&T should be authorized to plan and construct facilities for Alaska service so long as the use of those facilities for the provision of interstate MTS services now provided under the Joint Services Arrangement is consistent with the terms of the final recommendation. As that recommendation now stands, AT&T could commence using its own facilities to provide a portion of its Alaska MTS

⁴ Response to Request for Implementation Plan of Alascom, Inc., filed June 7, 1993 ("Alascom Plan").

⁵ AT&T's Response to Request for an Implementation Plan, filed June 7, 1993, supported the approach described in its Section 214 application.

services three years after adoption of the decision. AT&T could plan and carry out its facilities construction consistent with that timetable.

IV. THE ALASCOM IMPLEMENTATION PLAN

Alascom's filing confirms that the Joint Board Plan is feasible.

Alascom's costs fall dramatically as a result of the write-down. At the end of the three year transition, the JSA ends but Alascom retains the right to carry a decreasing share of AT&T's Alaska service and receives transitional payments from a NECA-administered fund. Several observations regarding the Alascom Plan are appropriate.

Scope of the Write-Down

Alascom's calculations understate the potential cost reduction effects of the Tentative Recommendation on jurisdictional services. In Alascom's analysis, the write-down is applied to interstate, intrastate and "other services." If the write-down is limited to interstate MTS services, the cost of these services will fall even more dramatically.

Alascom Customer Base

Alascom's interstate and foreign "billed revenues" disappear in the fourth year of its analysis - meaning that Alascom apparently has no interstate MTS customers after that time.⁶ The disposition of these customers is not explained in the Alascom filing. Alascom apparently intends

⁶ See Alascom Plan, Appendix II, page 2.

to sell its customer base. A voluntary decision by Alascom to sell its customer base may be a valid business move but it makes difficult a comparison of pre- and post-transition financial performance since a major existing line of business is simply missing in later years. In addition, to the extent Alascom realizes cash from the sale of its customer base,⁷ these funds are apparently missing from the analysis as well.

Application of Write-Down to Particular Assets

Alascom has suggested that the total amount of the write-down be increased and has identified certain specific costs which should be recovered through the write-down, including FASB 106 effects and certain costs of the Aurora II domestic satellite. The Joint Board may not wish to combine a general facilities write-down with an additional particularized write-down directed to specific costs. The Joint Board should specify the total dollar amount of the write-down and direct that it apply to assets used for the provision of interstate MTS services. Beyond that, the Joint Board need not specify in detail how the write-down is to apply year-by-year to each of Alascom's myriad assets. Instead, in each year of the transition, Alascom should propose to the Common Carrier Bureau an accounting treatment for the application of the write-down for that year. This proposed accounting treatment would then be accepted or altered by the Bureau. There is no reason to identify particular assets or portions of assets at this time.

⁷ Alascom previously estimated that it could garner \$75.5 million from the sale of its interstate MTS customer base.

"Volume Issues"

Alluding to so-called "volume issues,"⁸ Alascom again portrays the Alaska Bush as a difficult burden - but apparently one that only Alascom should be legally allowed to carry. GCI reiterates, as it has said before, that it will acquire from Alascom, at net book value, the Alascom facilities at any Bush location which Alascom proposes to abandon and will serve that location through the GCI network without insisting upon monopoly rights, or any form of cost pooling or forced subsidization by others.

Alascom Rate Averaging

Alascom seeks to deaverage the rates it charges to other carriers.⁹ This proposal should be rejected. Alascom must be required to geographically average its carrier transport charges on a Statewide basis so long as it provides monopoly service to any segment of the market such as the Bush. Otherwise, it will simply shift costs away from competitive markets to monopoly markets where customers have no choices. It should be noted, however, that geographic averaging is merely an interim stop-gap to prevent monopoly abuse. The solution to the averaging problem in the long run is to open the Bush to entry by competing interexchange carriers -- preventing cost shifting of this kind. Until competitive service is available in the Bush, Alascom's rates must be geographically averaged.

⁸ Alascom Plan, p. 20.

⁹ Alascom Plan, p. 20.

Pricing for the Alaska Spur

Alascom apparently intends to charge "market driven" rates for use of the Alaska Spur.¹⁰ The Alaska Spur is an essential facility. "Market driven" rates in a monopoly environment such as this are monopoly rates. Clearly, while Alascom retains monopoly control of the only fiber optic facility to the State of Alaska, it may not be allowed to price the use of that facility in an extortionate manner.

Alascom Private Line Services

Alascom likens its provision of private line service to the provision of special access by an exchange carrier.¹¹ This is clearly not the case. Alascom has provided interstate and intrastate private line services for approximately twenty years under private line tariffs separate and apart from the Joint Services Arrangement or other artificial pricing or pooling arrangements. Alascom will continue to provide these private line services after the implementation of the Joint Board's Recommendation because it must do so unless and until it files and has granted a Section 214 application to discontinue such services.¹² No such application is pending or has even been alluded to by Alascom.

¹⁰ Alascom Plan, p. 24.

¹¹ Alascom Plan, p. 26.

¹² The Tentative Recommendation (p. 12) would reaffirm Alascom's private line service obligation.

AT&T Service to Alaska

Alascom questions why the addition of AT&T to the Alaska market as a facilities-based carrier would make sense. It would make sense if it allows AT&T to provide its services at lower cost.¹³ AT&T has indicated a willingness to provide both interstate and intrastate services. If these AT&T services are provided without artificial pooling or subsidies, Alaskans will benefit from both increased competition and freedom from dependency upon anachronistic structures that are certain to end in today's competitive environment.

Rochester Telephone-Style Restructuring

Alascom suggests in its filing that it may be appropriate to consider some form of corporate restructuring for the company.¹⁴ Alascom refers to the proposal of Rochester Telephone Company for restructuring along competitive and non-competitive lines. Ameritech has filed such a proposal as well. Both proposals are now in the comment stage. It is unclear at this time how the Commission will eventually deal with them. The three year transition period which has been specified by the Joint Board should permit

¹³ This kind of cost difference can be seen in Alascom's filing itself. Alascom provides an analysis of its own cost of providing Alaska services compared with that of AT&T and GCI. (Alascom Plan, Exhibit L.). On a per customer (per line) basis, the cost differential among carriers is enormous. While Alascom provides its services at a cost of \$1,131 per access line addressed, GCI's cost is only \$360 per access line addressed (representing 93% of Alaska access lines). Contrary to Alascom's claim, technology and competition will solve Alaska's high cost problem.

¹⁴ Alascom Plan, p. 22.

time for these proposals to be considered and possibly implemented in part by Rochester and Ameritech. Thus, at the end of the transition period the Commission would be in a much better position to evaluate how these exchange carrier restructuring proposals might apply to Alascom - an interexchange carrier. Insistence on development of such a restructuring plan now might be viewed as an effort to delay the proceeding.

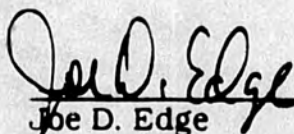
VIII. CONCLUSION

GCI commends the Joint Board for its diligent effort in structuring a solution to the Alaska market problem. The Tentative Recommendation should be adopted and implementation should commence no later than January 1, 1994.

Respectfully submitted,

GENERAL COMMUNICATION, INC.

By its attorney



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June 28, 1993

ATTACHMENT 1

**Alascom Cash Flow Under the JSA and Tentative Recommendation
1993-2000**

(Dollar Amounts in Millions)

<u>Year</u>	<u>Depreciation*</u>	<u>Net Income*</u>	<u>Sale of Customer Base</u>	<u>Cash Flow TR</u>	<u>JSA***</u>
93	\$37	\$35		\$72	\$72
94	90	28		118	72
95	91	21		112	72
96	92	16	\$75.5**	183.5	72
97	6	18		24	72
98	10	14		24	72
99	16	13		29	72
00	17	10		27	72
Total	\$359	\$155		\$589.5	\$576

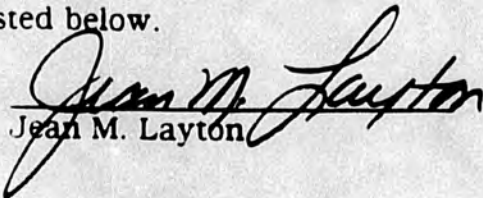
* Alascom Implementation Plan, Appendix II, p. 1.

** Alascom Purchase Agreement, December 19, 1991, p. 7., filed as part of the "Master Agreement."

*** For comparison purposes the financial performance for 1993, the final year of the JSA, is assumed to continue if the JSA is not terminated.

CERTIFICATE OF SERVICE

I, Jean M. Layton, hereby certify that on this 28th day of June, 1993, the foregoing Reply Comments of General Communication, Inc. was mailed postage prepaid to the parties listed below.


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ALASCOM

C-100

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

MOTION OF ALASCOM, INC. TO SCHEDULE REPLY COMMENTS

Alascom, Inc. ("Alascom"), by its attorneys, hereby submits its motion asking the Alaska Joint Board to schedule reply comments as a consequence of its Tentative Recommendation and Order Inviting Comments, FCC 93J-1 (released May 17, 1993) ("Tentative Recommendation") and its subsequent Public Notice convening a hearing in Anchorage, Alaska, DA 93-755 (released June 23, 1993) ("Hearing Notice"), in the above-captioned proceeding.

The Joint Board has decided to convene a hearing in this proceeding "... to receive testimony from the citizens of Alaska and other interested persons..." In the Hearing Notice, the Joint Board amended the procedural schedule established in the Tentative Recommendation by providing that: "...interested persons may also provide written testimony or other comments

¹Hearing Notice, p.1.

until July 12, 1993."²

In view of the new schedule the Joint Board established in the Hearing Notice, Alascom plans to file its comments on July 12, 1993. This may give it some opportunity to take into account the record of the hearing to be held on July 1. In addition, consistent with the procedures previously established, the Joint Board should establish a date upon which reply comments are due. This is essential for the reasons originally comprehended in the Tentative Recommendation. Moreover, this will be the only manner by which Alascom and other interested persons will be able to address testimony and any other matters which are presented on July 12.

Therefore, Alascom requests that the Joint Board establish a conforming schedule for the filing of reply comments in this proceeding. Because the Hearing Notice directed that comments and testimony be served on the Joint Board's Commissioners and staff only, and not on the parties, this date should be two weeks (the amount of time originally allotted in the Tentative

²Hearing Notice, p.2. Previously, in the Tentative Recommendation the Joint Board had directed that comments would be filed on June 28, 1993 and reply comments on July 12, 1993.

Recommendation) after a complete record of comments and testimony has been made available by the Joint Board's staff to the parties.

Respectfully submitted,

ALASCOM, INC.

By /s/ Alan Y. Naftalin
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June 28, 1993

CERTIFICATE OF SERVICE

I, Judy Cooper, a secretary in the law offices of Koteen & Naftalin, hereby certify that true copies of the foregoing "MOTION OF ALASCOM, INC. TO SCHEDULE REPLY COMMENTS" have been served upon the following by first-class United States mail, postage prepaid, this 28th day of June, 1993:

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* Served by Hand Delivery
** Served by Federal Express
*** Served by UPS Overnight

ATA

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

Integration of Rates and)
Services for the Provision)
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

ALASKA TELEPHONE ASSOCIATION'S COMMENTS TO THE JOINT BOARD'S
TENTATIVE RECOMMENDATION, AT&T'S AND ALASCOM'S RESPONSES TO THE
TENTATIVE RECOMMENDATION, AND AT&T'S CONSUMER BENEFIT PLAN.

INTRODUCTION

On March 31, 1993, American Telephone and Telegraph
("AT&T") petitioned the Commission, requesting it to enter an
order terminating the Joint Service Arrangement ("JSA"), and
adopting AT&T's "Consumer Benefit Plan." Attachment A to that
petition was AT&T's Section 214 application for authority to

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create and operate its own network for the provision of interstate service directly to and from Alaska.¹

On May 17, 1993, the Federal-State Joint Board ("Joint Board") issued its Tentative Recommendation and Order Inviting Comments ("Tentative Recommendation"). In the Tentative Recommendation, the Joint Board adopted a tentative recommendation for the creation of a new market structure for the provision of interstate telecommunications between Alaska and the lower-48, as well as between Alaska and Hawaii. Because Alaska interstate message telephone service and wide area telecommunications service is provided under a Joint Service Arrangement ("JSA") between AT&T and Alascom, Inc. ("Alascom") and because the Tentative Recommendation proposes terminating the JSA, the Joint Board requested AT&T and Alascom, either jointly or separately, to file on or before June 7, 1993 proposed implementation plans for the termination of the JSA.

The Tentative Recommendation requested interested parties to comment on all of these matters. The Alaska Telephone Association ("ATA"), the trade association for Alaska's certificated local exchange telephone companies, provides its

¹ The Commission has established a separate proceeding to consider AT&T's Section 214 application; parties were to file, by June 25, 1993, their petitions and/or comments.

comments herein.² As set forth below, it is clear that the parties understand that the status quo cannot stand. The Tentative Recommendation, however, does not go far enough in restructuring the Alaska telecommunications market in order to ensure the Tentative Recommendation's success.

ANALYSIS

As an initial matter, the ATA's positions on the pertinent Alaska telecommunications market structure issues are well known to the Commission and to the parties to this docket. The ATA is not going to repeat those positions in this brief; it hereby incorporates them by reference. The ATA's comments set forth herein address the major issues upon which comment was requested in the Tentative Recommendation, and particularly those issues on which the ATA has not commented before.

A. Tentative Recommendation

The principle thorn to resolving the Alaska telecommunications market structure issues is the cost of

² The ATA's comments do not reflect the views of Telephone Utilities of Alaska ("TUA") or Telephone Utilities of the Northland, Inc. ("TUNI"), local exchange telephone companies that are sister companies of Alascom, Inc. ("Alascom"). Pacific Telecom, Inc. ("PTI") is the parent company.

delivering telecommunications services to Alaska and Alaskans, particularly because of the State's geographical vastness and the fact that so many Alaskans live in remote, small and subsistence-based communities. After the JSA is terminated -- and all parties to this docket agree that the JSA must be terminated or that it will be terminated -- the Tentative Recommendation's central element, and its effort to achieve revenue requirement neutrality, is the Accelerated Cost Recovery Program ("ACR"). Under the ACR, Alascom's interstate and intrastate revenue requirement would be reduced; that reduction would be funded by AT&T.

To help prevent potentially significant cost shifts, AT&T would be required to use Alascom's facilities for its Alaska traffic for three years, with a phase-out of this obligation over an additional four years. At the end of seven years, AT&T would be permitted to provide interstate service without a requirement to use any Alascom facilities.¹

These integral elements of the Tentative Recommendation present a number of dilemmas. First is that assuming AT&T eventually submits a complete Section 214 application and a parallel Alaska Public Utilities Commission filing, and assuming

¹ The Tentative Recommendation also requires Alascom to separate its costs using the 75% circuit equipment allocator; the Tentative Recommendation calls for phasing the allocator in over ten years. The ATA supports this element of the Tentative Recommendation.

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they meet both agencies' regulatory requirements and goals,' the Tentative Recommendation reduces incentives for AT&T to enter the Alaska market with the resources it pledges in its Consumer Benefit Plan to dedicate to Alaskans including the fiber optic cable system, lower prices and increased service options. The Tentative Recommendation reduces AT&T's incentives in a number of ways, including preventing AT&T from fully entering the Alaska market for seven years.

Second is the fact that Alascom has no incentive under the Tentative Recommendation to invest in new technology or upgrade its facilities.' Much of the telecommunications equipment in rural Alaska is already outdated. Under the Tentative Recommendation, Alascom has no incentive to increase its investment by modernizing equipment, adding services or even increasing its existing equipment's reliability. In fact, the opposite is true. Alascom does not appear to have any incentive whatsoever to invest in upgraded equipment in rural Alaska, much

' Without both filings, it is not possible to determine the Consumer Benefit Plan's impact on Alaska's telecommunications market structure and ratepayers. As discussed more fully in these comments, AT&T should be required to file the major portion of its state application as a part of this proceeding.

' The Joint Board, in the Tentative Recommendation, recognizes the importance of new technology and innovative services. Tentative Recommendation at 9.

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less prepare to replace the Aurora II satellite which, according to Alascom, has an anticipated end-of-life in 2001.⁶

In order to achieve revenue requirement neutrality under the Tentative Recommendation -- and thus the Tentative Recommendation's success -- additional market structure changes may be required. Alascom's high operating costs are the dominant cost of Alascom's revenue requirement, and Alascom's operational costs must be reduced in order for the Tentative Recommendation to work. As AT&T states, a dollar of reduction in Alascom's operating expenses reduces its revenue requirement by a full dollar. See AT&T's Response to Request for an Implementation Plan at 6.

The ATA recommends that the Joint Board not take any action to preclude, and that the parties consider, reconfiguring the intrastate network whereby the local exchange telephone companies ("LECs") own the interexchange facilities in their respective service areas. Structurally normalizing the network in this fashion⁷ would assist in lowering Alascom's revenue requirement, and should also lower overall network costs. For example, if the

⁶ Moreover, to the extent that Alascom does not intend to compete against AT&T once it enters the interstate and intrastate markets, or to the extent that Alascom does not believe the Tentative Recommendation will be effective, Alascom's incentive to modernize equipment or improve its services may even be further reduced.

⁷ This configuration is "structurally normal" because it more closely resembles the market structure in the lower-48.

LECs owned the interexchange facilities in their service areas, the LECs and Alascom would no longer have redundant work forces in each LEC service area. As a result, Alascom's costs of operation would be reduced, and the remaining costs would be reflected in the transport elements of the LECs' access charge pools. In this manner, the costs would be proportionately distributed to all carriers on both an interstate as well as an intrastate basis.

Moreover, if the LECs not only owned the interexchange facilities in their service areas but also established an equal access tandem in a centralized location, equipped with equal access capability and the ability to switch both interstate and intrastate traffic, overall network costs should be lower than they would otherwise be.⁹ For example, the majority of the interstate toll traffic outside of Anchorage, Fairbanks and Juneau is routed by satellite. Much of it is first routed to several regional class 4 offices, then to Anchorage, and then to the Alaska Spur. It is likely that there would be considerable cost savings to the network if that traffic was instead routed to an equal access tandem, and then to interexchange carriers directly. Moreover, another benefit would be the ability to provide new

⁹ This arrangement could provide wholesale rates to GCI and other competitive interexchange carriers (IXCs). GCI and other IXCs could utilize their own facilities in locations where they have them.

technology and new services, and to provide them at a fraction of the cost than would otherwise be required.

LEC ownership of the interexchange facilities in their service areas, and an equal access tandem, would also assist in keeping the network costs as low as possible by achieving competition in long distance services in small towns and rural areas. This is so because it would avoid forcing LECs into uneconomic end office conversions. It also ensures that all communities in Alaska benefit from equal access competition and new service offerings.

B. AT&T's and Alascom's Responses to the Tentative Recommendation

AT&T's and Alascom's Responses to the Tentative Recommendation do not provide the assistance to the Joint Board that the Joint Board was requesting.' AT&T simply promotes its Consumer Benefit Plan. Unfortunately, AT&T fails to include in its Section 214 application or its Petition to Terminate the Joint Service Arrangement the details necessary to fully analyze the Plan's impact on Alaska's ratepayers and telecommunications market structure. AT&T has yet to file its promised application before

' AT&T's and Alascom's Responses both indicate that significantly more substantive comments will be filed in response to the Tentative Recommendation and in response to the Joint Board's request for an implementation plan. The ATA reserves the right to comment accordingly.

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the Alaska Public Utilities Commission ("APUC") to provide intrastate long-distance service. Without the information that is required to be submitted with a Section 214 application,¹⁰ and without the APUC filing, it is difficult to understand how AT&T intends to serve the State of Alaska outside of the three urban Points of Presence, and how its Plan contributes to or reduces the likelihood of the Tentative Recommendation's success. AT&T must file complete applications in both jurisdictions so that the APUC is fully involved in the process and so that all parties and both regulatory agencies can fully understand and participate in the network's restructuring.

As for Alascom, its filing purports to be a transition plan but it does little but call for a considerable amount to be added to the subsidy it would receive through adoption of the State Members' proposed ACR. Even if the additional funds were provided that Alascom claims is needed to make the Tentative Recommendation effective, without a significant reduction in Alascom's operating expenses, the Tentative Recommendation may fail to achieve its goals in the long term. For example, what if Alascom, after receiving the funds it requested in the three year period, installs new equipment to keep up increased demand as carrier of last resort: won't Alascom be entitled to recover these costs, and

¹⁰The ATA has submitted comments in the separate proceeding established to consider AT&T's Section 214 application. A copy is attached as Exhibit A.

won't Alascom's revenue requirement increase? What is the impact on revenue requirement neutrality, and is the transition period lengthened?

CONCLUSION

The ATA believes the JSA must be terminated. The ATA also believes that the Commission and the Joint Board must require AT&T to provide a complete Section 214 application, and file the major portion of its state application as a part of this proceeding. The ATA believes that for the Tentative Recommendation to achieve its goals, Alascom's operational costs must be reduced and the market structure normalized. One way to reduce these costs and to normalize the market structure is to allow the LECs to own the interexchange facilities in their service areas. The ATA urges the Joint Board to not take any action to preclude LEC ownership of these facilities, and urges the parties to examine LEC ownership of the interexchange facilities in their service areas as a component of the market restructuring.

DATED this 25th day of June, 1993 at Anchorage, Alaska.

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of
Application of

AMERICAN TELEPHONE AND
TELEGRAPH COMPANY

Under § 214(a) of the
Communications Act for Authority
to create and operate its
own network by leasing,
purchasing and constructing
facilities for the provision
of interstate service
directly to and from Alaska

File No. W-P-C-6861

**Alaska Telephone Association's Response to AT&T's
Section 214 Application**

On March 31, 1993, pursuant to section 214 of the
Communications Act, and 47 C.F.R. § 63.01, AT&T submitted a
Section 214 application to the Commission for authority to create
and operate its own network for the provision of interstate
service directly to and from Alaska. The comments of the Alaska
Telephone Association, the trade association for Alaska's

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certificated local exchange carriers, to AT&T's application, are set forth below.¹

As 47 C.F.R. § 63.01 provides, Section 214 applications shall be accompanied by a statement showing how the proposed construction, etc. will serve the public interest, convenience, and necessity. The regulations set forth the information that the statement must include. See 47 C.F.R. § 63.01 (a)-(q).

The Alaska Telephone Association cannot respond substantively to AT&T's Section 214 Application as that application does not contain the significant information required by 47 C.F.R. § 63.01. AT&T recognizes this deficiency, as its application states that it does not include all that is required under Section 63.01. See AT&T's Application at 6 ("...AT&T cannot provide the specific detail called for by § 63.01 of the Commission's Rules").

Information required by the Commission's regulations but not provided include such fundamental matters as estimated revenues and costs, and the basis therefor (47 C.F.R. § 63.01(m)).

¹ The ATA's comments do not reflect the views of Telephone Utilities of Alaska ("TUA") or Telephone Utilities of the Northland, Inc. ("TUNI"), local exchange telephone companies that are sister companies with Alascom, Inc. ("Alascom"). Pacific Telecom, Inc. ("PTI") is the parent company.

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Other information required, but not provided, includes proposed tariff charges and regulations (47 C.F.R. § 63.01(o)), and AT&T's present and estimated future requirements for the route of the proposed facilities (47 C.F.R. § 63.01(i)).

The importance of this information to the Alaska Telephone Association's members is obvious. The importance of this information to the Commission, in its consideration of the Joint Board's Tentative Recommendation, is also obvious as costs, and cost shifts, are driving factors in the Federal-State Joint Board's efforts to resolve the Alaska telecommunications market structure issues. See, e.g., Tentative Recommendation and Order Inviting Comments, CC Docket No. 83-1376, (May 17, 1993).

Without this detail, the Alaska Telephone Association cannot substantively comment as the FCC has requested on AT&T's Application. The Alaska Telephone Association may well support AT&T's application. At this point in time, however, the Alaska Telephone Association is without sufficient information to substantively comment.

As a result, the Alaska Telephone Association requests the FCC to reject AT&T's Application until AT&T provides the detail required by the Commission's regulations. At a minimum, the Commission should require AT&T to provide that detail and then re-

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notice the application for comment. The Alaska Telephone Association reserves the right to comment further when the missing information is provided.

DATED this 24th day of June, 1993 at Anchorage, Alaska.

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By

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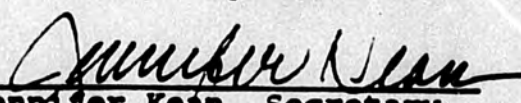
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Certificate of Service

I, Jennifer Kean, hereby certify that on this 24th day of June, 1993, a true and correct copy of the foregoing "Alaska Telephone Association's Response to AT&T's Section 214 Application" was served by U.S. Mail on the following:

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I, Jennifer Kean, hereby certify that on this 25th day of June, 1993, a true and correct copy of the foregoing "Alaska Telephone Association's Comments to the Joint Board's Tentative Recommendation..." was served by mail on the parties on the attached list.


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