

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672
2223 SCOMM 88: HOUSE TELECOMMUNICATIONS TASK FORCE, 1993 779



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SCOMM 88: HOUSE TELECOMMUNICATIONS TASK FORCE, 1993

MEMBERSHIP:

REPRESENTATIVE BILL HUDSON, CHAIR
REPRESENTATIVE MIKE NAVARRE
REPRESENTATIVE HARLEY OLBERG

Established by House Speaker Ramona Barnes, 4-20-93 (see House Journal page 1385.)

Contents: 11" of files. 5 cassettes are also available for the hearing of 8/27/93 (transcripts of that hearing are in file number three).

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1. HOUSE TELECOMMUNICATIONS TASK FORCE FINAL REPORT, 10-8-93; ADDENDUM, 11-2-93, PLUS SUPPLEMENTAL DOCUMENTS BY GCI & AT&T; "FINAL RECOMMENDED DECISION" BY FCC FEDERAL STATE JOINT BOARD, 10-26-93
2. ALASKA FEDERAL-STATE JOINT BOARD HEARING, ANCHORAGE, 7-1-93
3. HOUSE TELECOMMUNICATIONS TASK FORCE HEARING, 8-27-93: TRANSCRIPT AND TRANSCRIPT INDEX AND TAPE LOGS
4. HOUSE TELECOMMUNICATION TASK FORCE HEARING, 8-27-93: TESTIMONY AND NOTES
5. CORRESPONDENCE, 8-8-93
6. MISCELLANEOUS INFORMATION, 6/93-3/94
7. COMMITTEE NOTEBOOK VOLUME 1: SECTIONS FOR AT&T, JOINT BOARD, STATE OF ALASKA, NECA, STATE OF HAWAII, ATU, MCI, GCI, ALASCOM, ATA
8. COMMITTEE NOTEBOOK - VOLUME 2: COMMENTS OF ALASCOM, 7-12-93 PLUS 11 ATTACHMENTS

PLEADINGS OF STATE OF ALASKA BEFORE THE FCC RE: CC DOCKET NO. 83-1376

9. STATE OF ALASKA PLEADINGS LIST

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11. PLEADINGS, 12/16/83 - 12/28/84 (SEE LIST)
12. PLEADINGS, 2/1/85 - 12/1/87 (SEE LIST)
13. PLEADINGS, 1/11/88 - 8/3/90 (SEE LIST)
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15. PLEADINGS, 1/15/93 - 7/27/93 (SEE LIST)

L:88

SCOMM



Alaska State Legislature

REPRESENTATIVE BILL HUDSON

State Capitol
Juneau, Alaska
99801-1182
(907) 465-3744

COMMITTEES
CHAIR
Labor & Commerce
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MEMBER:
Transportation
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Task Force

HOUSE TELECOMMUNICATIONS TASK FORCE REPORT

October 8, 1993

Speaker Ramona Barnes
House of Representatives
Alaska State Legislature
716 W. 4th Ave., Suite 600
Anchorage, AK 99501

Dear Madame Speaker:

Pursuant to my appointment as Chairman, House Telecommunications Task Force, I am pleased to report that our three member task force held a hearing in Anchorage, Friday, August 27th and took testimony for eight hours on proposals before the Federal Communications Commission (FCC) to restructure Alaska telecommunications.

Representative Navarre and I were joined by Representative Porter, Representative Brown and Representative Finkelstein, with numerous staff of other legislators either in attendance or on teleconference. Representative Olberg was ill and unable to attend, but was represented by staff.

I had hoped to be able to summarize pertinent elements of this hearing; but it defies thorough summation. (In fact, my office is in possession of various background documents, filings and pleadings exceeding 1,000 pages.) Accordingly, I have enclosed a transcript of the hearings and tabbed the most important areas of testament.

Background: This hearing was designed to help the legislature, and the people of Alaska, better understand the complex issue of proposed restructuring of telecommunications in Alaska.

The hearing included testimony from Susan Knowles (Member Joint Board - FCC), John Katz (Office of the Governor - Washington, D.C.), Doug Wilcox (AT&T), John Ayers (ALASCOM), Dana Tindall (GCI), Gail Garey (MCI) and others listed in the transcript.



While this entire subject is extremely complex, and has been ongoing for ten years, it was important we conduct this hearing because this matter is racing to a final decision that will likely be based upon the recommendations of the Joint Board and by the FCC, with very limited Alaska public input forthcoming to date.

Our task force examined many filings and position papers from the various industry representatives and specifically used the tentative recommendations, by the Joint Board, as our guide.

It is extremely important for us to examine this proposal well for it may have serious implications for the people of Alaska; especially in rural Alaska.

At the heart of the issue is the recommendation by the Joint Board to eliminate the 13 year old Joint Services Arrangement (JSA) between ALASCOM and AT&T as adopted in 1980 by the FCC.

This agreement delineated areas of service and established the so-called Alaska subsidy that we finally pinned down to be about \$70-\$100 million a year paid to ALASCOM in return for services. Most of the subsidy comes from payments made by AT&T.

For the record, it appears that almost everyone agrees the JSA should be terminated and that competition should be pursued. The main question is: can this be achieved in a manner that assures continuous, reliable and affordable service to Alaskan consumers.

Our committee focused attention on getting assurances that:

1. As the subsidy is phased out those costs are not simply transferred onto the backs of Alaska consumers, especially rural folks;
2. In the event of competition, or other FCC requirements that force change in intrastate services, the Alaskan consumer (urban and rural) will still be served. We wanted guarantees, not promises. Further, I would like to see such protective criteria penned in any final F.C.C. ruling.

Our task force did achieve some substantive agreements between the principal players. Most important was the documented guarantees, by AT&T and GCI, that in the event ALASCOM were no longer the dominant intrastate carrier - either AT&T or GCI would assume that responsibility.

Conclusions: The Joint Board, of the FCC, has before it two proposals to restructure telecommunications in Alaska: 1) AT&T Consumer Benefit Plan and 2) the Joint Board Proposal. While no one knows, at this time, which proposal (or a hybrid) will be adopted, a decision by the full FCC is expected by November 1. The State has been assured, however, that a final decision will be guided by the five (5) longstanding criteria: universal service, rate integration, revenue requirement neutrality, competition and

efficiency. These criteria were first adopted by the Joint Board in 1985.

After reading volumes and listening to all parties, I am still astounded by the lack of any meaningful public study (or private analysis) of the long term implications of this fast approaching decision on the people of our state.

We were told by AT&T that under their proposal, we can expect rates to be held to present levels or actually decrease, that services would be improved and that major multi-million dollar investments would be forthcoming. Joint Board proposal advocates remain focused on implementing the five criteria (noted above). In the long run, we were told, Alaskan consumers should expect better service, lower rates and newer technology from the forces of competition and efficiency.

We were told that no further hearings were likely to be held in Alaska and to expect a decision forthwith from the FCC.

Recommendations:

Madam Speaker, I believe this issue can best be decided by the private telecommunications companies themselves, under the auspices of the FCC and the APUC.

Clearly, all testimony indicated a near consensus was possible if agreement can be reached on key financial matters, including: transition rules, accelerated cost recovery, and others. It would be better to have an industry solution rather than see this issue relegated to the legislative halls or expand into yet more phone wars - where we all lose.

I remained concerned, however, that a decision made solely by the FCC, without more meaningful analysis of the long term implications in changes proposed, may harm the Alaska consumer. I will be restating this concern directly to the Joint Board, in writing.

If my Task Force can serve any further purpose, or useful goal, we so offer.

As a minimum, I would like to have our Senior Senator Ted Sevens, review this transcript to further assure Alaskans interests are upheld at the congressional level. I will be submitting these documents shortly.

Respectfully,



Bill Hudson

Enclosure: As stated



Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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Juneau, Alaska
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(907) 465-3744

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Task Force

ADDENDUM TO FINAL REPORT HOUSE TELECOMMUNICATIONS TASK FORCE

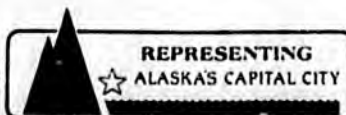
November 2, 1993

Speaker Ramona Barnes
House of Representatives
Alaska State Legislature
716 W. 4th Ave., Suite 600
Anchorage, AK 99501

Dear Speaker Barnes:

As I noted in the TASK FORCE REPORT, dated October 8, 1993, I was concerned over the lack "of any meaningful public study (or private analysis) of the long term implications" from any restructuring to Alaska's telecommunications market. In response to my concerns, AT&T and GCI, two major parties in this matter, have recently submitted supplemental documents. Enclosed are copies of these materials.

More importantly, the Federal/State Joint Board has completed its work. The Board's FINAL RECOMMENDED DECISION was adopted on October 26. While the FINAL DECISION parallels its TENTATIVE RECOMMENDATION, the Board did modify a number of provisions. Specifically: the transition period was reduced from eight to four years; statewide averaged rates were dropped in favor of two geographic rate zones; the cost separation factor ("frozen allocator") was left at 86%/14%; and a rather complicated accelerated cost recovery mechanism was replaced with a simple Transition Payment



proposal (\$150 million over two years). A copy of the DECISION is enclosed.

The Board's DECISION will now be forwarded to the full FCC for consideration. It is not now known when the FCC will render a formal ruling.

I will continue to keep you, and our colleagues, abreast of developments in this area.

Respectfully,



Bill Hudson

Enclosures: As stated

October 20, 1993



Representative Bill Hudson, Chairman
House Telecommunications Task Force
Pouch V
Juneau, AK 99801

Dear Representative Hudson:

Enclosed please find a copy of the Five Year Plan of GCI that describes our proposal for providing telephone service throughout Alaska. This plan was written in 1989, before we were granted authority to provide any intrastate service in Alaska. We now have authority to provide intrastate service, but we are barred from installing facilities in many rural areas of Alaska.

GCI still wishes to provide statewide service in Alaska. The technologies that GCI proposed in the Plan have been proven through testing and use in Canada and elsewhere around the world, and we are confident of our ability to provide quality service at low cost everywhere in Alaska.

If Alascom wishes to discontinue its service in rural Alaska GCI would be willing to acquire and upgrade the Alascom rural facilities and to serve as Alaska's carrier of last resort. We would be able to provide intrastate service at the same (or lower) rates that Alascom charges today and to provide interstate transmission to AT&T at rates substantially less than the cost currently charged to AT&T by Alascom.

Rapidly changing technology and market structures are altering the way in which communication services are provided throughout the world. Prices continue to decline and the capability offered to users everywhere is expanding. Rate based monopoly and large subsidies are no longer necessary to ensure affordable statewide service in Alaska. Alaska is an attractive market and GCI is committed to providing statewide state of the art service in a free and open marketplace.

Representative Bill Hudson, Chairman
October 20, 1993
Continued, Page 2

I believe that this letter provides the information that was promised to you at the recent hearing of the House Telecommunications Special Committee. Please feel free to contact me if there is anything further that you would like.

Sincerely,

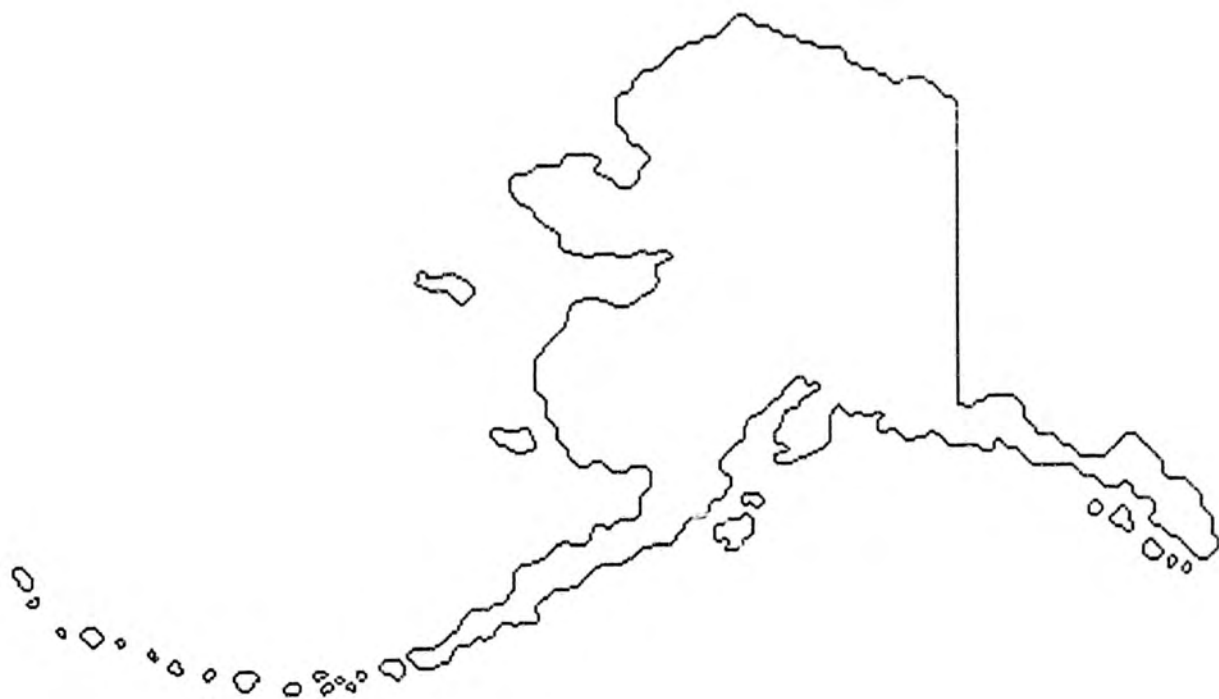
GENERAL COMMUNICATION, INC.

A handwritten signature in dark ink, appearing to be 'Ronald A. Duncan', with a long horizontal flourish extending to the right.

Ronald A. Duncan
President



FIVE -YEAR PLAN



December 29, 1989

General Communication, Inc.
2550 Denali Street, Suite 1000
Anchorage, AK 99503



SUMMARY

Five-Year Plan

GCI STATEWIDE NETWORK

New Technology:

- very small earth stations
- prepackaged, modular electronics
- full mesh DAMA
- mobile satellite service

Creative Operating Practices:

- pilot/technicians

Five-Year Plan - 208 Locations

Phase I

Intrastate service to existing GCI locations through existing major earth station facilities plus additional sites constructed during 1990.

Phase II

Construction of 55 new locations using C-band technology during the first two years after the authorization of intrastate competition.

Phase III

Construction of 79 additional locations using C-band technology during the third and fourth years following competitive authorization.

Phase IV

Construction of the final 64 sites using a combination of C-band and mobile satellite technology in the fifth year following competitive authorization.



It is GCI's intent to provide intrastate service throughout Alaska according to a phased-in schedule employing four separate classes of satellite earth stations. The four classes of satellite earth stations are: 1) existing major earth stations that are now being used for interstate service, 2) intermediate-sized earth stations to be installed in regional centers, 3) small Bush earth stations for rural village use and 4) MobilSat earth stations to be used in locations where traffic demand is extremely light. In addition, a small amount of terrestrial microwave service will be incorporated into the network. A comprehensive Network Management Center (NMC) will be established in Anchorage, and a backup NMC facility will be located in Fairbanks. Existing switching centers will be employed to interface with local exchange companies (LEC's) and to provide billing data.

Following is a description of the locations to be served in each phase, as well as the applicable technology in each location.

1. Phase I

Following grant of the application, GCI will provide intrastate service to those locations where GCI's interstate service is then available. Currently GCI is providing interstate service to residents of Anchorage, Fairbanks, Juneau, Ketchikan, the Kenai Peninsula, the Matanuska Valley, and Adak. Beginning in the spring of 1990, GCI will be providing service to Kodiak and Homer. GCI plans to extend interstate service to between six and eight locations beyond those already listed in Phase I.

In Phase I, GCI will be using a combination of major earth stations and intermediate-sized earth stations.

A. Major Earth Stations

Presently, GCI employs major earth stations to serve Anchorage, Fairbanks, Juneau, Seattle and Adak Island. These are equipped with 13-meter (42.6-foot) diameter antennas and have fully redundant electronics. These stations operate at C-band (transmitting to the satellite at 6 GHz and receiving at 4 GHz). Backup battery and diesel generator power supplies allow continued operations during



extended commercial power outages.

Channel equipment that establishes communication paths through the satellite consists of point-to-point digital modems for permanent circuits to carry high-density traffic and TDMA (time division multiple access) systems which provide circuit flexibility and increase the amount of traffic through the satellite. TDMA divides the satellite transponder on a time basis (instead of frequency) into very short-duration packets and assigns them to the various earth stations according to need. TDMA allows approximately 35 percent more traffic to be carried by a transponder as compared to the more commonly used FDMA (frequency division multiple access), reducing operating and transponder costs accordingly. Furthermore, TDMA, because it is software, as opposed to hardware controlled, allows rapid reassignment of circuit capacity as traffic demands change; this reduces the overall need for facilities, thus further reducing cost.

Digital transmission allows even greater compression of voice circuits through digital speech interpolation (DSI). DSI is employed in large trunk groups and utilizes the dead time in a conversation to transmit the voice messages of another conversation on a different channel. Coupled with efficient reduced bit rate encoding, DSI gives GCI a 3:1 compression ratio, reducing the need for transponder capacity even further. At present, GCI is upgrading to a more efficient system that will ultimately give a 6:1 comparison ratio. As technology continues to evolve in this area, the costs of providing satellite voice service will continue to drop.

TDMA and DSI techniques are most effective when used in circuits between large communities. For lighter routes from the major earth stations to the smaller ones, and among the smaller stations, demand assigned multiple access/single channel per carrier (DAMA/SCPC) operation will be used.

The major earth stations are manned part-time and have a high level of remote monitoring plus the ability to command redundant components on-line from remote locations. This ability significantly reduces the maintenance costs. However, maintenance personnel are available on a 24-hour basis to ensure maximum system



availability.

A fundamental feature of the intrastate system is the use of call-by-call demand assignment of circuits in the satellite. DAMA service optimizes utilization of circuits in the satellite and minimizes requirements for channel and common equipment in the earth stations in contrast to fixed or pre-assigned operation. Without DAMA, pre-assigned links must be employed connecting earth stations to a single switching point and connecting the switching point, in turn, to the satellite. This necessitates double-hop satellite transmission of an inferior quality when calling between earth stations, and is the technology that Alascom now employs in rural Alaska. In contrast, with DAMA technology, each earth station pair can be directly linked through the satellite. This configuration provides single-hop connectivity by assigning channel hardware and satellite channels only when needed, thus producing transmission of a far superior quality. With DAMA technology, only a fraction of the total number of links will be needed at one time. Thus DAMA can provide circuits to serve an entire network with very few channels and is instrumental in providing high-quality service at reduced operating costs. It is the principal feature that makes GCI's state-wide network economically feasible.

In practice, DAMA equipped earth stations communicate with a network control system (NCS) which monitors the entire network. When a call is made, the calling earth station sends all necessary data to the NCS which alerts the called station and assigns a particular satellite circuit to each of the earth stations. The channel units in the earth stations switch to the appropriate frequency and the call is completed. When either party hangs up, the satellite channels and earth station hardware are released, making them available for other calls. The NCS also generates call data for billing records.

B. Regional Center Earth Stations

GCI currently employs this type of earth station at Ketchikan and will employ them in the remaining Phase I locations. These earth stations operate at C-band, and are equipped with 7- or 9-meter (23- or 29.5-foot) diameter antennas and have



redundant electronics. Battery backup and a standby generator guarantee operation despite local electrical power failures. This class of station will accommodate up to 96 channels using combination of DAMA and dedicated point-to-point digital modems. These stations are not normally manned but are inspected daily by trained technicians. They are monitored on a 24-hour basis by the Network Management Center.

2. Phase II

Phase II will be completed in the two years following GCI's entry into the intrastate toll market. In those two years GCI expects to build facilities and provide service employing a combination of the regional center earth stations described above and the Bush earth stations described below. The communities served and their NNX's are set forth in the exhibit on page 8.

3. Phase III

Phase III will be completed in years three and four following GCI's entry into the intrastate toll market. GCI will employ a combination of Bush earth stations and MobilSat earth stations in Phase III. The communities served and their NNX's are set forth in the exhibit on pages 8 through 10.

The Bush earth stations are C-band facilities and have antennas between 3 and 4.5 meters (10 and 15 feet) in diameter, depending upon the number of channels and the power from the satellite (determined by location within the state). The electronics consist of an RF (radio frequency) package mounted on the antenna structure plus a small (approximately 2 x 3 x 5 foot) environmental enclosure with frequency conversion and DAMA equipment, monitor and control circuitry, batteries and ancillary items. The RF package is based upon technology developed for Ku-band very small aperture terminals (VSAT) which have been produced in large quantities; it is highly reliable and relatively inexpensive.

These earth stations have enhanced reliability because, unlike previous system, the



DAMA/SCPC channel units are of stand alone design and have no common equipment which could shut the station down if it malfunctioned. If one channel unit fails, communication can be maintained through the other units, although at reduced circuit capacity.

Despite their small size, the Bush earth stations that GCI ~~plans~~ to employ are very efficient users of satellite transponder capacity. They use 32 kilobit-per-second digital encoding of voice and use voice-operated transmitters, reducing satellite power requirements by a factor of five. The use of DAMA in these systems, like the major earth stations, enables single-hop transmission, dramatically improving quality over the current rural service provided by Alascom.

In addition, these earth stations will be equipped with extensive monitoring and control facilities. Parameters in the RF equipment, the DAMA/SCPC modules, the environmental enclosure and the power system will be continuously reported to the Network Management Center where improper conditions will be noted and corrective action taken. The battery system will provide protection for eight hours without local commercial electrical power. During long power outages, the NMC can command the station to "sleep" in which all functions are curtailed with only a timer running to bring the station back to operating condition; this keeps the station's batteries from being totally drained before power is restored. A local key-operated switch is provided to restore station operation so that emergency calls can be made during sleep periods. This type of remote monitoring capability substantially reduces operating and maintenance costs.

These stations including the antenna, when disassembled, are designed to fit into a Cessna Caravan or similar Bush aircraft, allowing low-cost transportation to rural sites. The environmental enclosure system will be fully integrated before shipment so that installation in the field consists primarily of preparing the site for the antenna support, erecting the support and antenna, interconnecting the RF package and the equipment in the environmental enclosure, and in making interconnection with the electrical power supply and with the telecommunication local exchange company. This can be accomplished in a few days by a two- or three-person crew with the help of locally-hired labor.



Maintenance of these stations will be conducted by pilots trained as limited technicians who will be based at strategic regional locations. These locations will be at towns with scheduled air service to facilitate reliable and low-cost shipping of spare equipment. Each pilot/technician will be assigned a group of villages within 1.5 hours flying time and through no mountain passes. Visits will be made to all sites on a routine basis and as soon as practicable in case of emergencies. This plan for maintenance is substantially less expensive than the alternative of separate air taxi and technician forces.

A local resident, on contract to GCI, will serve as a contact person and handle day-to-day matters between visits from the pilot/technician. He or she would be available to remove snow from the antenna, help prevent vandalism, report abnormal conditions such as power plant problems, local telephone company problems, impending flooding, etc., and be available to assist the pilot/technician with jobs requiring more than one person.

MobilSat earth stations are described below.

4. Phase IV

Phase IV will be completed in the fifth year of GCI's five-year plan. In this phase, GCI will provide service to the remaining very small rural sites through MobilSat earth stations. The communities served are set forth in the exhibit on pages 10 through 11.

MobilSat earth station terminals are similar to cellular radio equipment but communicate with large satellites to be launched by the American Mobile Satellite Consortium (AMSC), a U. S. firm, and its Canadian counterpart, Telesat Mobile Incorporated (TMI). These satellites are to be launched in 1993. They have high-power L-band (1.5 GHz) spot beams. Each satellite has one beam which covers Alaska. The high power and relatively low operating frequency of these satellites make possible very low cost (approximately \$3,000) single-channel earth stations which can be used in both fixed and mobile service. In locations where channel requirements are small, this technology offers tremendous capital savings over even the smallest conventional earth stations. For fixed locations, a high-gain antenna will be employed to lower satellite costs. High



quality voice service will be supported by the digital demand assigned terminals; a data mode will be supported for dial-up data or facsimile transmission. These terminals will be supported by an 8-hour reserve battery. Failure of a terminal, regardless of which component, will result only in the loss of that channel. The terminals will be mass produced and will offer reliability similar to that of cellular radio terminals.

Maintenance and servicing of the MobilSat terminals will be handled by the pilot/technicians in a manner similar to the Bush earth stations, except that regularly-scheduled visits would be infrequent. There would be no contract person at these installations because of their simplicity and inherent complete redundancy.

5. Network Management Center

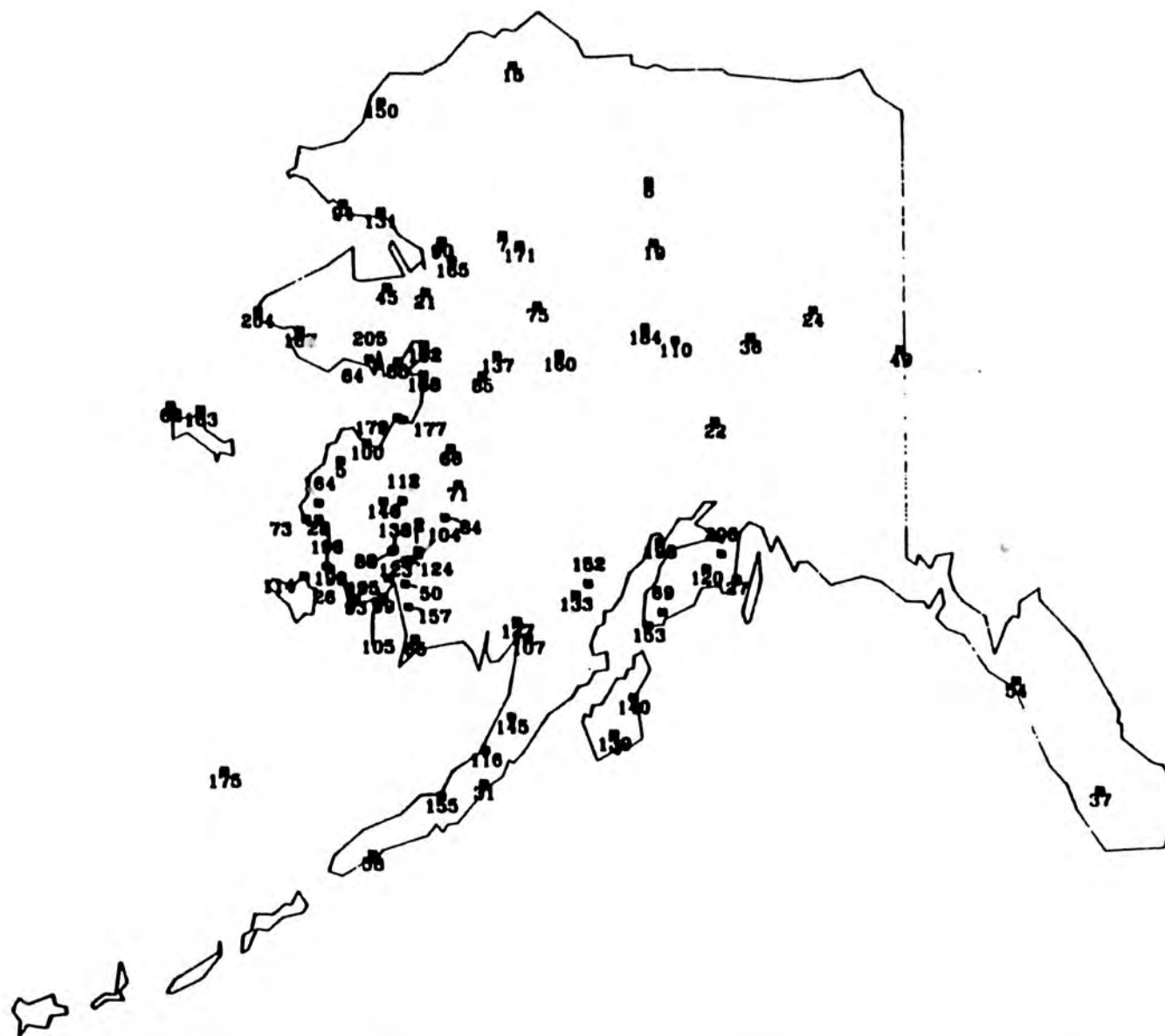
The NMC, located in Anchorage, is the focal point for all operation of the GCI system. It will be staffed on a 24-hour basis and serve to monitor and control all classes of earth stations. From this location, maintenance personnel can be alerted and/or dispatched to sites needing extraordinary surveillance or a physical visit.

This facility will also monitor all pertinent aspects of the regional and Bush earth stations including environmental conditions such as inside and outside temperatures and electrical power parameters.

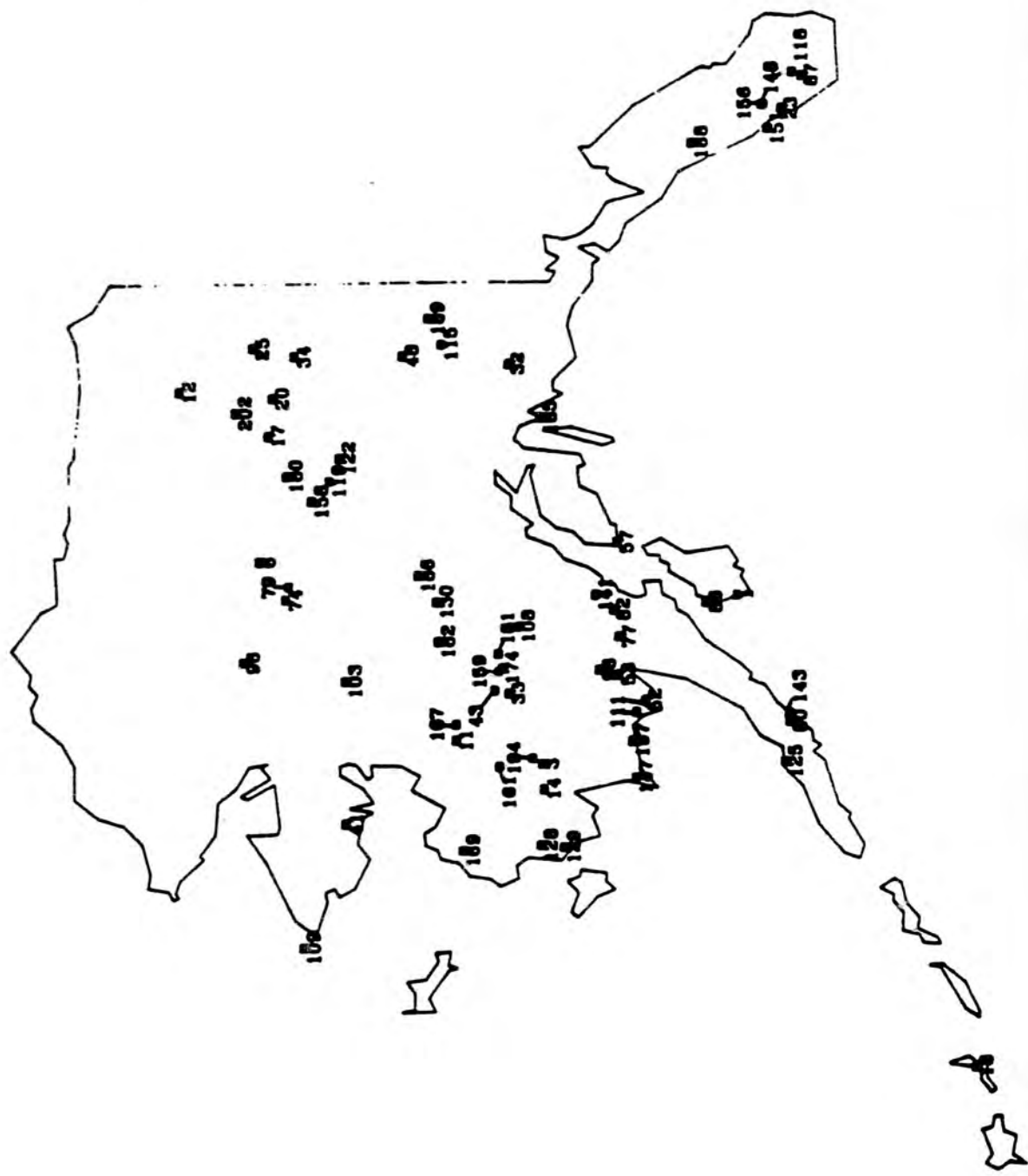
The NMC will maintain current location information on all maintenance personnel and prioritize maintenance actions in a logical order depending upon priorities established in advance. Centralized dispatch of maintenance personnel will be directed from this site.

Many functions of the NMC, especially the Network Control system for the DAMA system, will be duplicated by backup facilities located at Fairbanks. Fairbanks was selected for this purpose because it can be reached from Anchorage by surface transportation as well as by air, facilitating the exchange of personnel and spare parts in case of extreme emergency.

Exhibit Page 2



GCI BUILD GROUP 4



Map Codes Sorted Alphabetically

City	Map Code Number	GCI Build Group
AKHIOK	1	4
AKIACHAK	2	3
AKIAK	3	4
AKUTAN	4	2
ALAKANUK	5	3
ALLAKAKET	6	4
AMBLER	7	3
ANAKTUVUK PASS	8	3
ANGOON	9	2
ANIAK	10	2
ANVIK	11	4
ARCTIC VILLAGE	12	4
ATKA	13	4
ATMAUTLUAK	14	4
ATQASUK	15	3
BARROW	16	2
BEAVER	17	4
BETHEL	18	2
BETTLES	19	3
BIRCH CREEK	20	4
BUCKLAND	21	3
CANTWELL	22	3
CAPE POLE	23	4
CENTRAL	24	3
CHALKYITSIK	25	4
CHEFORNAK	26	3
CHENEGA BAY	27	3
CHEVAK	28	3
CHIGNIK	29	2
CHIGNIK LAGOON	30	2
CHIGNIK LAKE	31	3
CHITINA	32	4
CHUATHBALUK	33	4
CIRCLE	34	4
CLEAR-ANDERSON	35	2
CLEARY SUMMIT	36	3
COFFMAN COVE	37	3
COLD BAY	38	2
COOPER LANDING	39	2
CORDOVA	40	90 *
COUNCIL	41	4
CRAIG	42	2
CROOKED CREEK	43	4
DEADHORSE/PRUDHOE	44	90 *
DEERING	45	4
DELTA JUNCTION	46	2
DILLINGHAM	47	2
DOT LAKE	48	4
EAGLE	49	3
EEK	50	3
EGEGIK	51	2
EKUK	52	4
EKWOK	53	4
ELFIN COVE	54	3
ELIM	55	3
EMMONAK	56	2
ENGLISH BAY	57	4

Map Codes Sorted Alphabetically

City	Map Code Number	GCI Build Group
FALSE PASS	58	3
FORT GREELY	59	2
FORT YUKON	60	2
GALENA	61	2
GAMBELL	62	3
GLENNALLEN	63	2
GOLOVIN	64	3
GOODNEWS BAY	65	3
GRAYLING	66	3
GUSTAVUS	67	2
HAINES	68	2
HALIBUT COVE	69	3
HEALY	70	2
HOLY CROSS	71	3
HOONAH	72	2
HOOPER BAY	73	3
HUGHES	74	4
MUSLIA	75	3
HYDABURG	76	2
IGIUGIG	77	4
ILIAMNA	78	2
INDIAN MOUNTAIN	79	4
IVANOF BAY	80	4
KAKE	81	2
KAKHONAK	82	4
KAKTOVIK	83	2
KALSKAG	84	3
KALTAG	85	3
KARLUK	86	4
KASAAN	87	4
KASIGLUK	88	3
KETCHIKAN	89	89 *
KIANA	90	3
KING COVE	91	2
KING SALMON	92	90 *
KIPNUK	93	3
KIVALINA	94	3
KLAWOCK	95	2
KOBUK	96	4
KODIAK	97	90 *
KOLIGANEK	98	4
KONGIGANAK	99	3
KOTLIK	100	3
KOTZEBUE	101	2
KOTUK	102	3
KOTUKUK	103	4
KWETHLUK	104	3
KWIGILLINGOK	105	3
LARSEN BAY	106	2
LEVELOCK	107	3
LIME VILLAGE	108	4
LITTLE DIONEDE	109	4
MANLEY HOT SPRINGS	110	3
MANOKOTAK	111	4
MARSHALL	112	3
MCCRATH	113	2
MEKORYUK	114	3

Map Codes Sorted Alphabetically

City	Map Code Number	GCI Build Group
MENTASTA	115	4
MESNIK	116	3
METLAKATLA	117	2
MEYERS CHUCK	118	4
MINTO	119	4
MOOSE PASS	120	3
MOUNTAIN VILLAGE	121	2
MURPHY DOME	122	4
MAPAKIAK	123	3
MAPASKIAK	124	3
NELSON LAGOON	125	4
NENANA	126	2
NEW STUYAHOK	127	3
NEWTOK	128	4
NIGHTMUTE	129	4
NIKOLAI	130	4
NOATAK	131	3
NOME	132	2
WONDALTON	133	3
NOORVIK	134	2
NORTHWAY	135	2
NUISUT	136	2
NULATO	137	3
NUMAPITCHUK	138	3
OLD HARBOR	139	3
OUZINKIE	140	3
PEDRO BAY	141	4
PELICAN	142	2
PERRYVILLE	143	4
PETERSBURG	144	90 *
PILOT POINT	145	3
PILOT STATION	146	3
PLATINUM	147	4
POINT BAKER	148	4
POINT HOPE	149	2
POINT LAY	150	3
PORT ALEXANDER	151	4
PORT ALSWORTH	152	3
PORT GRAHAM	153	3
PORT LIONS	154	2
PORT MOLLER	155	3
PORT PROTECTION	156	4
QUINHAGAK	157	3
RAMPART	158	4
RED DEVIL	159	4
RUBY	160	3
RUSSIAN MISSION	161	4
SAND POINT	162	2
SAVOONGA	163	3
SCANNON BAY	164	3
SELAVIK	165	3
SEWARD	166	90 *
SHAGELUK	167	4
SHAKTOOLIK	168	3
SHELDON PT	169	4
SHISHMAREF	170	2
SHUNGNAK	171	3

Map Codes Sorted Alphabetically

City	Map Code Number	GCI Build Group
SITKA	172	90 *
SKAGWAY	173	2
SLEETMUTE	174	4
ST GEORGE	175	3
ST MARYS	176	2
ST MICHAEL	177	3
ST PAUL	178	2
STEBBINS	179	3
STEVENS VILLAGE	180	4
STONY RIVER	181	4
TAKOTNA	182	4
TALKEETNA	183	2
TANANA	184	3
TATITLEK	185	4
TELIDA	186	4
TELLER	187	3
TENAKEE SPRINGS	188	4
TETLIN	189	4
THORNE BAY	190	2
TOGIAK	191	2
TOK	192	2
TOKSOOK BAY	193	3
TULUKSAK	194	4
TUNTUTULIAK	195	3
TUMUNAK	196	3
TWIN HILLS	197	4
TYONEK	198	3
UNALAKLEET	199	2
UNALASKA/DUTCH HARB.	200	90 *
VALDEZ	201	90 *
VENETIE	202	4
WAINWRIGHT	203	2
WALES	204	3
WHITE MOUNTAIN	205	3
WHITTIER	206	3
WRANGELL	207	2
YAKUTAT	208	2

* These facilities will be built in the years indicated for GCI's interstate network, and will be available for intrastate service at the time of commencement.

Map Codes Sorted By GCI Build Group *

City	Map Code Number	GCI Build Group
AKUTAN	4	2
ANGDON	9	2
ANIAK	10	2
BARROW	16	2
BETHEL	18	2
CHIGNIK	29	2
CHIGNIK LAGOON	30	2
CLEAR-ANDERSON	35	2
COLD BAY	38	2
COOPER LANDING	39	2
CRAIG	42	2
DELTA JUNCTION	46	2
DILLINGHAM	47	2
EGEGIK	51	2
EMMONAK	56	2
FORT GREELY	59	2
FORT YUKON	60	2
GALENA	61	2
GLENNALLEN	63	2
GUSTAVUS	67	2
HAINES	68	2
HEALY	70	2
HOONAH	72	2
HYDABURG	76	2
ILIAMNA	78	2
KAKE	81	2
KAKTOVIK	83	2
KING COVE	91	2
KLAWOCK	95	2
KOTZEBUE	101	2
LARSEN BAY	106	2
MCGRATH	113	2
METLAKATLA	117	2
MOUNTAIN VILLAGE	121	2
NENANA	126	2
NOME	132	2
NOORVIK	134	2
NORTHWAY	135	2
NUIQSUT	136	2
PELICAN	142	2
POINT HOPE	149	2
PORT LIONS	154	2
SAND POINT	162	2
SHISHMARF	170	2
SKAGWAY	173	2
ST MARYS	176	2
ST PAUL	178	2
TALKEETNA	183	2
THORNE BAY	190	2
TOGIAK	191	2
TOK	192	2
UNALAKLEET	199	2
WAINWRIGHT	203	2
WRANGELL	207	2
YAKUTAT	208	2
AKIACHAK	2	3
ALAKANUK	5	3

Map Codes Sorted By GCI Build Group

City	Map Code Number	GCI Build Group
AMBLER	7	3
AMAKTUVUK PASS	8	3
ATQASUK	15	3
BETTLES	19	3
BUCKLAND	21	3
CANTWELL	22	3
CENTRAL	24	3
CHEFORNAK	26	3
CHEWEGA BAY	27	3
CHEVAK	28	3
CHIGNIK LAKE	31	3
CLEARY SUMMIT	36	3
COFFMAN COVE	37	3
EAGLE	49	3
EEK	50	3
ELFIN COVE	54	3
ELIM	55	3
FALSE PASS	58	3
GAMBELL	62	3
GOLOVIN	64	3
GOODNEWS BAY	65	3
GRAYLING	66	3
MALIBUT COVE	69	3
HOLY CROSS	71	3
HOOPER BAY	73	3
MUSLIA	75	3
KALSKAG	84	3
KALTAG	85	3
KASIGLUK	88	3
KIANA	90	3
KIPNUK	93	3
KIVALINA	94	3
KONGIGANAK	99	3
KOTLIK	100	3
KOYUK	102	3
KWETHLUK	104	3
KWIGILLINGOK	105	3
LEVELOCK	107	3
MANLEY HOT SPRINGS	110	3
MARSHALL	112	3
MEKORYUK	114	3
MESHIK	116	3
MOOSE PASS	120	3
NAPAKIAK	123	3
NAPASKIAK	124	3
NEW STUYANOK	127	3
NOATAK	131	3
NONDALTON	133	3
NULATO	137	3
NUMAPITCHUK	138	3
OLD HARBOR	139	3
OUZINKIE	140	3
PILOT POINT	145	3
PILOT STATION	146	3
POINT LAY	150	3
PORT ALSWORTH	152	3
PORT GRAHAM	153	3

Map Codes Sorted By GCI Build Group

city	Map Code Number	GCI Build Group
PORT MOLLER	155	3
QUINHAGAK	157	3
RUBY	160	3
SAVOONGA	163	3
SCAMMON BAY	164	3
SELAWIK	165	3
SHAKTOOLIK	168	3
SHUNGNAK	171	3
ST GEORGE	175	3
ST MICHAEL	177	3
STEBBINS	179	3
TANANA	184	3
TELLER	187	3
TOKSOOK BAY	193	3
TUNTUTULIAK	195	3
TUMUNAK	196	3
TYONEK	198	3
WALES	204	3
WHITE MOUNTAIN	205	3
WHITTIER	206	3
AKHIOK	1	4
AKIAK	3	4
ALLAKAKET	6	4
ANVIK	11	4
ARCTIC VILLAGE	12	4
ATKA	13	4
ATMAUTLUAK	14	4
BEAVER	17	4
BIRCH CREEK	20	4
CAPE POLE	23	4
CHALKYITSIK	25	4
CHITINA	32	4
CHUATHBALUK	33	4
CIRCLE	34	4
COUNCIL	41	4
CROOKED CREEK	43	4
DEERING	45	4
DOT LAKE	48	4
EKUK	52	4
EKWOK	53	4
ENGLISH BAY	57	4
HUGHES	74	4
IGIUGIG	77	4
INDIAN MOUNTAIN	79	4
IVANOF BAY	80	4
KAKHONAK	82	4
KARLUK	86	4
KASAAN	87	4
KOBUK	96	4
KOLIGANEK	98	4
KOTUKUK	103	4
LIME VILLAGE	108	4
LITTLE DIONEDE	109	4
MANOKOTAK	111	4
MENTASTA	115	4
MEYERS CHUCK	118	4
MINTO	119	4

Map Codes Sorted By GCI Build Group

City	Map Code Number	GCI Build Group
MURPHY DOME	122	4
NELSON LAGOON	125	4
NEWTOK	128	4
NIGHTMUTE	129	4
NIKOLAI	130	4
PEDRO BAY	141	4
PERRYVILLE	143	4
PLATINUM	147	4
POINT BAKER	148	4
PORT ALEXANDER	151	4
PORT PROTECTION	156	4
RAMPART	158	4
RED DEVIL	159	4
RUSSIAN MISSION	161	4
SHAGELUK	167	4
SHELDON PT	169	4
SLEETMUTE	174	4
STEVENS VILLAGE	180	4
STONY RIVER	181	4
TAKOTNA	182	4
TATITLEK	185	4
TELIDA	186	4
TENAKEE SPRINGS	188	4
TETLIN	189	4
TULUKSAK	194	4
TWIN HILLS	197	4
VENETIE	202	4
KETCHIKAN	89	89 **
CORDOVA	40	90 **
DEADMORSE/PRUDHOE	44	90 **
KING SALMON	92	90 **
KODIAK	97	90 **
PETERSBURG	144	90 **
SEWARD	166	90 **
SITKA	172	90 **
UNALASKA/DUTCH HARB.	200	90 **
VALDEZ	201	90 **

* Build Group corresponds to phase.

** These facilities will be built in the years indicated for GCI's interstate network, and will be available for intrastate service at the time of commencement.

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 REPLY COMMENTS

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

Attorneys for American Telephone
and Telegraph Company

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

July 12, 1993

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ATTACHMENTS

Attachment A - List of Commenters

Attachment B - Projected AT&T Pro Forma Income Statement
Under the Consumer Benefit Plan 1994-2003 and
AT&T's Projected Intrastate Revenue
Requirements 1999-2003

Attachment C - Projected Industry View under the Consumer
Benefit Plan (revised 7/8/93)

Attachment D - Projected Pro Forma Income Statement for
Alascom under the Consumer Benefit Plan

Attachment E - Johnson & Pitsch, Improving Alaska's
Telecommunications Structure

SUMMARY

The Comments support the Joint Board's conclusion that AT&T's existing Joint Service Arrangement ("JSA") with Alascom no longer serves the public interest and should be terminated in favor of an Alaska telecommunications structure that promotes competition, open entry and improved efficiency incentives for carriers. Several commenters also recognize the unique opportunities which AT&T's Consumer Benefit Plan offers Alaskans through its proposed introduction of lower prices, new services and new technology. GCI and MCI, the only commenters who express general support for the TR Proposal, would benefit substantially from that proposal's lengthy delay of AT&T's entry into Alaska. Moreover, they completely ignore the Consumer Benefit Plan and the significant opportunities it offers to Alaska consumers.

Many other commenters, however, demonstrate that the TR Proposal is flawed and will not achieve the Joint Board's own objectives for Alaska. In particular, these commenters show that the TR Proposal creates disincentives for full competition in Alaska and that the proposal's complex mechanisms designed to protect Alaska consumers from intrastate rate increases are likely to fail. In contrast, they confirm that the Consumer Benefit Plan will have more favorable impacts on intrastate rates than the TR Proposal. In addition, the Consumer Benefit Plan offers better assurances of universal service for the Alaska Bush, and

will create more effective and efficient competition in Alaska than the TR Proposal.

The Consumer Benefit Plan will provide Alaska consumers with over \$ 25 million in real intrastate cost savings over five years, immediate access to new services and substantial improvements in the Alaska telecommunications infrastructure that will bring Alaska into parity with its sister states. In contrast, the TR Proposal defers full competition in Alaska, does not insure intrastate rate stability and creates disincentives for AT&T to invest in the provision of new services and technology for Alaska. The Joint Board and Commission should therefore act promptly to end the outmoded JSA, adopt the Consumer Benefit Plan, and allow Alaska consumers finally to enjoy the full benefits of competition.

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 REPLY COMMENTS

Pursuant to the Joint Board's May 17, 1993 Tentative Recommendation and Order Inviting Comments ("TR"), American Telephone and Telegraph Company ("AT&T") submits this reply to the June 28, 1993 comments on the Joint Board's proposal to restructure the Alaska telecommunications marketplace ("TR Proposal") and AT&T's Consumer Benefit Plan.¹

A number of commenters recognize the unique opportunity presented by the Consumer Benefit Plan. Carr, the largest Alaska-based employer in Alaska, endorses all aspects of the plan, and the State (p. 8) expressly acknowledges that the plan "appears to be in the public

¹ A list of all Commenters is appended as Attachment A. Alascom, Inc. elected not to file comments and stated that it would file its comments on the reply date. See Motion of Alascom, Inc., to Schedule Reply Comments, dated June 28, 1993.

interest, at least on a theoretical basis."² ATA also states that it "may well support" AT&T's proposal.³ GCI and MCI, the only commenters who generally support the TR Proposal would benefit greatly from the delayed AT&T entry contemplated by that proposal. Moreover, they completely ignore the advantages the Consumer Benefit Plan would bring to Alaska consumers. On the other hand, many other commenters raise specific problems or concerns regarding the TR Proposal and the complex series of transition mechanisms which that proposal would require. Throughout all of the comments, however, there is no dispute with the Joint Board's conclusion (TR ¶ 27) that the JSA no longer serves the public interest and should be terminated in favor of an Alaska telecommunications structure that "promote[s] competition, open entry and improved efficiency incentives."⁴

I. THE TR PROPOSAL FAILS TO MEET ITS OWN OBJECTIVES.

The central flaw which the commenters find in the TR Proposal is that it does not accomplish its own objectives to make Alaska a fully competitive

² The State's Comments request additional information from AT&T, which is provided below.

³ Alaska Telephone Association's Response to AT&T's Section 214 Application, filed June 25, 1993, p. 3, appended as Exhibit A to the ATA's Comments.

⁴ See e.g., ATA, p. 3 ("the status quo cannot stand").

telecommunications marketplace and to provide reasonable assurance that Alaska intrastate rates will not have to be increased because of the introduction of a competitive market structure.⁵ ATA (p. 6), for example, correctly observes that the TR Proposal

"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 . . . [and] prevent[s] AT&T from fully entering the Alaska market for seven years."

These effects of the TR Proposal prevent effective competition and deprive Alaska consumers of important benefits enjoyed by consumers in all other states. They are also inconsistent with the Commission competition policies that are specifically cited in the TR.⁶ Moreover, the TR Proposal's disincentives will affect both the short-term and long-term prospects for effective competition in Alaska, and they eliminate the market-based forces that would lead to improved efficiencies by Alaska carriers and lower rates for Alaska consumers.⁷ Under the Consumer Benefit Plan, in

⁵ AT&T (pp. 19-21) also demonstrates that several of the TR Proposal's transition mechanisms are not legally enforceable.

⁶ TR ¶ 25 ("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").

⁷ AT&T, pp. 25-29.

contrast, AT&T will enter the marketplace with lower prices, more services, and newer technology at a critical time in the development of both interstate and intrastate competition in Alaska.

ATA (p. 6) also recognizes that the TR proposal does nothing to lower Alascom's high operating expenses, which are the dominant portion of Alascom's revenue requirements. Therefore, ATA (p. 9) concludes that "without a significant reduction in Alascom's operating expenses, the Tentative Recommendation may fail to achieve its [intrastate rate stability] goals in the long term."⁸ ATU (p. 3) also acknowledges that the TR Proposal, even with Alascom's proposal for a significantly increased accelerated cost recovery program, "would still produce increases in intrastate interexchange rates." Under the Consumer Benefit Plan, however, the full-fledged competition proposed by AT&T will provide the most effective incentives for Alascom to reduce its operating expenses and to keep its prices competitive with AT&T's reduced intrastate rates.⁹

⁸ See also AT&T's Response to Request for an Implementation Plan, filed June 7, 1993, p. 6; AT&T's Comments on the Proposal of the State Members of the Federal-State Joint Board, filed December 18, 1992, p. 8.

⁹ AT&T, pp. 21-25. ATU's concern (pp. 2-3) that Alaska intrastate interexchange rates (and possibly intrastate access charges) could go up under the Consumer Benefit Plan is misplaced. Intrastate prices would likely go down under the plan because of AT&T's reduced rates and increased competition.

II. THE CONSUMER BENEFIT PLAN PROVIDES BETTER RATE PROTECTION FOR INTRASTATE CUSTOMERS.

The most important reason to adopt the Consumer Benefit Plan is the fact that it will accomplish the Joint Board's Alaska objectives better than the TR Proposal. The Comments demonstrate that the Consumer Benefit Plan provides better rate protections for intrastate customers, without the need for the TR Proposal's complex regulatory transition mechanisms that are either legally unenforceable or will not work.

Even though Alascom's current frozen separations factor for circuit equipment is inappropriate and unfair,¹⁰ the State (pp. 4-5, 9) correctly notes that the Consumer Benefit Plan makes changes in that factor unnecessary. This, in turn, avoids the increases in Alascom intrastate revenue requirements that would result under the TR Proposal. Another advantage of the Consumer Benefit Plan (*id.* at 6) is that elimination of the separations change would also make the proposed Alaska Fund unnecessary, because that fund's purpose (TR ¶ 53) is to give Alascom (and UUI) subsidies to offset the effects of the changed cost allocation.¹¹

¹⁰ See TR ¶ 41-45; AT&T, fn. 34.

¹¹ MCI's (p. 1) claim that the costs of an Alaska Fund should only be applied against carriers who use Alascom's services -- not including any Bush facilities -- is disingenuous, especially given MCI's recent entry into

(footnote continued on following page)

Contrary to the State's (pp. 4-5) suggestion, however, it would not be appropriate to continue Alascom's existing interstate frozen separations factor if the TR Proposal is adopted, because the Joint Board has expressly found that the current 86% factor is not "consistent with the character of Alascom's costs."¹² It would also be inappropriate, under the TR Proposal, to adopt the suggestion¹³ that an accelerated cost recovery ("ACR") program should be applied solely to Alascom's interstate MTS/WATS plant. Such a modification would negate the TR Proposal's plan to use ACR as a means to offset the jurisdictional cost shifts and upward rate pressures that would result from the required separations change.

In contrast to the TR Proposal, AT&T's lower intrastate MTS rates and its rate stability pledge under Consumer Benefit Plan provide direct assurances that Alaska intrastate rates will be reduced, rather than increased for five years.¹⁴ After that date, competition will be

(footnote continued from previous page)

all aspect of the Alaska marketplace through its acquisition of a major stake in GCI. If any Alaska-specific support fund were to be created by the Joint Board, it should be applied on an even-handed basis to all carriers who provide service to or from Alaska.

¹² TR ¶ 44.

¹³ See State, p. 5; GCI, p. 2.

¹⁴ AT&T reiterates here (see State, p. 10) that it would only flow APUC-approved increases in LEC intrastate access charges through to its intrastate rates.

(footnote continued on following page)

entrenched in Alaska and should continue to drive intrastate costs and prices down.¹⁵ Moreover, in response to the State's inquiry (p. 11), AT&T does not expect that its own intrastate revenue requirements would necessitate a rate increase after the expiration of AT&T's rate stability pledge. Based upon currently available information, AT&T expects that its intrastate revenues during the period 1999-2003 will be slightly greater than its anticipated intrastate revenue requirements.¹⁶

III. THE CONSUMER BENEFIT PLAN WILL BETTER PROTECT
UNIVERSAL SERVICE FOR THE ALASKA BUSH.

The Consumer Benefit Plan will also provide better guarantees of universal service than the TR Proposal, in particular because AT&T will agree, if necessary, to accept Alascom's obligations to serve the Alaska Bush.¹⁷ In response to the State's query (p. 10),¹⁸ AT&T acknowledges that assumption of Alascom's responsibilities would include the responsibility for assuring that satellite facilities

(footnote continued from previous page)

AT&T, p. 23. AT&T does not propose to flow through any increases in Alascom's charges for its intrastate carrier services.

¹⁵ AT&T, pp. 21-25.

¹⁶ See Attachment B hereto. This attachment also includes a projected pro forma income statement for AT&T under the Consumer Benefit Plan for the years 1994-2003.

¹⁷ AT&T, pp. 14-15.

¹⁸ See also UUI, p. 8.

are available to serve these areas. As UUI (pp. 8-9) notes, however, the replacement of satellite facilities requires substantial lead time. Thus, AT&T (or any other successor) would need adequate notice from Alascom of any intention to abandon its Bush obligations.

Furthermore, GCI (p. 6) is wrong that geographic averaging of Alascom's carrier transport charges will achieve the Joint Board's purpose of assuring that the rates carriers pay for Alascom transport services to the Bush are properly related to Alascom's costs for those services. The Joint Board's goal (see TR ¶ 35) was to assure that Alascom would not be able to include the costs of its competitive transport services in its rates for transport to the monopoly Bush locations. As the State (pp. 6-8) recognizes,¹⁹ however, geographic averaging of Alascom's transport rates would likely have the opposite undesirable effect of raising Alascom's transport rates in competitive areas. This, in turn, would make Alascom a less attractive transport supplier in those areas. The best way to assure an appropriate segregation of Alascom's costs and rates for its carrier services is to adopt AT&T's proposal under the Consumer Benefit Plan (p. 30) to create a separate study area for Alascom's monopoly services.

¹⁹ See also UUI, p. 4; AT&T, p. 30.

IV. THE CONSUMER BENEFIT PLAN ASSURES MORE EFFECTIVE AND EFFICIENT COMPETITION IN ALASKA.

Finally, it cannot be disputed that the immediate competitive entry proposed under the Consumer Benefit Plan will bring the benefits of competition to Alaska consumers more quickly and fully than the TR Proposal.²⁰ The full-fledged competition under the Consumer Benefit Plan will also provide more efficiency incentives for carriers than the TR Proposal.²¹ Moreover, despite claims by Alascom,²² Alaska-billed telecommunications services will be able to support AT&T's proposed investment under the Consumer Benefit Plan,²³ and Alascom itself should be able to transition to the new competitive environment without the need for additional subsidies. Attachment D hereto is a pro

²⁰ See, e.g., ATA, p. 6.

²¹ AT&T, pp. 25-29. ATA (pp. 6-7) suggests that additional efficiencies could be achieved if the Alaska intrastate telecommunications structure were "normalized" to permit LECs to own and operate interexchange facilities in their franchised areas, because it would avoid the need for redundant LEC and Alascom work forces. AT&T does not have any specific objections to such a proposal if it would in fact benefit customers by reducing the costs of service in Alaska, but the ATA's proposed changes would require specific approval by the APUC. Similarly, AT&T does not specifically object to the ATA's proposal (pp. 7-8) to establish a centralized equal access tandem in Alaska if such a facility would in fact benefit customers and competition in Alaska.

²² Response to Request for Implementation Plan of Alascom. Inc., filed June 7, 1993, pp. 28-30.

²³ See Attachment C hereto, which supersedes the preliminary industry view submitted as Attachment C to AT&T's June 28 Comments.

forma income statement for Alascom showing that Alascom should be able to operate profitably under the Consumer Benefit Plan, because it will not only be able to continue as a competitive retail carrier but also to derive substantial revenues from its carrier transport services.²⁴

In sum, there is no reason to require Alaska consumers to wait any longer to receive the benefits of competition that are already enjoyed by customers in every other state. Under the Consumer Benefit Plan, Alaska consumers will receive real intrastate price reductions of more than \$25 million over five years,²⁵ and the Alaska infrastructure will be improved so that all Alaskans will be able to obtain new and more reliable services. In addition, Alaskans will have access to advanced telecommunications services and applications that will place Alaska businesses on an even par with other states and enable them to grow without concern that their telecommunications capabilities may lag behind others'.²⁶

²⁴ AT&T's Alaska Network plan is to construct a fiber optic submarine cable system connecting Anchorage, Juneau and the lower 48 states and to build in-state facilities connecting Anchorage and Juneau with Fairbanks. Assuming that it can acquire other in-state facilities at reasonable prices, AT&T plans to obtain capacity to serve other Alaska locations from Alascom. See AT&T, fn. 11.

²⁵ See Attachment E hereto, pp. 17-19.

²⁶ See id. at 32-33.

CONCLUSION

The Joint Board (TR ¶¶ 25, 71) correctly determined that circumstances have changed dramatically since the inception of the JSA and that it is "no longer . . . feasible to perpetuate" that arrangement. The Consumer Benefit Plan fulfills the Commission's goals and the Joint Board's objectives better than the TR Proposal and will provide Alaska consumers with the immediate benefits of a strong and viable competitive telecommunications structure. The Consumer Benefit Plan also achieves the Joint Board's desire (¶ 27) to create a marketplace that "promotes competition, open entry and improved efficiency incentives." Therefore, the Consumer Benefit Plan should be adopted as soon as possible.

Respectfully submitted,

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

By /s/ Francine J. Berry

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

Its Attorneys

295 North Maple Avenue
Room 3244J1
Basking Ridge, New Jersey 07920

Dated: July 12, 1993

ATTACHMENT A

List of Parties Filing Comments on June 28, 1993

State of Alaska ("State")
Alaska Telephone Association ("ATA")
Anchorage Telephone Utility ("ATU")
Carr Gottstein Foods Co. ("Carr")
General Communication, Inc. ("GCI")
State of Hawaii ("Hawaii")
MCI Telecommunications Corporation ("MCI")
National Exchange Carrier Association ("NECA")
Sprint Communications Company L.P. ("Sprint")
Southwestern Bell Telephone Company ("SWBT")
United Utilities, Inc. ("UUI")

CONSUMER BENEFIT PLAN

These assumptions apply to AT&T Pro Forma Income Statement:

- (i) Revenues include both northbound and southbound traffic.**
- (ii) Alaska billed market shares assumptions are:**
 - Switched Services — 42% by year end 1995 & then constant through 2003.**
 - Private Line — 39% by year end 2003**
- (iii) AT&T will build facilities between Anchorage, Fairbanks, and Juneau and will lease capacity from Alascom for transport to other exchanges excluding Bush locations.**
- (iv) For service to Bush locations AT&T will pay Alascom for access under tariff rates.**
- (v) The effective tax rate is assumed to be 40%.**

**CONSUMER BENEFIT PLAN
AT&T PRO FORMA INCOME STATEMENT
(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>
<u>MINUTES:</u>										
INTERSTATE & INTERNATIONAL	523.72	675.31	756.78	782.40	807.21	834.45	864.65	896.83	931.09	969.58
INTRASTATE	38.89	107.25	138.78	142.97	147.24	152.14	157.13	162.29	167.61	173.11
<u>REVENUES:</u>										
INTERSTATE & INTERNATIONAL	\$112.78	\$149.28	\$168.57	\$174.24	\$179.78	\$185.88	\$192.61	\$199.77	\$207.43	\$216.01
INTRASTATE	12.34	34.32	44.41	45.75	47.12	48.69	50.28	51.93	53.64	55.40
PRIVATE LINE	7.30	14.60	16.10	17.50	19.00	20.40	22.60	24.80	27.00	29.20
GROSS REVENUES	132.40	198.20	229.07	237.49	245.90	254.95	265.49	276.50	288.07	300.60
UNCOLLECTIBLES	<u>3.26</u>	<u>4.77</u>	<u>5.54</u>	<u>5.72</u>	<u>5.90</u>	<u>6.10</u>	<u>6.32</u>	<u>6.54</u>	<u>6.79</u>	<u>7.06</u>
NET REVENUES	\$129.15	\$193.42	\$223.54	\$231.77	\$240.00	\$248.85	\$259.17	\$269.95	\$281.28	\$293.55
<u>EXPENSES:</u>										
ACCESS EXPENSE	\$61.01	\$86.49	\$99.48	\$102.77	\$105.99	\$109.56	\$113.45	\$117.58	\$121.95	\$126.79
DEPRECIATION	2.40	6.80	15.30	20.90	19.20	17.90	17.20	16.40	15.70	15.70
NETWORK/TRANSPORT	52.17	66.49	76.32	52.20	53.83	55.42	57.39	59.19	61.35	63.53
OTHER EXPENSES	<u>24.43</u>	<u>38.65</u>	<u>44.99</u>	<u>47.63</u>	<u>49.26</u>	<u>50.97</u>	<u>53.09</u>	<u>55.29</u>	<u>57.51</u>	<u>59.86</u>
TOTAL EXPENSES	\$140.00	\$198.43	\$236.08	\$223.50	\$228.28	\$233.85	\$241.13	\$248.41	\$256.51	\$265.88
OPERATING INCOME	(\$10.85)	(\$5.01)	(\$12.54)	\$8.28	\$11.71	\$15.00	\$18.05	\$21.55	\$24.77	\$27.67
TAXES	(\$4.34)	(\$2.00)	(\$5.02)	\$3.31	\$4.68	\$6.00	\$7.22	\$8.62	\$9.91	\$11.07
NET INCOME	(\$5.51)	(\$3.01)	(\$7.52)	\$4.97	\$7.03	\$9.00	\$10.83	\$12.93	\$14.86	\$16.60
NET CAPITAL INVESTMENT	\$46.80	\$102.48	\$151.20	\$135.65	\$121.00	\$109.11	\$97.27	\$86.09	\$75.90	\$65.71

**AT&T
CONSUMER BENEFIT PLAN
PROJECTED INTRASTATE REVENUE REQUIREMENTS
(MILLIONS)**

	1999	2000	2001	2002	2003
REVENUES NET OF UNCOLLECTIBLES	\$47.4	\$49.0	\$50.6	\$52.2	\$54.0
REVENUE REQUIREMENTS	46.7	47.9	49.2	50.5	52.1
DIFFERENCE	.7	1.1	1.4	1.7	1.9

Based on AT&T Pro Forma Income Statement,
Part 36 Separations Rules,
Joint Board Tentative Recommendation of 25% Intrastate 'Frozen Factor'.

CONSUMER BENEFIT PLAN

These assumptions apply to Alascom Pro Forma Income Statement:

- (i) Revenues are Alaska billed revenues only.**
- (ii) Other revenues include lease, wholesale, access, and service revenues from other carriers.**
- (iii) The expense to revenue ratio is assumed to be 83% (includes uncollectible revenues).**
- (iv) The effective tax rate is assumed to be 32%.**
- (v) New capital investment is shown in the "Industry Structure" exhibit.**

CONSUMER BENEFIT PLAN
ALASCOM PRO FORMA INCOME STATEMENT
(DOLLARS 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>
REVENUES										
INTRASTATE	\$64.65	\$46.59	\$34.89	\$35.95	\$37.02	\$38.25	\$39.51	\$40.80	\$42.14	\$43.53
INTERSTATE & INTERNATIONAL	\$70.12	\$64.52	\$62.48	\$54.11	\$55.88	\$57.88	\$60.04	\$62.23	\$64.80	\$67.48
PRIVATE LINE	\$52.70	\$45.40	\$48.80	\$42.50	\$41.00	\$39.60	\$37.40	\$35.20	\$33.00	\$30.80
OTHER REVENUES	<u>\$58.69</u>	<u>\$72.08</u>	<u>\$43.88</u>	<u>\$43.92</u>	<u>\$48.04</u>	<u>\$51.11</u>	<u>\$50.83</u>	<u>\$52.77</u>	<u>\$54.95</u>	<u>\$56.60</u>
GROSS REVENUES	\$248.18	\$217.57	\$174.65	\$176.48	\$181.94	\$186.82	\$187.78	\$191.00	\$194.89	\$198.80
TOTAL EXPENSES:	\$204.31	\$180.58	\$144.98	\$146.47	\$151.01	\$155.08	\$155.86	\$158.53	\$161.76	\$164.59
OPERATING INCOME	\$41.85	\$36.99	\$29.69	\$30.00	\$30.93	\$31.78	\$31.92	\$32.47	\$33.13	\$33.71
NET INCOME	\$28.48	\$25.15	\$20.19	\$20.40	\$21.03	\$21.60	\$21.71	\$22.08	\$22.53	\$22.92
NET CAPITAL INVESTMENT	\$258.48	\$234.81	\$211.40	\$188.77	\$205.38	\$181.16	\$157.37	\$133.97	\$121.56	\$113.57
CUMULATIVE AVERAGE ROR	11.01%	10.87%	10.48%	10.55%	10.49%	10.89%	11.03%	11.50%	12.00%	12.52%

CONSUMER BENEFIT PLAN

These assumptions apply to Industry Structure:

(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	2.96%	3.39%	3.21%	3.02%	2.99%	3.33%	3.28%	3.28%	3.26%	3.28%
Interstate & International	3.73%	4.04%	3.54%	3.11%	3.28%	3.54%	3.77%	3.64%	4.18%	4.13%

(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% (includes uncollectible revenues)

(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: -0.58
Intrastate: -0.547

(vii) The effective tax rate is assumed to be 37%.

(viii) AT&T will build facilities between Anchorage, Fairbanks, and Juneau and will lease capacity from Alascom for transport to other exchanges excluding Bush locations.

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

**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	578.68	602.04	623.38	642.73	663.83	687.32	713.20	739.18	769.74	801.56
INTERNATIONAL	24.74	25.73	26.65	27.47	28.38	29.38	30.49	31.60	32.90	34.28
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	121.87	126.79	131.28	135.96	139.81	144.75	150.20	155.68	162.11	168.81
INTERNATIONAL	25.75	26.79	27.74	28.60	29.54	30.58	31.74	32.89	34.25	35.67
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	72.06	49.38	49.92	48.04	51.11	50.83	52.77	54.95	56.50
GROSS REVENUES	\$380.01	\$403.08	\$389.14	\$391.81	\$404.56	\$417.36	\$427.49	\$439.99	\$454.02	\$467.88
TOTAL EXPENSES:	\$323.01	\$342.62	\$325.67	\$333.04	\$343.88	\$354.78	\$363.87	\$373.99	\$385.91	\$397.69
OPERATING INCOME	\$57.00	\$60.46	\$57.47	\$58.77	\$60.68	\$62.60	\$64.12	\$66.00	\$68.10	\$70.18
NET INCOME	\$35.91	\$38.09	\$36.21	\$37.03	\$38.23	\$39.44	\$40.40	\$41.58	\$42.90	\$44.21
CAPITAL INVESTMENT										
NET										
ALASCOM	\$258.48	\$234.61	\$211.40	\$188.77	\$206.38	\$181.18	\$157.37	\$133.97	\$121.58	\$113.57
AT&T	\$46.60	\$102.46	\$151.20	\$135.65	\$121.80	\$109.11	\$97.27	\$86.09	\$75.90	\$65.71
ALL OTHER	\$46.00	\$47.00	\$48.00	\$49.00	\$50.00	\$51.00	\$52.00	\$53.00	\$54.00	\$55.00
TOTAL	\$351.06	\$384.07	\$410.60	\$373.42	\$377.17	\$341.27	\$306.64	\$273.06	\$251.45	\$234.27
NEW										
ALASCOM	\$11.00	\$11.00	\$11.00	\$11.00	\$51.00	\$11.00	\$11.00	\$11.00	\$22.00	\$27.00
AT&T	\$49.00	\$62.66	\$64.04	\$5.35	\$5.35	\$5.21	\$5.36	\$5.22	\$5.51	\$5.51
ALL OTHER	\$6.58	\$7.11	\$7.11	\$7.11	\$7.11	\$7.11	\$7.11	\$7.11	\$7.11	\$7.11
TOTAL	\$66.58	\$80.77	\$82.15	\$23.46	\$63.46	\$23.32	\$23.47	\$23.33	\$34.62	\$39.62
CUMULATIVE AVERAGE ROR	10.55%	10.32%	9.90%	9.90%	9.94%	10.16%	10.48%	10.89%	11.35%	11.83%

ATTACHMENT E

IMPROVING
ALASKA'S TELECOMMUNICATIONS
INFRASTRUCTURE

by
Leland L. Johnson
&
Peter K. Pitsch

July 12, 1993

EXECUTIVE SUMMARY

AT&T's Consumer Benefit Plan is a straightforward way to reduce prices, provide new services, and assure universal service in Alaska. The plan will end the Joint Services Arrangement and the distortions it creates.

Among the advantages of the Plan are that AT&T will enter the Alaskan intrastate market for the first time and commit to setting MTS rates at about 4% below the current rates charged by Alascom. Regardless of the level of general inflation, AT&T will not raise these rates above their initial level for five years (except to pass through any increases in access charges it pays to Alaska local exchange carriers). Based on the MTS traffic level that was recorded in 1992, we estimate that AT&T's upfront price cut will generate intrastate savings of \$12.5 million during the 5-year period. Moreover, if inflation averages 4% throughout this period, Alaskans will save a total of \$27 million in real terms. They will also benefit from the additional calls that they would make at the reduced rates. Lastly, because AT&T proposes to cut the longer mileage bands 7% below Alascom's rates, intrastate callers to and from the Bush Communities will receive even greater savings.

AT&T will also provide service between Alaska and the rest of the nation. Under the JSA, it is not permitted to originate interstate service in Alaska or complete northbound calls from the

lower 48. Rather, it must hand off its northbound traffic to Alascom at an interface in the lower 48. Similarly, Alascom hands off its southbound traffic to AT&T at the same interface.

With its full entry into the Alaskan interstate market, AT&T will abolish rate mileage bands 10 and 11 so that calls spanning distances exceeding 3000 miles will be priced the same as calls in mileage band 9, whose upper bound is 3000 miles. This move will generate price reductions of 17% to 32% for 25% of the interstate MTS calls originated in Alaska, in addition to the benefits from additional calling encouraged by these price cuts.

Beyond price reductions, Alaskans will have access to the same services that AT&T's customers enjoy in the other states. Those noted in this study are EasyReach, PRO WATS, MEGACOM WATS, Multi-Location WATS, and One Line WATS.

To handle this traffic, and to meet Alaska's growing needs into the next century, AT&T will build a fiber optic undersea cable to connect Alaska with the lower 48. With greater capacity than Alascom's existing Alaska Spur, the new cable will accommodate the full range of existing and prospective data, voice, and video services.

Under the Consumer Benefit Plan, universal service in Alaska, including service to the Bush, will be fully protected. The existing mechanisms of rate integration and bulk billing access

charges designed to facilitate universal service remain unchanged. Moreover, the incremental cost of serving the Bush may be lower than commonly believed. The best evidence comes from the fact that GCI has offered to provide competitive satellite links to the Bush, side-by-side with those of Alascom, despite the presumption that these are the highest cost routes in Alaska. In any event, AT&T stands ready to serve the Bush if Alascom sought to leave.

Finally, it cannot be overemphasized that a modern telecommunications infrastructure is vital to Alaskan employment and economic growth. In deciding about where to locate their activities, firms weigh the advantages and disadvantages of the alternatives. In competition with the other states--and countries as well--Alaska must accord highest priority to the means, including telecommunications, for offsetting its handicap of geographical isolation. AT&T's entry into Alaska constitutes a key initiative consistent with that priority.

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Appendix A--Biographical Information

Appendix B--Alascom Rate History

IMPROVING ALASKA'S TELECOMMUNICATIONS INFRASTRUCTURE

Leland L. Johnson & Peter K. Pitsch¹

I. INTRODUCTION

Alaska has opened its telecommunications market to both interstate and intrastate competition. Alascom, the dominant interstate and intrastate carrier, has responded to the entry of its only facilities-based competitor, GCI, by dramatically cutting its intrastate prices. As in the lower 48, consumers have benefitted from lower prices, with competition rendering irrelevant regulated prices that are based on historical costs incurred under cost of service regulation.

Telecommunications competition in Alaska, however, continues to be distorted by a pre-competition, pre-divestiture regulatory framework called the Joint Services Arrangement (JSA). The JSA precludes AT&T from originating service in Alaska or completing northbound calls from the lower 48. Rather, it requires AT&T to work in "partnership" with Alascom for MTS and WATS services between Alaska and the lower 48.² Under the JSA, AT&T must hand

¹ Biographical information on the authors is contained in Appendix A.

² The JSA covers only MTS and WATS; it does not cover private line service. AT&T does not currently provide private line service to or from Alaska.

off its northbound domestic switched Alaskan traffic to Alascom at an interface in the lower 48, with Alascom's facilities carrying that traffic to Alaska. Conversely, Alascom hands off its southbound traffic destined for the lower 48 to AT&T at the same interface. Under the JSA, Alascom credits AT&T with the revenues that it collects from the southbound traffic and AT&T pays Alascom its entire revenue requirement (whatever expenses Alascom incurs plus a return on its rate base). In effect, AT&T guarantees coverage of any shortfall between Alascom's interstate domestic switched revenues and its revenue requirement. AT&T's rivals in the long distance market are not required to share this burden. Nor does Alascom's competitor, GCI, share in this benefit or burden. In the last decade under the JSA, AT&T lost hundreds of millions of dollars on its Alaskan operations.

There is widespread agreement that the JSA distorts competition and discourages carrier efficiency. Nonetheless, harmonizing competition with the JSA has proven controversial and difficult. During the last 10 years, many regulatory solutions have been proffered by the parties and regulators--but to no avail.

Recently, AT&T proposed the "Consumer Benefit Plan" (CBP) as the means for terminating the JSA. Under the CBP, AT&T proposes to enter both the Alaska interstate and intrastate markets, including construction of a new fiber optic cable between Alaska and the lower 48. AT&T would also cut interstate prices, reduce intrastate prices by 4% compared to Alascom and by substantially more

in real terms over a five-year period, and introduce price, feature, and service options not currently available in Alaska.

This study examines the effects of the Consumer Benefit Plan on Alaska's telecommunications system. After briefly describing Alaska's telecommunications market, we consider how the CBP would improve Alaska's telecommunications infrastructure and how it would affect interstate and intrastate rates, especially in the Bush communities.

II. ALASKA'S TELECOMMUNICATIONS MARKET

A. The Current Marketplace

Before 1971 Alaska's telecommunications service was provided by the Alaska Communications System using military facilities. Pursuant to the Alaska Communications Disposal Act, this system was purchased by Alascom in 1971. In 1972 the FCC ordered AT&T, then the Bell System, to serve Alaska jointly with Alascom.

Today, Alascom is a substantial concern in its own right.³ In 1991, it had net plant of \$398 million and net income of \$50 million.⁴ Its operating revenues were \$344.2 million, which

³ Originally, Alascom was a subsidiary of RCA, but in 1979 it was purchased by Pacific TeleCom (which is 87% owned by PacifiCorp).

⁴ Deloitte & Touche, Alascom, Inc. Financial Statements for years ended December 31, 1991 and 1990, pp. 2,4.

represents a 9% increase in operating revenues over the previous year after payment of \$49 million in settlements to LECs in 1990.⁵

Many other changes have occurred in Alaska's interstate market. Most notably, GCI has entered the market; Alascom has made substantial investments in additional facilities including satellite and undersea cable facilities; and Alaska's interstate rates have been integrated into AT&T's rate schedule for the lower 48.⁶ Under rate integration, an AT&T call to Alaska costs the same as an AT&T call of the same distance within the lower 48.

Since 1982, Alascom has faced interstate competition from GCI, which provides both northbound and southbound offerings using its own satellite-based network. It is the primary competitor of Alascom for the provision of interstate service. In early 1993, MCI and GCI announced MCI's intention to buy about 30% of GCI's Class A and B stock.

⁵ Prefiled direct testimony of James H. Huesgen (CFO of Pacific Telecom), APUC Docket U-92-9, August 28, 1992, p. 6.

⁶ The FCC adopted its rate integration policy for Alaska in 1972 in its domestic satellite proceeding on the theory that costs of satellite service were not distance sensitive.³⁵ FCC 2d 844, 856-57 (Domsat II), aff'd on recon., 38 FCC 2d 665, 695-96 (1972) (Domsat III) aff'd sub nom., Network Project v. FCC, 511 F. 2d 786 (DC Cir. 1975). Rate integration policy was fully implemented in 1987. MO&O released Jan. 2, 1987 in CC Docket No. 83-1376, 2 FCC Rcd 2442.

Local service to 270,000 access lines in about 250 exchanges is provided by 23 local carriers. Roughly half of these lines are served by the Anchorage Telephone Utility serving Anchorage and surrounding communities. At the other extreme are the Bush communities. About 25% of Alaska's population lives in over 200 villages of 1000 people or less. Alascom is required to provide interexchange telephone service to every Alaskan community with a post office and 25 or more residents. It uses a C-band satellite system, which links a one-watt per-channel 4.5 meter earth station in each of the over 200 Bush communities with a central service point in Anchorage. About 87% of Bush households have telephone service.⁷ GCI has unsuccessfully sought authority to originate interexchange services in the Bush communities since 1990.⁸

Prior to 1991, Alaska's intrastate service was also the exclusive province of Alascom. Alascom's rates were the product of rate base regulation and a federal/state cost separations process that assigns 86% of Alascom's interexchange circuit equipment to the interstate jurisdiction. The Joint Board has proposed in its Tentative Recommendation to reduce that factor over a 10-year period to 75%.⁹

⁷ Declaration of Philip J. Freedenberg, Ex Parte Report, CC Docket No., 83-1376, filed September 3, 1992, p. 3.

⁸ Supplemental Filing of GCI, CC Docket No. 83-1376, RM 4436, January 10, 1990.

⁹ Tentative Recommendation and Order Inviting Comments, CC Docket No 83-1376, May 17, 1993, p. 4.

For several years, GCI unsuccessfully sought approval from the Alaska Public Utility Commission (APUC) to enter Alaska's intrastate market. It eventually broke the logjam by making the issue of intrastate competition the subject of an Alaskan voter initiative.¹⁰ In May 1990, state legislation eliminated Alascom's legal monopoly and later in the same year the APUC implemented regulatory changes permitting facilities-based competition in high density areas. Intrastate competition was finally introduced in May 1991.

By now, GCI has facilities-based service directly to the vast majority of Alaska's access lines. Facilities-based competition remains forbidden in low density areas, however, based on the APUC's assessment of where competition is, and is not, feasible. Thus, while GCI originates service in most areas, it must use Alascom transport facilities in some cases.

The APUC requires that intrastate retail rates be geographically averaged.¹¹ That is, all calls of the same length must be charged at the same price regardless of the points of origination or termination. This averaging system is supported by an access charge pooling mechanism for local loop plant called the bulk billing access charge. Through this mechanism, the higher costs

¹⁰ Supplemental Filing of GCI, CC Docket No. 83-1376, RM 4436, January 10, 1990, p. 3.

¹¹ 3 AAC 52.370.