

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2
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1 joint service arrangement. This was a partnership
2 between AT&T and Alascom which provided that Alascom
3 would do the service from the lower 48 to and from
4 Alaska, as well as within Alaska, and AT&T of course
5 would provide service within the lower 48. AT&T would
6 not be free to enter the market, itself, Alaska market,
7 that is. Nationwide cost separation rules were at this
8 point adopted for Alaska, and after a transition period,
9 nationwide average rates would be in effect in Alaska.

10 In turn, AT&T would pay all of the costs of
11 Alaska interstate service and receive all of the
12 revenues, which by all accounts we've certainly seen a
13 number of different numbers in this proceeding but in any
14 event I think there's at least the concession that they
15 are considerably less than the costs. Also, at the
16 inception of this transition, AT&T paid an additional
17 amount to help pay for the high cost of Alaska service.

18 This joint service arrangement was adopted
19 by that first Alaska Joint Board and by the FCC and it's
20 what is currently in place and governs the provision of
21 interstate service in Alaska. The effect is that AT&T
22 continues to pay to Alascom settlements which are in many
23 ways analogous to what the arrangement it had in effect
24 with the Bell independent operating companies until 1984.

25 This Joint Board that's before you today was

1 established as you know in '85. In 1987, the final step
2 of rate integration was accomplished. That additional
3 supplement paid by AT&T to Alascom was terminated.

4 Subsequently, during the period '87 to '91,
5 there was a massive restructuring of the intrastate
6 telecommunications industry. The APUC, reacting to the
7 policies and dictates, some instances of the FCC, went
8 about the business of changing the uniform system of
9 accounts, adopting a new cost separations manual, toll
10 settlements for intrastate purposes were terminated,
11 access charges were introduced, rules were established
12 for competition. As you know, the law was passed in 1990
13 which supported the introduction of competition and
14 subsequently, GCI was certificated in 1991 and the
15 following year Sprint was certificated.

16 Well now, let's return if we could to these
17 purposes that I gave you by row at the beginning of these
18 comments to see if we can use this historical context to
19 make some sense of it. I'd also like you to keep in
20 mind, if you will, this chart that I handed out, which
21 was a conceptual rendering of rates and costs. And what
22 it's designed to do, again in a conceptual way not in a
23 sort of mathematically precise way is to show that if you
24 have rates that are set on an average basis you're going
25 to have some areas where costs are higher than rates and

1 some that are lower. And in a situation where rate
2 integration is the policy of rates, of course are set on
3 an average basis. Nonetheless, competition is a world
4 that is governed and driven by costs. So you can see
5 that there are some conflicts that begin to emerge in a
6 market.

7 Competitors have different incentives to
8 come to into the market in Point A than they do at Point
9 B. Point A they have an opportunity to undercut the
10 rates that the carrier offering average rates is selling
11 its services at. At Point B, they are inhibited from
12 entering the market because they experience the higher
13 costs and they don't have the benefit of cost averaging
14 that this carrier might have.

15 Conversely, if you're the provider of those
16 services at average rates, you're extremely sensitive to
17 your total costs because you can see competitors nipping
18 at your business in areas where you were charging rates
19 that are higher than costs. This in turn raises issues
20 with respect to what cost separations might be applicable
21 to this particular market, because the cost line can go
22 higher or lower depending upon the cost separations
23 process that one uses. So that, I guess in a sort of a
24 historical, conceptual sense is the issue that the Alaska
25 Joint Board is trying to wrestle with.

1 I'd like to turn next to the second question
2 that I posed which is what process or procedures does the
3 Joint Board use to try to perform its responsibilities to
4 try to get its arms around these issues and examine
5 whether or not there should be some changes in the market
6 structure. The year after the Joint Board was created,
7 it issued an order which requested extensive data on what
8 it cost to provide both interstate and intrastate
9 service. It also asked for a lot of demographic
10 information about Alaska in order to better comprehend
11 the magnitude of the high cost problem that Alaska was
12 facing. I've already referenced the fact in 1987 the
13 Joint Board implemented the final step of rate
14 integration.

15 The next significant benchmark in the
16 process was an order issued in January of 1989 by the
17 Joint Board. In that order, it set forth certain
18 tentative objectives or goals, and I've given you a
19 handout with those printed on them. They are preserve
20 universal service, continue rate integration, maintain
21 jurisdictional revenue requirement neutrality, allow for
22 market based competitive entry and increase efficiency.
23 These goals or objectives have been the guiding light to
24 the Joint Board as it has analyzed materials in front of
25 it and attempted to move forward with any kind of

1 resolution of the difficult issues at hand.

2 That order also analyzed the comments and
3 the materials that have been received in response to the
4 earlier order and set forth two alternative plans for
5 comment. Indeed, a large number of comments and reply
6 comments were filed, as well as alternative plans
7 suggested which in turn generated further comments among
8 the parties. There was, however, after that order and
9 the filings in response to that order, a hiatus in the
10 Joint Board activity. This was in large part because the
11 intrastate market was undergoing such radical changes
12 that members of the Joint Board did not feel it
13 appropriate to move forward on interstate market changes
14 before at least one half of the picture had resolved
15 itself and settled in some manner, and about the time
16 that it would have been appropriate and desirable to get
17 the show on the road, Alascom and AT&T filed the master
18 agreement. That was in February of '92. This was a
19 proposal advanced by those parties to terminate the joint
20 service arrangement that they had and establish a new
21 interstate and intrastate market structure. Because it
22 had interstate and intrastate implications, a parallel
23 filing was made before the APUC.

24 The master agreement dictated that final
25 action be taken by the two regulatory bodies no later

1 than November 1, 1992, although that date was
2 subsequently extended to January 15, 1993.

3 In March of '92 the master agreement was put
4 out for comment. Comments were received from a large
5 number of parties, a lot of those from the State,
6 including the State of Alaska, GCI, the Alaska Telephone
7 Association, some individual local companies, all of whom
8 uniformly criticized or opposed the master agreement.

9 In addition to its own staff, the APUC had
10 hired consultants to assist in the technical analysis of
11 both matters bending before the State proceeding as well
12 as the Joint Board proceeding and briefing papers and
13 testimony were filed in varying proceedings accordingly.

14 In late July of '92, the State members of
15 the Joint Board met with State staff and consultants to
16 discuss the master agreement and the comments that had
17 been received. As a result of those meetings, the State
18 members issues a document which was entitled Memorandum
19 of Understanding. It outlined some preliminary concerns
20 we had with the master agreement and encouraged the
21 parties to consider those concerns and possible revisions
22 to the master agreement.

23 Filings were forthcoming, and in October,
24 the State members, staff, consultants had a special
25 meeting in Chicago to review the master agreement,

1 comments, responses to the Memorandum of Understanding,
2 and based on those meetings, a Memorandum of Principles
3 was developed which set forth the State members tentative
4 findings and recommendations regarding the master
5 agreement.

6 The bottom line of that particular document
7 was that the master agreement was not in the best
8 interest of the public. However, I think it goes without
9 saying that the master agreement provided stimulus to
10 moving this process along. It clearly jump-started the
11 Joint Board and got us going, as well as the parties who
12 have been following this matter from its inception.

13 In November of '92, there were ex parte
14 presentations by the parties regarding state members
15 Memorandum of Principles. That plan was ultimately put
16 out for public comment by the FCC. In March, there were
17 some extensive work sessions talking about the plan, the
18 comments, et cetera. In late March, AT&T filed the
19 consumer benefit plan and then in May of this year, the
20 tentative recommendation was issued by the Joint Board
21 which requested comments both on the tentative
22 recommendation and the consumer benefit plan.

23 I guess to summarize, the -- while the Joint
24 Board proceeding has been under -- going on for a number
25 of years, I think it would be fair to characterize the

1 time since the filing of the master agreement as sort of
2 the modern era of the Joint Board, and since that time,
3 which is approximately 18 months, there's been an
4 incredible record amassed addressing these issues. There
5 have been six formal data requests that State members and
6 Joint Board have issued to parties. There's been
7 considerable amount of other data provided on a less
8 formal basis. Recognized experts have evaluated the data
9 and the issues both on staff and private consultants.
10 There's literally an enormous written record. I've given
11 you in your packets 17 pages listing the filings that the
12 Commission has received since the beginning of 1992. In
13 my own office, I have over 13 feet of book shelves
14 dedicated to this. I've discerned that I have read in
15 the last year and a half a pile of materials two and a
16 half size -- times my own height in trying to stay
17 abreast of the matters pending before this Joint Board,
18 and mind you, this is an extracurricular activity for me.
19 I still have my commission work that I'm doing. There
20 have been scores of ex parte presentations by the
21 parties. Under the rules that were established by the
22 FCC at the inception of this proceeding parties can visit
23 with the decision makers and staff subject to appropriate
24 disclosure and there have been hundreds of hours spent on
25 conference calls and work sessions bringing us to where

1 we are at this point in the process. It's really a
2 formidable amount of material that we have been
3 attempting to digest and comprehend over the last months.

4 REPRESENTATIVE NAVARRE: Have you prepared
5 an executive summary?

6 COMMISSIONER KNOWLES: Give me a few months
7 and I can do it.

8 At this point, having set the scene, I'd
9 like to ask Lori to respond to the third question I posed
10 which is what proposals are currently being considered
11 for resolving the issues. At least with respect to the
12 tentative recommendation, they represent a culmination of
13 what's gone on over the previous months. So if I could,
14 Lori?

15 MS. KENYON: Hello, can you hear me? My
16 name is Lori Kenyon and I'm on the staff of the Alaska
17 Public Utilities Commission and I'm also assigned to
18 Susan Knowles as a staff member before the Alaska Joint
19 Board. What I'd like to do is summarize the tentative
20 recommendation, the consumer benefit plan of AT&T, and
21 then provide you with very brief overview of the summary
22 of the comments that have been filed on both. Now, to
23 help you along, there's been a chart, I believe it's at
24 the back end of your packet, that provides you with a
25 rough idea of the different mechanisms under the

1 tentative recommendation of the Joint Board.

2 The tentative recommendation was a multi-
3 step plan to move Alaska to a new interstate market
4 structure over the period of ten years. A key part of
5 that plan was to create a situation where Alascom and
6 AT&T would operate independently of one another. To
7 achieve this independence, the joint service arrangement
8 that is the agreement between AT&T and Alascom, was to be
9 eliminated. For conceptual purposes, you might imagine
10 the joint service arrangement as a partnership between
11 the two utilities to provide long distance interstate
12 service to Alaska.

13 The Joint Board's plan proposed a number of
14 mechanisms to ensure that universal service at reasonable
15 rates would continue and be preserved given the
16 partnership was dissolved. First, the plan required that
17 AT&T continue to provide interstate long distance
18 services throughout Alaska to any customer that asked for
19 that service. Furthermore, the service had to be
20 provided at the same rates, terms and conditions that
21 AT&T provides service everywhere else in the nation. The
22 goal for this requirement was to make sure that
23 regardless of where you were in Alaska, you always had a
24 carrier available, namely AT&T, that would provide
25 interstate service and that you would be guaranteed of

1 having the low rate integrated rate levels available to
2 you.

3 Alascom would continue to provide instate
4 services in the market. It would also be required to
5 provide interstate private line services. The plan
6 allowed Alascom to become an enter -- to remain an
7 interstate long-distance carrier in the market but it
8 would not be required to provide rates at rate integrated
9 levels. The plan also required that the joint service
10 arrangement settlement mechanism be replaced by a system
11 of tariffs.

12 CHAIRMAN HUDSON: Excuse me, explain what
13 you said, that they would not be required to provide
14 services at rate integrated levels. Can you expand on
15 that a tiny bit for me?

16 MS. KENYON: Yes. AT&T has nationwide
17 rates. It takes all of its costs, evaluates and comes up
18 with an average rate. Well Alascom's costs aren't the
19 same as AT&T's. Therefore, the plan stated that Alascom
20 would not be required to set its rate at AT&T's levels.

21 CHAIRMAN HUDSON: Which assumes that perhaps
22 that they would have higher rates; is that correct?

23 MS. KENYON: It would assume they could
24 have --

25 CHAIRMAN HUDSON: Could have higher rates?

1 MS. KENYON: Higher rates, lower rates.
2 There was no presumption, no statement in the order.

3 CHAIRMAN HUDSON: No relationship?

4 MS. KENYON: Well, the order did not specify
5 any presumption about what those rates would be and
6 Alascom, itself, had stated that it had -- it did not
7 have an intention to stay in the market if it was to
8 compete against AT&T in that segment of the market, that
9 is.

10 CHAIRMAN HUDSON: Susan?

11 COMMISSIONER KNOWLES: If I could perhaps
12 reaffirm something that Lori had said before, AT&T had
13 the obligation to continue to provide intrastate service
14 to Alaskans at nationwide average rates, so there was
15 that protection or assurance provided to Alaskans, but
16 the responsibility was no longer a function of this
17 partnership, it was solely the responsibility of AT&T,
18 which liberated Alascom to, you know, stay in the market
19 or not as it chose and charge what it chose.

20 MS. KENYON: To continue, the plan also
21 required that the joint service arrangement, which is a
22 settlement mechanism, be replaced by a system of tariffs
23 and the service, instead of being the joint service, it
24 now is characterized as common carrier services by
25 Alascom.

1 The requirement was that the services would
2 be provided under tariff so GCI or AT&T or any other
3 interexchange carrier, if they needed Alascom's services
4 they'd know what the rates were and they'd basically pay
5 as they go. If they used a minute of service, they'd pay
6 for a minute of service.

7 Alascom would not be allowed to leave the
8 interstate market unless it had first petitioned the FCC
9 to do so and follow their standard procedures that
10 protected against abandonment of service. Alascom would
11 also be required to file a plan if it decided that it no
12 longer wanted to continue in the interstate long distance
13 market. The plan would ensure that its current customers
14 wouldn't be left stranded, that there would be a way that
15 those customers would continue to have a smooth level of
16 service.

17 An important aspect of the tentative
18 recommendation required that Alascom reduce its
19 interstate allocation factor for circuit equipment. The
20 circuit equipment factor currently rests at 86 percent.
21 The Joint Board proposed to reduce that factor to 75
22 percent. The order stated that the new factor would
23 reduce a barrier to Alascom's ability to compete
24 efficiently in the market by reducing Alascom's interest
25 in the costs. Also, the order stated that the 75 percent

1 factor was more consistent with the character of
2 Alascom's costs.

3 The Joint Board was concerned that this
4 aspect of their proposal, as well as the other aspects of
5 their proposal, would increase intrastate rates.
6 Consequently, the Joint Board proposed a number of
7 transition mechanisms to mitigate this problem. First,
8 the joint service arrangement would be retained for three
9 years. This would allow Alascom to further adapt itself
10 to the new market proposal and the new market structure.

11 Second, the plan called for Alascom's
12 overall costs to be reduced through an accelerated cost
13 recovery mechanism. AT&T and Alascom were to file a
14 implementation plans to try to develop this exact
15 accelerated cost recovery mechanism. One option
16 suggested in the order was that a series of payments be
17 made from AT&T to Alascom to reduce the value of
18 Alascom's assets or actually the book value on the
19 records. Next, a requirement was placed on AT&T that it
20 must purchase services from Alascom for a series of seven
21 years. During the first three years, AT&T would be
22 subject to the joint service arrangement. It would have
23 to -- to purchase 100 percent of its services from
24 Alascom. After that, the series of common carrier
25 service tariff, the tariff would kick in and for the next

1 seven -- pardon me, for the last four of that seven year
2 transition period, AT&T would still have to provide -- to
3 purchase its services from Alascom, but it would be under
4 a graduate -- graduating reducing level. For example, in
5 the fourth year it would go to 80 percent of the services
6 that AT&T must purchase and fifth year would be 60
7 percent and so on until it reached zero. AT&T could buy
8 more services but they would not be required to.

9 Lastly, the proposal suggested that the
10 allocation factor that was to be reduced from 86 percent
11 to 75 percent that that reduction would occur over a ten
12 year period. During the first three years, no change
13 would occur. During the last seven years, the allocation
14 factor would change slowly over time.

15 An Alaska fund was created under the plan to
16 allow Alascom to set its rates immediately as if the 75
17 percent factor were in existence. The Alaska fund paid
18 for this to allow that to happen. Otherwise, Alascom's
19 rates would have to be set at the 86 percent factor.

20 **Secondly**, the Alaska fund paid for the phase-out from 86
21 **percent** to 75 percent on the State level, so that the
22 State could experience that phase-out and it wouldn't be
23 hit with this abrupt change.

24 The Alaska fund would be administered by a
25 wholly owned subsidiary of the National Exchange Carriers

1 Association. The fund would be paid for by interexchange
2 carriers like AT&T, GCI and MCI in the market. Any
3 carrier that contributed to the current universal service
4 rate would also pay into the Alaska fund.

5 There are three other miscellaneous --
6 pardon me?

7 CHAIRMAN HUDSON: Representative Porter?

8 REPRESENTATIVE PORTER: Thank you. Let me
9 try to do what you just did on a previous point. I'm
10 getting lost in this allocation factor. Could you kind
11 of give us the basis for its existence in the first place
12 and now what is it that you're doing?

13 MS. KENYON: Okay, when you make a phone
14 call, a lot of different utilities provide the service to
15 make that phone call possible, and the same equipment is
16 used regardless if you make a interstate call or an
17 intrastate call, but there are different regulators that
18 govern each piece. So when I place an intrastate phone
19 call, the APUC governs how that works. When I place an
20 interstate phone call, the FCC governs how that works,
21 but since the same equipment is used for each, for the
22 same call, it becomes very complicated as to who pays for
23 that part of the equipment. So they developed at the FCC
24 level a very elaborate separations manual that says, for
25 example, for one piece of equipment, if that equipment

1 carries 100 minutes of state calls and 200 minutes of
2 interstate calls, then they're going to split it one to
3 two, and that's the type of factors that we're talking
4 about. They have different factors for each type of
5 equipment. The equipment that is specifically discussed
6 here is called circuit equipment. That's the satellite
7 earth station equipment. It's one of the more expensive
8 parts of Alascom's system. Currently that equipment is
9 based -- is allocated based on a factor that it considers
10 mileage when it's being developed, and so the factor was
11 set at a very high level, 86 percent, because when it was
12 set, the mileage was based on measuring it from Seattle,
13 lower 48. It wasn't measured with specific --

14 REPRESENTATIVE PORTER: That 86 percent
15 represents what?

16 MS. KENYON: The 86 percent represents the
17 part of the circuit equipment that the interstate
18 jurisdiction is willing to pay for. Okay, so if you
19 have -- if you had a big piece of pie of all the dollars,
20 that is the cost of the circuit equipment, 86 percent of
21 that cost pie would be paid for through interstate rates.
22 Now, that percentage has been frozen I believe since 1985
23 to current.

24 REPRESENTATIVE PORTER: And it was
25 originally based on --

1 MS. KENYON: On miles. It's really miles
2 and minutes. It's a very complicated formula that says
3 you basically add up all the minute miles in the system
4 and you have so many state minute miles and so many
5 interstate minute miles, and that's how you divvy it up
6 and miles were calculated based on a point of connection
7 in the lower 48 which meant you had more miles, all the
8 miles going from say Seattle to Anchorage added into the
9 interstate pie, and the long and sort of short of it is
10 at the end of that calculation, 86 percent of it became
11 interstate costs and 14 percent became state costs.

12 REPRESENTATIVE PORTER: But to change that
13 to 75 is arbitrary, not -- not -- maybe that's not the
14 right word, but it's not use driven, it's some other
15 goal; would that be fair?

16 MS. KENYON: The order specifically did not
17 calculate a new minute mile factor or a new minute
18 factor. It stated it wanted a fixed factor and it chose
19 75 percent.

20 CHAIRMAN HUDSON: Representative Boucher,
21 did you have a question?

22 MR. BOUCHER: Yes, you mentioned telephone.
23 Is that voice transmission or does that include
24 transmission of data, computer data, et cetera?

25 MS. KENYON: Well, the joint service

1 arrangement is primarily for the voice transmission.
2 It's what we call switched services, when you place phone
3 calls.

4 The private line which is generally --
5 that's generally what's used for data transmissions is
6 outside of the joint service arrangement and AT&T and
7 Alascom provide private lines separately from one
8 another.

9 CHAIRMAN HUDSON: At this stage, maybe it's
10 good even for myself to remind myself since we haven't
11 done this for a while, since we are on teleconference, we
12 have Barrow and Homer, Kotzebu and of course Washington,
13 D.C. is listening as well, so if you do have a question,
14 state your name first so that we can make sure we get it
15 on our recorder over there and the people on the line
16 know who's talking and I tried my darnedest to grab the
17 button and recognize you, but in case I miss it, give
18 your name ahead of time when you ask a question and we'll
19 keep better track of that. Thank you.

20 MS. KENYON: Are there any other questions?
21 Okay, I'll continue.

22 The last point I'd like to make is that
23 there's -- actually, the last three points regarding the
24 tentative recommendation that I'd like to make are as
25 follows:

1 First, AT&T doesn't serve predominantly in
2 the interstate Alaska private line market. Generally
3 your choices are Alascom or GCI. The proposal said that
4 if AT&T wanted to enter the interstate private line
5 market in Alaska it had to do it statewide and it had to
6 provide service the same as it does everywhere else in
7 the nation, same terms and conditions.

8 Second, United Utility would use the same
9 circuit equipment factor that Alascom used and this would
10 occur because there's some parts of the Alascom network
11 that United Utilities owns jointly with Alascom,
12 generally some of the earth stations.

13 And as a last point, Alascom would be
14 required to file its interstate tariffs and contracts
15 with the FCC for approval.

16 And that's a general summary of the
17 tentative recommendation. There are some other points,
18 but these are the high points.

19 CHAIRMAN HUDSON: The last point, this would
20 be a deviation, then, from the norm, that Alascom would
21 file with the FCC as opposed to the APUC for rates
22 intrastate?

23 MS. KENYON: It was not intrastate rates I
24 was referring to. This would be -- would be standard,
25 standard procedure that they would be recommending.

1 Intrastates remain under the jurisdiction of the APUC,
2 but the interstate special contracts, the interstate
3 tariffs would have to be filed with the FCC and they do
4 that today. Alascom files its interstate private line
5 and they have a interstate long distance tariff with the
6 FCC.

7 CHAIRMAN HUDSON: Thank you. Any other
8 questions? Representative Navarre.

9 REPRESENTATIVE NAVARRE: Yeah, the
10 requirement that AT&T provide the interstate service on a
11 statewide basis, is there a -- is that automatic or do
12 they -- are they allowed transition time into that?

13 MS. KENYON: Technically, they do that
14 today. It depends how you view it. They do it today but
15 it's under the joint provisioning of the joint service
16 arrangement.

17 REPRESENTATIVE NAVARRE: And back to the 86
18 percent versus 75 percent, does that mean that intrastate
19 is going to pick up an additional 11 percent under any
20 scenario?

21 MS. KENYON: Under this tentative
22 recommendation it would pick up that 11 percent at the
23 end of the ten year period.

24 REPRESENTATIVE NAVARRE: Okay, and what will
25 happen if -- to the traditional -- is 11 percent -- I

1 guess the argument is that that should be allocated in
2 intrastate, anyway?

3 MS. KENYON: Excuse me, could you repeat
4 your question, please?

5 REPRESENTATIVE NAVARRE: The 11 percent that
6 we're talking about phasing out down to 75 percent which
7 intrastate will then be picking up, what happens if we
8 don't go along with the Joint Board's recommendation?
9 What happens to that 11 percent? Is the allocation
10 continued.

11 MS. KENYON: Presumably, if you don't change
12 the factor then it would still be picked up by AT&T in
13 its -- well, anybody who would pay for services from
14 Alascom. Anybody who would buy Alascom's services would
15 pick up that 11 percent because the costs would go into
16 the interstate tariffs or special contracts or whatever
17 mechanism that is used for Alascom to sell its services.

18 REPRESENTATIVE NAVARRE: Then is that cost,
19 or the 11 percent, do you expect that -- it's the
20 expectation that it will be recovered through cost
21 efficiencies or simply intrastate additional moneys or a
22 combination?

23 MS. KENYON: The order stated there were a
24 number of sources that they expect it would take, would
25 recover that 11 percent. I'm trying to find my notes to

1 state exactly what they said. Well, let me try to do it
2 from memory. Here you go.

3 They stated the 11 percent would be
4 recovered through increased efficiencies, through cost
5 cutting, through increased traffic demand, and through
6 the various mechanisms, including the accelerated cost
7 recovery mechanisms, that mechanism they had proposed.

8 REPRESENTATIVE NAVARRE: Not that I probably
9 want to read it, but what did they use to base those
10 assumptions on?

11 MS. KENYON: It wasn't specifically spelled
12 out in the proposal what those -- why those assumptions
13 were made, except for that that was their understanding
14 of what would happen. I think that you can show at least
15 for the traffic, the traffic stimulation factor that they
16 are -- I'm using buzz, words I'll explain what it
17 means -- but when they're stating they're assuming that
18 some increase in demand will occur, what they're telling
19 you is that over time, people make more and more phone
20 calls and we have historical records that say this is the
21 case not only in Alaska but throughout the nation. The
22 statistics I've seen recently show that for the last two
23 or three years, the intrastate call volume has gone up
24 from around between 8 and 11 percent, depending upon what
25 year you're looking at. So I would presume that they

1 were basing their analysis on the -- on the data that
2 they had before them and on their experience.

3 CHAIRMAN HUDSON: Representative Brown, did
4 you have a question on this?

5 REPRESENTATIVE BROWN: With respect to the
6 Joint Board's recommendation, what level of detail did
7 you have from the companies with respect to their costs
8 and their revenues to be able to determine that this
9 would -- well, let me ask, are you assuming that there
10 will not be an increase in costs to users in Alaska if
11 this tentative recommendation were implemented and did
12 you have the underlying hard data from the companies to
13 be able to reach that conclusion?

14 MS. KENYON: The order specifically asked
15 the parties to comment on what they thought the
16 intrastate cost should be as a result of this plan and
17 we've provided -- we've received a variety of data from
18 Alascom regarding what they believe or what it believes
19 will be the cost shift, depending upon whether or not the
20 tentative recommendation was put into effect.

21 We also have extensive separation studies
22 for Alascom. We have an incredible amount of volume of
23 data on Alascom's costs, both before the APUC through
24 various proceedings that have occurred at that level and
25 through the six data requests that the Joint Board state

1 members had placed and requested from the companies.

2 CHAIRMAN HUDSON: Continue.

3 REPRESENTATIVE BROWN: With respect to the
4 changes that are occurring generally in the computer
5 industry, which affects the costs of telecommunications,
6 are those declining costs continued to be factored in out
7 to the year 2004 is one question, and second question is,
8 to what extent are you assuming that universal service
9 remains the same or are you assuming that a new level of
10 universal service is provided given the changes occurring
11 in all these industries.

12 MS. KENYON: To answer your first question,
13 we are currently evaluating the forecasted information
14 that is provided, given the various assumptions regarding
15 market growth, cost, declining curves, and things of that
16 nature, plan investment, and I'm not prepared to give you
17 a response regarding our results yet at this time.

18 Regarding the universal service question,
19 the order does not specifically state it, but if it
20 assumed that would be growth or whatever with universal
21 service but it appears to be one of the goals of the
22 Joint Board that universal service would be promoted. So
23 therefore, I'm assuming that the plan that they presented
24 would not degrade universal service, at least in their
25 eyes.

1 REPRESENTATIVE BROWN: Well, universal
2 service, I guess as it's been defined, means everybody
3 has access to a telephone and now there is a growing
4 demand for high speed data transmission and public uses
5 in schools and health clinics and all kinds of other
6 things, so for example, we heard recently from the Bethel
7 consortium that they don't think 1200 baud is adequate to
8 meet their needs and requirements. Is universal service
9 locked at this particular point in time or do we get
10 better service in the future under this arrangement.

11 COMMISSIONER KNOWLES: I think I can respond
12 in part. The Alaska Joint Board has not undertaken what
13 is an exercise that's being done nationally, that is an
14 attempt to provide universal service. Your question is
15 an insightful one but it's also one that is sort of
16 intractable right now because it's one that's being
17 debated nationally. I personally participated in a
18 couple think tank sessions where we are trying, as
19 regulators are very much trying to get our arms around
20 that particularly as the industry is converging and
21 merging and changing so dramatically. So the -- there
22 was no conscious attempt made to be the first out of the
23 box to come up with the new definition of universal
24 service.

25 On the other hand, I think we are extremely

conscious of the fact that we need to position the Alaska market so that it is receptive as a matter of basic structure to the changes that occur everywhere else. So at least at that level, we're very sensitized to it, but you're not going to see, I don't think, in any final work product, you know, the new national definition of universal service coming forward from this Joint Board.

REPRESENTATIVE BROWN: Going back to the question about the cost of computers, do I understand your answer to be that you're assuming computer costs continue as they are today or are you -- I didn't understand what you said in answer to that.

MS. KENYON: The answer that I gave you was that we're looking at it right now and our people are not prepared to tell you all the assumptions we are going to make or have made regarding our analysis of the costs that are given to us and once that we may eventually may develop as a result of our analysis.

REPRESENTATIVE BROWN: But some assumptions were made, right, in coming up with the tentative recommendations about what these costs would be in the future?

COMMISSIONER KNOWLES: We're dealing with a declining cost industry, generally. We're also dealing with an industry that is modifying its cost structure as

1 a result of competitive forces and all of this has been
2 sort of factored in. We also had the benefit of
3 information provided in context of the master agreement
4 which addressed the issue of efficiencies and
5 modifications and operations that could be possible. So
6 it has been, you know, certainly factored in in one
7 sense. We are continuing to evaluate this. This is a
8 tentative recommendation for precisely that reason. We
9 want as much information as we can before it becomes a
10 final recommendation.

11 CHAIRMAN HUDSON: Susan, this is the --
12 probably one of the areas that was most troubling to me
13 as I went through this entire regimen of background
14 materials, we don't -- it's not twice my height. Thank
15 god for that because I probably wouldn't understand
16 anymore if it were, but one of the concerns that I've had
17 is that there's been very little hearings in Alaska. I
18 don't think there's been a whole lot of communications,
19 even with policy makers or decision makers to try to
20 identify what are the long term needs for Alaska, not
21 necessarily just the citizens of Alaska, but for services
22 that are going to be provided over time. You know, we're
23 sitting down in Juneau, Representative Brown and my
24 colleagues and I, discussing and actively considering
25 expanding interactive video teleconferencing. We have

1 agencies that are really eager to get in there and try to
2 use this state of the art and in many respects, it
3 appears to me at any rate as though that's going to
4 expand the use along those lines for that purpose.

5 On the other hand, from a policy point of
6 view, we are very likely looking at a rapidly declining
7 economic base, revenue base to provide a lot of these
8 services. And so what I'm interested in is that do you
9 have any analyses or studies that professionally that
10 you've acquired professionally that analyzes the long
11 term needs of the people of the State of Alaska that have
12 been used in making your determination to come up with
13 this recommendation to, you know, to drop it to 75 and
14 then to phase it out over the next four years, and do
15 your studies or your analyses, which I would hope that
16 you'd provide us a copy with, at least for the record --
17 this committee wants to become at least repository of the
18 high grade information that makes the decisions that are
19 going to affect the lives of the consumers of the State
20 of Alaska, the people of Alaska.

21 So I guess the first question is, do you have
22 such studies or analyses that gives you this
23 understanding of what's going to be needed out there
24 over, say, over 10 or 15 years?

25 COMMISSIONER KNOWLES: I think the answer is

1 yes, but we are continuing to acquire more knowledge and
2 more information as we move forward in this process.
3 There isn't any one piece of paper or one study that says
4 it all. It's the cumulative effect, beginning back in
5 1986 when the State of Alaska, for example, provided
6 extremely useful fundamental demographic data about the
7 State of Alaska, where people are, what the economy is
8 like, what the terrain is like, I mean just basic
9 information that advanced the decision makers'
10 understanding of what they were dealing with, and it's
11 been the cumulative effect of many, many studies and a
12 lot of data.

13 In addition, the individuals who comprise
14 the Joint Board are charged in their capacities as state
15 regulators or federal regulators with representing the
16 public interest. They wrestle with telecommunications
17 issues, the sort you all are wrestling with as well, as a
18 daily diet. That's what we do for a living, and we are
19 constantly concerned with, you know, what the public
20 needs, what the public is well served by, and so all of
21 that experience and our awareness of what's happening
22 elsewhere, that's one I think advantage of having
23 individuals outside of Alaska who are part of the Joint
24 Board process is brought to bear on the thinking as we
25 deal with the very difficult Alaska specific issues. And

1 they also deal with them with some recognition at you
2 know this -- some of the tensions that are there in the
3 market structure are not necessarily unique to Alaska,
4 happen to be in the forefront right now because we have
5 this problem in front of us, but they have broader
6 implications, as well.

7 CHAIRMAN HUDSON: But Susan, come back to
8 my -- my concern about the representation of the interest
9 of the people of Alaska as stated by the people of
10 Alaska. I look through the list of -- that you just
11 provided us here of all the correspondence and everything
12 else and I don't really see it. Maybe you have it and
13 I'd like to have it if you have it, some appreciable
14 input from Alaskans. You know, the only reason that
15 we're constituted is to try to protect the consumers of
16 the State of Alaska and what I fear often in a Joint
17 Board with what is it four members, three of which are
18 non Alaskans, we have a right to be a little bit suspect
19 of what their motives and understanding of Alaska's needs
20 are, and I know you do and I have a great respect for you
21 and I know you've been there for some time, but as it was
22 one policy maker at any rate, I'd really like to see some
23 justification. What I'm trying to get to is that what
24 kind of assurances do we have that the proposals for
25 service from the various entities are based on, you know,

1 some rational judgment and have they been bounced off the
2 people who, you know, have to use the service,
3 particularly in rural Alaska. I guess that's my biggest
4 concern, probably was the biggest reason I convened this
5 hearing was because I was concerned that rural Alaska and
6 that a -- what is it, a carrier of, you know, the carrier
7 that we could hold responsible and regulate would be here
8 ten years from now, you know, the satellite would be
9 replaced that you could guarantee that it would be
10 replaced, that rates would be controlled and the services
11 would be those that were needed and demanded by the
12 people of Alaska, as well as the State of Alaska.

13 So if you have -- if you have some specific
14 studies, I know that the legislature, as I look back into
15 the thing, did underwrite and pay for one of the studies
16 here, let's see. I believe that the State of Alaska
17 underwrote part of Overland Consultants service with the
18 analysis of interstate matters; is that correct?

19 COMMISSIONER KNOWLES: Well the State of
20 Alaska underwrites me, Lori, and any consultants we hire
21 through our interstate budget.

22 CHAIRMAN HUDSON: Did you hire Overland
23 Consultants?

24 COMMISSIONER KNOWLES: Yes.

25 CHAIRMAN HUDSON: Do you have a report from

1 Overland?

2 COMMISSIONER KNOWLES: We have a report that
3 they had presented when the master agreement was in front
4 of us and they are continuing to develop what are now
5 proprietary staff work papers evaluating the data that's
6 been received and the comments, but which will become
7 public in due course. I guess that's the best I can say.

8 CHAIRMAN HUDSON: Mr. Boucher?

9 MR. BOUCHER: Now that's a question, Susan,
10 in due course. Now you have -- excuse me, Red Boucher.
11 I think the feeling that I had, studies, we're the only
12 state that has a telecommunication conference that the
13 governor is on. We, by law, do not allow anybody lower
14 than a commissioner to serve on it. So I think there's a
15 general impression out there, Mr. Chairman, if I may and
16 I'll just editorialize slightly, that we are ignorant of
17 telecommunications issues in the State of Alaska. I
18 think that that is far from true. I mean, I think some
19 of maybe the people in private industry don't realize the
20 indepth study that's gone as it relates to rural Alaska.
21 But the question now to me, you do have Overland
22 Consultants, does not Mr. Katz back in Washington, is
23 there not also some consultants there, and is this
24 information available to APUC or the policy makers of the
25 State of Alaska?

1 COMMISSIONER KNOWLES: Thank you, Mr.
2 Chairman. The -- I'm sorry, I didn't mean to interrupt.
3 I believe the analysis and the studies that have been
4 performed by private and public entities have been
5 reflected in the comments that have been filed, et
6 cetera, and that the State beyond that they can speak for
7 themselves as to how they've used their resources, but I
8 believe the ~~numbers~~ that have been advanced in the
9 studies and the State's comments reflect the results of
10 those, that input.

11 CHAIRMAN HUDSON: I thought you were going
12 on, Susan.

13 COMMISSIONER KNOWLES: Well, I --

14 CHAIRMAN HUDSON: You thought maybe I better
15 stop now while I'm ahead?

16 COMMISSIONER KNOWLES: No, I ~~wasn't~~ sure if
17 I was starting to meander.

18 CHAIRMAN HUDSON: Representative Navarre?

19 REPRESENTATIVE NAVARRE: Yes, so I guess the
20 studies that were part of which -- the Overland study
21 which was part of the joint submittal sometime ago
22 between AT&T and Alascom?

23 COMMISSIONER KNOWLES: Yes, that --

24 REPRESENTATIVE NAVARRE: That is public
25 information and anybody who wants it can have it.

1 COMMISSIONER KNOWLES: That's right.

2 REPRESENTATIVE NAVARRE: Now, new studies
3 that are taking place now --

4 COMMISSIONER KNOWLES: Are still in
5 progress.

6 REPRESENTATIVE NAVARRE: And they're not
7 public yet until they're finished and reached.

8 COMMISSIONER KNOWLES: Until they're
9 finished in part because, you know, the Alascom data,
10 which we recently requested, trying to remember when the
11 last data request was, I guess in April, was received in
12 July, was delivered to me in my hotel room in San
13 Francisco, and so we've not had very long to look at it.
14 But we are actively looking at it and --

15 REPRESENTATIVE NAVARRE: And that analysis
16 will be available to the parties for their purview prior
17 to any decision is made by the Joint Board?

18 COMMISSIONER KNOWLES: I can't tell you
19 exactly what the process will be in that regard. I think
20 the typical sort of regulatory approach is that when you
21 have staff or advisors to a commission, the parties
22 present their studies, the staff assists you in analyzing
23 the studies, and unless you create a new work product as
24 opposed to an analytical critique of the party's work
25 product, that, you know, analytical critique becomes part

1 of the decision making process as opposed to something
2 that's subject to another round of comments. So there's
3 sort of two different routes that could be undertaken
4 here.

5 REPRESENTATIVE NAVARRE: So an analytical
6 critique would be something that would be an internal
7 document that would be used?

8 COMMISSIONER KNOWLES: It would be reflected
9 in the decision. Don't misunderstand that, but I mean
10 ultimately, you as decision makers close the record, you
11 use your own brains and your own staff and your own
12 analytical tools to evaluate that record and you come up
13 with a decision which you support based on your
14 independent analysis of the record. We go through a
15 similar process. If we always then put that out for
16 comment, we would in effect never conclude the process,
17 because then that comment would generate new things. We
18 would then do our independent thinking. We would produce
19 yet another -- potentially yet another work product
20 which -- do you see the distinction?

21 Now that is -- I think should be contrasted
22 with a situation where you have someone generate an
23 original work product that you in fact put out for public
24 scrutiny and then you want people to evaluate, critique
25 and give you feedback on. We're in the mode right now,

1 I'd say, of the former, which is the parties have had
2 many opportunities to give us data. We are evaluating
3 that data using our own brain power, horsepower, if you
4 will, to see what makes sense.

5 CHAIRMAN HUDSON: Representative Navarre?

6 REPRESENTATIVE NAVARRE: So if someone were
7 to critique what happened at the Joint Board, would we
8 have to derive the information that you reached or
9 conclusion you've reached from the same information that
10 the parties give to you without the benefit of having
11 seen what your independent internal critiques of that
12 material was that led you to whatever conclusion the
13 Joint Board comes up to? How do we know, as policy
14 makers for the State, that you interpreted the material
15 correctly?

16 COMMISSIONER KNOWLES: You may never know
17 that. That will be, believe me, in the eye of the
18 beholder and you can expect conflicting reviews but the
19 more typical approach, I reflect my APUC experience is
20 when you issue an order that involves commission
21 evaluation of data you have appendices that are attached
22 to the order that detail, you know, the kind of economic
23 analysis or financial analysis that led you to conclude
24 what you concluded. So it's not like it's a mystery,
25 it's --

1 REPRESENTATIVE NAVARRE: And do you
2 continually work with whoever submits that information to
3 you to try to make sure that there haven't been any
4 misstatements or, I mean, so that you get a continual
5 update on -- on something that's in there so that you
6 don't misconstrue what's attempting to be said.

7 COMMISSIONER KNOWLES: We do the best we
8 can, recognizing that we have advocates who are appearing
9 before the Joint Board. They are attempting to present
10 information in the best light for their own interests,
11 but just to use this most recent iteration of data as an
12 example, in its comments, Alascom provided certain
13 information in a rather summary form and made certain
14 representations. We issued a data request asking them to
15 please give us the underlying studies that you used to
16 put those numbers in your filing. They provided that to
17 us. Since then, there have been informal discussions,
18 follow-up discussions to file additional information or
19 better understanding that information.

20 REPRESENTATIVE NAVARRE: I apologize. That
21 last question was a stupid question. Of course you do.
22 I just didn't think before I proposed the question. Back
23 to the 11 percent cost allocation, you mentioned that you
24 looked at efficiencies that are going to be achieved
25 through costs, cost efficiencies, increase in usage and

1 something else, and you mentioned that 8 to 11 percent is
2 the historical increase, or something like that, usage.
3 Have we seen a cost reduction over that historical period
4 of time from the same factors that you're using to
5 project that we'll see it in the future, the 11 percent
6 recovery?

7 MS. KENYON: Perhaps I should explain that
8 we had received a large amount of voluminous financial
9 data in July from Alascom, and much of this data is
10 fairly new. That's the point that we're -- I can't
11 explain further how our analysis is going, but we are
12 looking at that in great detail, and taking into account
13 the things that you've just discussed to see how it all
14 fits together and what the end result is.

15 COMMISSIONER KNOWLES: But I -- Alascom has
16 had some significant intrastate rate decreases,
17 Representative Navarre, during this -- you know, in the
18 recent past, at the same time intrastate traffic was
19 increasing. I don't know if that directly responds.

20 REPRESENTATIVE NAVARRE: That's what I'm
21 trying to find out is if we've seen increases.

22 COMMISSIONER KNOWLES: Both before -- maybe
23 I should qualify my remarks to say in anticipation of a
24 change in market structure and after the market structure
25 changed, i.e. the introduction of competition, there was

1 some significant intrastate rate decreases.

2 REPRESENTATIVE NAVARRE: Increases?

3 COMMISSIONER KNOWLES: Decreases. I

4 apologize if I mumbled.

5 REPRESENTATIVE NAVARRE: Thank you.

6 CHAIRMAN HUDSON: Susan, one more time,
7 then, will there be, what I understand now is what you
8 have is sort of a tentative recommendation, this is not
9 the final; is that correct. You're telling me you're
10 still analyzing data.

11 COMMISSIONER KNOWLES: That is absolutely
12 correct.

13 CHAIRMAN HUDSON: Now will there be a
14 hearing in Alaska when you come up with some final
15 product that the people of the State of Alaska can have
16 some input into?

17 COMMISSIONER KNOWLES: I would say no
18 hearing is currently contemplated. The hearing, albeit
19 somewhat perhaps much maligned, that was held on July 1st
20 was scheduled to at least raise consciousness and provide
21 an opportunity for comment. I don't know if those who
22 participated were aware that essentially such a hearing
23 is unprecedented on the part of the FCC. Unlike state
24 regulatory commission, they don't do public hearings.
25 That's just not their normal operating mode. We found,

1 Lori in particular, in working out the logistics with
2 them, that you know they didn't really have a clue about
3 a public hearing, and nonetheless, I was very pleased,
4 and this was in large part because of the prompting of
5 Senator Stevens that they were willing to embark on this
6 experiment, from their perspective, and I do think it did
7 provide an opportunity for some members of the public to
8 become better aware and comment.

9 I think, given what I've said, you might
10 discern it would be somewhat outside the realm of their
11 normal practices to contemplate a further public hearing
12 in Alaska. Is it possible? Anything is possible, but --

13 CHAIRMAN HUDSON: And I have one additional
14 question. We're doing fine here. One of the -- the
15 things that appears to be extremely important in these
16 matters is the -- the way in which the industry is
17 regulated is on the basis of whether or not the
18 designated dominant carrier, and in reading the proposal
19 and looking over the material here, if it were to turn
20 out that it all went forward and the joint proposals,
21 recommendations happened, and you know, the subsidy was
22 phased out and competition occurred, and development by
23 AT&T as an example putting a new infrastructure, et
24 cetera occurred, looking now at the rural side of our
25 needs here, the intrastate side of it, assuming that the

1 market will not hold or carry three principal providers,
2 Alascom, AT&T, GCI, perhaps even more, Alascom at the
3 present time is the dominant carrier and therefore, the
4 pervasively regulated carrier for the intrastate side.
5 You can tell them, I believe, and that's what I want you
6 to tell me, here, you can be assured and you can make
7 sure that the public is protected that when the satellite
8 by the year 2001 or -2, or whenever it, you know, falls
9 out of grace with the rest of us here is replaced, that
10 now we're talking about a hundred million bucks, as I
11 understand it from what I've been able to read. If
12 Alascom exits the scene, do you have assurances that AT&T
13 will assume the dominant carrier position? That is, will
14 they become responsible under FCC requirements to not
15 only the rates but also the upgrading, expansion of
16 technology, and including the one thing that worries me
17 most, I guess, is who's going to put that next satellite
18 up there, and have it, you know, really reflect down on
19 all parts of rural Alaska, including the Aleutians and
20 things of this nature. It's my understanding that other
21 satellites see part of Alaska but not all of Alaska; is
22 that correct?

23 COMMISSIONER KNOWLES: I believe that's
24 correct.

25 CHAIRMAN HUDSON: Can you give me some

1 response to this concern I have?

2 COMMISSIONER KNOWLES: Where to begin, I'm
3 trying to separate the intrastate side from the
4 interstate side, because your question involved both, in
5 a sense, because under the tentative recommendation, AT&T
6 would be essentially the carrier ultimately responsible
7 for delivering rate integrated interstate service to
8 Alaska and it --

9 CHAIRMAN HUDSON: Inter, between Alaska and
10 other states?

11 COMMISSIONER KNOWLES: That's right, and it
12 in that capacity would need to be able to have a
13 satellite to perform the necessary connectiveness
14 responsibilities a satellite does. Similarly, Alascom,
15 with its intrastate responsibilities would also be very
16 concerned with that. I do know that Alascom in at least
17 one of its pleadings has suggested that under the
18 tentative recommendation, its response would be to
19 examine what the most cost-effective alternatives would
20 be for providing satellite service, i.e. should it
21 consider launching yet another aurora satellite or should
22 it consider getting transponder capacity on one or more
23 satellites to meet its service obligations.

24 I think the expectation at a minimum is that
25 there would be a detailed and a conscientious examination

1 of what the least cost alternative was for providing the
2 service. Neither carrier, as long as it has its service
3 obligations can side-step the question, and one would
4 hope that they would approach it intelligently.
5 Regulators certainly can monitor the situation to be sure
6 that that happens.

7 CHAIRMAN HUDSON: Susan, have they attested
8 to you, for the record, before the Joint Board, that if
9 Alascom were to drop out of service, some people feel it
10 probably could very likely happen, that they would become
11 the dominant carrier and be regulated and assume the
12 responsibilities of becoming regulated by APUC and -- or
13 the FCC as necessary?

14 COMMISSIONER KNOWLES: Is the "they" in your
15 question AT&T?

16 CHAIRMAN HUDSON: Does the record reflect
17 that they have --

18 COMMISSIONER KNOWLES: Is the "they" AT&T?

19 CHAIRMAN HUDSON: Yes, AT&T.

20 COMMISSIONER KNOWLES: Yes, they have
21 offered to step into, as I understand as part of their --
22 if not their original consumer benefit plan, the sort of
23 evolution of it as they met with Alaskans around the
24 state suggest that they have made the offer to step into
25 Alascom's shoes, essentially, and to acquire Alascom's

1 facilities at net book value and provide that critical
2 function if need be.

3 MS. KENYON: I believe GCI at one point in
4 time also suggested it would be interested in buying at
5 net book value Alascom's plant.

6 CHAIRMAN HUDSON: Yes, I believe that the
7 record reflects that as well. And I guess the question
8 then is -- or the answer is that in the event either
9 happened, GCI or AT&T were to, say, assume that
10 responsibility, that they would be assuming the same role
11 that Alascom has at the present time of being responsible
12 under your laws and regulations?

13 COMMISSIONER KNOWLES: Yes, I think I can
14 assure you from the APUC perspective, putting on that hat
15 briefly, very briefly, but also from my understanding of
16 the FCC, that this would not be something which would
17 fall in a crack. I think someone would be accountable
18 and the objective obviously is to initially designate
19 someone and then have the market structure evolve in a
20 way where the most appropriate entity ultimately assumes
21 that responsibility.

22 CHAIRMAN HUDSON: Good, thank you very much.
23 Representative Boucher.

24 MR. BOUCHER: Thank you, Mr. Chairman. Just
25 briefly, Susan, this is questions I've been wanting to

1 ask you. First of all, I know of your work and you're
2 probably one of the most knowledgeable people in the
3 country. You've really done an outstanding job, so I
4 want to ask you --

5 COMMISSIONER KNOWLES: That's a very
6 intimidating lead-in.

7 CHAIRMAN HUDSON: Be careful.

8 COMMISSIONER KNOWLES: Yes, I know, totally
9 on guard. Go ahead.

10 MR. BOUCHER: Susan, as a member of APUC do
11 you think that the State of Alaska's interests have been
12 adequately represented by the Joint Board, and then
13 secondly as a member of APUC, what is your position on
14 this -- the information that's out there in front of us?

15 COMMISSIONER KNOWLES: My answer to the
16 first question is yes, and let me explain why. First, as
17 you will be hearing come shortly, the State of Alaska has
18 itself been a very active participant in this proceeding
19 from its inception. In fact it was conceived as a result
20 of a state petition, been very competently represented.
21 They've acquired the expertise while appearances to offer
22 substantive comments every inch of the way, so that has
23 been one element. I think the fact that you have private
24 parties from the long distance as well as the local side
25 who have actively participated who have varying

1 perspectives on what the right answer is, has assured
2 a -- some checks and balances and a diversity of
3 viewpoint being presented to the members of the Joint
4 Board and lastly, not to be at all self-congratulatory,
5 but the federal and state people who are on this board
6 are charged in their normal lives and certainly in this
7 additional responsibility with representing the public
8 interest. That is our mindset, and that is the way we've
9 approached our duties.

10 I can tell you that I have -- I feel that
11 I've been particularly blessed with having state
12 commissioners who -- you know, it doesn't say the Idaho
13 Joint Board or the North Dakota Joint Board or the
14 Pennsylvania Joint Board and yet they have dedicated
15 enormous staff and personal resources to reading and
16 studying the materials and understanding the issues and
17 making a contribution to the advancement of the
18 disposition. So I'm sorry, after that I forgot your
19 second question. Oh, studies.

20 MR. BOUCHER: What is your position as a
21 member of APUC on the various proposals that are before
22 us?

23 COMMISSIONER KNOWLES: Well, I don't have --
24 you mean if I had to vote on A or B? I -- I wouldn't be
25 able to say that, because it's actively in front of me as

1 a member of the Joint Board. I'm not sure if that
2 answers your question. I'm still personally very
3 actively considering the comments we received in response
4 to the tentative recommendation, as well as studying the
5 consumer benefit plan that AT&T advanced.

6 CHAIRMAN HUDSON: Representative Porter?

7 REPRESENTATIVE PORTER: Thank you.

8 MR. BOUCHER: Thank you, Susan. Thank you,
9 Mr. Chairman.

10 REPRESENTATIVE PORTER: Susan, the --
11 perhaps what Red is responding to and at least I will, I
12 was kind of taken back by your statement that while you
13 put this APUC hat on just very briefly. What respective
14 difference do you have with one hat on as opposed to the
15 other?

16 COMMISSIONER KNOWLES: Well, I guess what
17 I'm trying to do is to insulate my colleagues on the APUC
18 from association with my remarks. That's what I'm
19 primarily trying to do. In other words, I don't stand
20 before you having developed some, you know, consensus
21 position of the Commission and gone forward, and I don't
22 want to taint them unnecessarily with my Joint Board
23 activities. I obviously hope that they embrace them, at
24 least to some degree, but that -- that is primarily the
25 distinction. I'm still the same person in either

1 capacity, same intellect, or like thereof.

2 CHAIRMAN HUDSON: But Susan, you're our
3 person.

4 COMMISSIONER KNOWLES: Yes, I'm trying.

5 CHAIRMAN HUDSON: Representative Porter?

6 REPRESENTATIVE PORTER: Yeah, I guess from
7 what we know, that you are Susan. The objective, I
8 guess, that Susan adopts in one role as opposed to the
9 other, is there a differentiation?

10 COMMISSIONER KNOWLES: No. If this matter
11 were pending before the APUC instead of the Alaska Joint
12 Board, I would be approaching it the same way. I don't
13 mean to infer anything other than that. I just don't
14 want to suggest that the tentative recommendation or any
15 other orders that have been issued by the Joint Board are
16 APUC orders. They aren't. They are a product of the
17 four state and three federal members of the Joint Board.

18 REPRESENTATIVE PORTER: Which actually both
19 bodies would then have to endorse?

20 COMMISSIONER KNOWLES: That's right. Well,
21 I'm sorry, maybe I -- when you say both bodies --

22 REPRESENTATIVE PORTER: APUC and FCC will
23 then have to take that --

24 COMMISSIONER KNOWLES: No. I should clarify
25 that when the master agreement, which was one particular

1 approach to resolving the market structure issue was in
2 front of the Commission, because of the specific terms of
3 that master agreement, it required APUC, as well as
4 ultimately FCC approval. That's no longer on the table,
5 and so this is strictly an interstate oriented process,
6 which is not to suggest that it doesn't have intrastate
7 implications. In fact, one of our objectives -- in fact
8 really all of our objectives would be equally, I think,
9 valid factors and relate to the intrastate side, as well,
10 but there's no decision that must be made by the APUC
11 relative to the way circumstances are evolving presently
12 before the Joint Board.

13 CHAIRMAN HUDSON: Representative Brown.

14 REPRESENTATIVE BROWN: Thank you. With
15 respect to the decision that was recorded in the paper
16 this week that telephone companies will be able to get
17 into the television business, into video, is that
18 factored into this decision at all? Will Alaska
19 companies operate in the same way as other companies
20 subject to that decision, and do you anticipate they will
21 be getting into that aspect of the communications
22 business?

23 COMMISSIONER KNOWLES: Well, first of all,
24 of course the decision as you said just came out this
25 week, so clearly it wasn't factored into any document.

1 REPRESENTATIVE PORTER: And may be appealed.

2 COMMISSIONER KNOWLES: Maybe is -- I don't
3 even think -- you don't need to be so qualified. I think
4 shall be is probably appropriate view, but I -- you know,
5 I haven't even sort of begun to contemplate whether it
6 has any implications. I talked to a colleague who is at
7 the FCC and they're in sort of a state of befuddlement
8 presently trying to understand and internalize what the
9 implications are of the decision. I don't know,
10 however -- again, I think this kind of relates in some
11 ways to your earlier comments about universal service --
12 to what extent, you know, we are an omnibus Joint Board.
13 I mean, we are looking fundamentally at, you know, sort
14 of what exists today and a relatively parochial
15 disposition. We are clearly, because this kind of court
16 decision is part of our daily diet. As telecommuni-
17 cations regulators, we of course are always factoring
18 things like that into the equation, but the whole
19 question of the extent to which telephone companies
20 should be involved in cable service and vice-versa is
21 being fought on many fronts, one of which is this court
22 battle that's before the congress, before Judge Green, et
23 cetera. It's a very dynamic issue that's I think far
24 from being ultimately resolved.

25 REPRESENTATIVE BROWN: Mr. Chairman, what I

1 was getting at is whether this tentative decision when it
2 becomes a final decision locks them into and puts
3 restrictions on them that will be different from other
4 communication companies that are involved in this
5 dispute.

6 COMMISSIONER KNOWLES: I think if anything
7 the structure that is presently contemplated under the
8 tentative recommendation will make Alaska look more like
9 other places, and therefore, to the extent these policies
10 are adopted by court appeal, by regulatory agencies or by
11 congress, they will filter through our network, as well,
12 and the players in our system will be in the same
13 position they would be in other areas to go, no-go, and
14 we may have other Alaska specific variables that will
15 affect how our market evolves, but it would not be a sort
16 of structural impediment to implementing those kinds of
17 changes, I do believe.

18 CHAIRMAN HUDSON: We're running our time
19 right out of this. Obviously our schedule is doing good,
20 the agenda's on track. Susan, the State of Alaska has
21 submitted two filings, one as late as I think the 12th of
22 July, regarding the Board's tentative recommendations.
23 To what extent have the issues raised by Mr. Katz and the
24 governor's office and recommendations been considered or
25 will be considered?

1 COMMISSIONER KNOWLES: We are very seriously
2 considering all of the comments that have come in,
3 because obviously the tentative recommendation is a much
4 more focused document than other documents that people
5 have had to comment on and so, you know, it's of extreme,
6 I guess -- extremely critical to us to understand the
7 positions and to internalize them as appropriate into any
8 final decision.

9 I will say this, the State is a unique
10 participant in this process. They're not a telephone
11 company, and when the State offers us input, we take it
12 very seriously because they are in a position to distill
13 all of those private interests into their comments, as
14 well as their own independent analysis, you know,
15 interrelationships with public officials, et cetera, and
16 I believe they seriously represent the citizens of Alaska
17 and I take their comments very seriously.

18 CHAIRMAN HUDSON: And finally, is it
19 possible -- I guess I'm kind of hung up on the fact that
20 this is an issue of such major importance to people of
21 Alaska, and I understand the Joint Board, you know, has a
22 responsibility to the FCC, but I'm concerned about
23 Alaskans, and particularly this committee, knowing what's
24 coming down and what the basis and background of it, what
25 the justification for it is, what assurances were given

1 that, you know, that you're guessing right, and that
2 you're not just simply taking somebody's promise but that
3 you have greater assurances than just a promise and that
4 you are cranking into your final decision some mechanism
5 to require, you know, some ironclad commitments that will
6 protect the rural, particularly. I don't have any doubt
7 but what competition isn't the right way to go. I
8 wouldn't be a Republican if I didn't, I think.

9 So the question is -- the question is given
10 the unique circumstances we have here in the State of
11 Alaska, we also have a very broad geography here that
12 really has different circumstances and APUC, as I said
13 before you're our Susan. I mean that from an APUC point
14 of view. I look to the APUC as the protector of the
15 interest of the people of the State of Alaska. You do
16 wear that hat, at least as one member of that task force
17 and are you the chair of that task force.

18 COMMISSIONER KNOWLES: No, Don Schroer is
19 the chairman of the commission.

20 CHAIRMAN HUDSON: Where's he from?

21 COMMISSIONER KNOWLES: He's from Anchorage.

22 CHAIRMAN HUDSON: We've got an Alaskan
23 chair, so we've got Alaskan input.

24 COMMISSIONER KNOWLES: Oh, I'm sorry, were
25 you talking about the APUC or the Joint Board?

1 CHAIRMAN HUDSON: No, the Joint Board.

2 COMMISSIONER KNOWLES: Oh, I'm sorry, I
3 misunderstood. The chairman of the Joint Board is
4 typically the chairman of the FCC. Presently it's
5 Quello.

6 CHAIRMAN HUDSON: He's presently -- that
7 always causes me great deal of suspicion. So I would
8 hope that you would take into consideration the State of
9 Alaska's input and recommendations. Not that I
10 necessarily agree with all of them, I don't know yet.
11 That's why we're having this hearing, and that you would
12 really try to find some ironclad assurances or guarantees
13 from whoever ends up ultimately carrying the ball in
14 Alaska, that you know, all of the preservation, and
15 universal services, as defined in my understanding, goes
16 beyond just what's there today and beyond the telephone
17 goes to what Representative Brown is talking about and
18 that is the ability to take full advantage of, you know,
19 the expanding state of the art of telecommunications.
20 Coming from Juneau where they're trying to take our
21 capital away, video teleconferencing is extremely
22 important to me.

23 REPRESENTATIVE PORTER: Why would that be?

24 CHAIRMAN HUDSON: Well, so that we can have
25 real access, you see. So with that, I'll go one time,

1 Mike, if I could before we get out of here, we do have
2 some folks I understand in Barrow and Homer and Kotzebu
3 and of course John Katz is coming in from Washington,
4 D.C. in just a few minutes here. If there's anybody on
5 the line in Barrow or Homer or Kotzebu, Barrow is anybody
6 there that would like to ask a question or have any input
7 at this moment.

8 BARROW: Not at this time, thank you.

9 CHAIRMAN HUDSON: Can you tell us, Barrow,
10 who is on the line there?

11 BARROW: Robert Clements (phonetic) from GTE
12 is here.

13 CHAIRMAN HUDSON: Thank you very much.
14 Homer, is there anyone there that would like to pose a
15 question? Homer, are you on the line?

16 HOMER: Homer is here. Linda Jolsen
17 (phonetic) is here for Representative Gail Phillips.

18 CHAIRMAN HUDSON: Linda, do you have any
19 questions on behalf of Gail or yourself?

20 HOMER: She's on the other phone right now
21 but I don't believe she does. Thank you.

22 CHAIRMAN HUDSON: Thank you very much.
23 Kotzebu, you're on the line. If you have any questions,
24 this is your time.

25 KOTZEBU: Thanks for the opportunity, but

1 we're just listening in. Thank you.

2 CHAIRMAN HUDSON: Fine. Anyone else on the
3 line? Just a minute here, getting a message. Fairbanks,
4 anyone from Fairbanks that wishes to ask a question or
5 provide any input.

6 FAIRBANKS: We just have two observers at
7 this time.

8 CHAIRMAN HUDSON: Thank you very much. It's
9 my understanding that that concludes the persons on the
10 line. For the record and for your information, Susan, we
11 do have two letters and for the members of the
12 legislature and people assembled around the desk here and
13 anyone else that wants a copy. We have a letter here
14 from Senator Dave Donley and a letter from Senator Steve
15 Frank that will be introduced for the record, and I won't
16 read them at the moment here but we will make them
17 available here, and also for the record, my good friend
18 Dave Finkelstein joined me I think over an hour ago.
19 Dave, I'm sorry I didn't recognize you earlier, but
20 you'll get your pay, don't worry.

21 And at this time, then I guess, Susan,
22 unless you have any closing comments, we'll go break at
23 this moment and take about five minutes and then we'll
24 pick up with John Katz from Washington, D.C. Do you have
25 any final comments or does anybody at the table have any

1 final comments? Representative Navarre.

2 REPRESENTATIVE NAVARRE: I just wanted to
3 comment, support that remark of competition is not
4 limited to Republican Party.

5 REPRESENTATIVE BROWN: I do have one comment
6 that -- one question.

7 CHAIRMAN HUDSON: Representative Brown.

8 REPRESENTATIVE BROWN: Could you -- Alascom
9 asserts that the Board has not sufficiently analyzed the
10 effect on Alaska consumers that this tentative plan would
11 bring about. What are the effects on Alaska consumers,
12 as you understand them?

13 COMMISSIONER KNOWLES: Well, we are
14 presently attempting to better understand the allegations
15 that are in Alaska's -- Alascom's excuse me, comments,
16 which is the subject of this data request and informal
17 follow-up is underway. So we're trying to take -- what
18 we're trying to discern is taking their assumptions and
19 better understanding them, to see if we arrive at
20 comparable numbers or not. So we're actively involved in
21 that consideration.

22 I think I should note that one of the
23 challenges that we face here, and the question I think
24 points to it, is we're relying on historical data plus
25 projected data, which may or may not have assumptions

1 that everybody would agree with to make, to some degree,
2 predictions about what the implications of change are and
3 there will be no perfect answer because we cannot foresee
4 the future. So -- but we're actively involved. We took
5 their comments very seriously with respect to the impact
6 and we're trying to make our own independent analysis,
7 but that is interesting.

8 CHAIRMAN HUDSON: Susan, on the same lines,
9 that posed another question here. Do you have the
10 services of Overland or somebody else to analyze your
11 proposal or your final proposal? Will you have -- will
12 you have professional assistance in analyzing your final
13 proposal as to the implications on Alaskans?

14 COMMISSIONER KNOWLES: Overland is still on
15 contract and we are continually performing self
16 assessments of whether or not the ideas and any
17 modifications to those ideas that we're actively
18 considering have positive or not positive effects. So
19 it's a very dynamic ongoing analytical process, and you
20 know, you put in one decisional variable and you attempt
21 to sort out what the impacts are and then you try others,
22 still working within these broad, you know, policy
23 objectives that will not be compromised ultimately.

24 CHAIRMAN HUDSON: And maybe one just final
25 parting and then after that we will take a break.

1 What -- what pushes the time line on this subject? I
2 mean, you know, you say -- you say yourself that you're
3 still analyzing these different things, that you've only
4 come up with a tentative recommendation, that you still
5 haven't analyzed the latest information from say Alascom
6 and I presume at any rate you're getting analysis and
7 backup information from AT&T as to what they're basing
8 their information on, as well as GCI, so there's volumes
9 of this type stuff. Is there some drop dead date that
10 this thing has to be concluded or would it be better to
11 leave that open to try to analyze this information, you
12 know, in a better manner?

13 COMMISSIONER KNOWLES: The Joint Board is
14 currently attempting to arrive at a decision before
15 November 1 of this year. The, you know, matters have
16 been pending as some will say for a long decade. There
17 are some disadvantages with continuing the proceeding, at
18 least in some entities' minds, perhaps there are
19 advantages in other entities' minds which are certainly
20 factored into this, but presently, we are attempting to
21 conclude our business by November 1.

22 CHAIRMAN HUDSON: All right. Thank you very
23 much, and thank all members that participated in this
24 segment. We will now take about a five minute break here
25 and then we'll come back on. Presumably Mr. Katz is on

1 the line or ready to get on the line. Thank you very
2 much.

3 (At about 10:59 a.m. - brief recess, and at
4 about 11:11 a.m. - proceedings reconvened)

5 CHAIRMAN HUDSON: We're about seven minutes
6 behind schedule. We have Mr. John Katz representing the
7 State of Alaska, who has been on line, I understand, all
8 this morning with us, as well as two of -- you can give
9 us for the record your names and what relationship you
10 have in this situation. My understanding that John, are
11 you -- are you on the line at this time? .

12 MR. KATZ: Yes, sir.

13 CHAIRMAN HUDSON: All right. Well, want to
14 welcome you and nice to hear your voice again. Good work
15 with you again, John. John and I worked together back in
16 the Hammond administration and he is going to give us a
17 briefing on the State's position in filing, and John,
18 with no more time lost in your presentation, would you
19 just go ahead and give us your name, rank and serial
20 number and we'd like to hear from you, sir.

21 MR. KATZ: Thank you, Mr. Chairman. My name
22 is John Katz. I'm Director of State and Federal
23 Relations and special counsel for the governor. With me
24 here in Washington is Bob Halperin, a partner in the law
25 firm of Crowell Moring. With you in Anchorage is Mark

1 Dinneen, who is our Associate Director for Commerce and
2 Finance from this office and also Neil Slotnick,
3 Assistant Attorney General in the Department of Law.
4 With your permission, I would like to make a few brief
5 comments and then open it up for questions from you and
6 the panel.

7 CHAIRMAN HUDSON: That will be fine, John,
8 proceed.

9 MR. KATZ: From the beginning, our work in
10 this proceeding, which spans over nine years now, has
11 been governed by several basic principles. To a fair
12 extent, those principles mirror objectives that have been
13 previously postulated by the Federal State Joint Board.
14 The first of these is universal telephone service in
15 Alaska at reasonable rates. This reflects the federal
16 policy in the Federal Communications Act for universal
17 service. Alaska has one of the lowest rates of telephone
18 penetration in the United States and that is certainly
19 not the result that's acceptable.

20 Secondly, we have favored interstate rate
21 integration, which simply means that Alaskans should not
22 pay more for long distance telephone calls, interstate
23 calls than for comparable calls in the lower 48 states.

24 Third, we've objected to any initiative
25 which would have the effect of transferring costs from

1 the interstate long distance jurisdiction to the
2 intrastate jurisdiction, thereby having a negative impact
3 on intrastate consumers in Alaska.

4 Fourth, we have sought parity between Alaska
5 and the lower 48 in terms of the services and technology
6 and equipment which are available in Alaska versus that
7 which is available in the lower 48.

8 There are two subsidiary policies that we
9 have advocated. The first is competition. Not
10 competition for its end sake, but competition as a means
11 to an end, and the end there is lower costs and better
12 service to the Alaska consumer.

13 And then finally, we have favored greater
14 efficiency in the Alaska telecommunications system. I
15 think the Alaska Telephone Association, in particular,
16 has been very eloquent in pointing out what some of the
17 inefficiencies are that we hope to rectify over time. In
18 all of these endeavors, our focus has been on the Alaska
19 consumer. We have no other reason for being in this
20 proceeding. The governor's question to us in all
21 instances has been what is the impact on the Alaska
22 consumer and that is the -- both the urban and rural
23 consumer. I would venture to say that if it weren't for
24 the concern of the State and some other parties with
25 rural Alaskans that perhaps this proceeding would have

1 ended quite some time ago.

2 How do we -- and I want to distinguish this,
3 I think, from the interests of the private parties. I
4 don't want to overemphasize this or sound sanctimonious
5 here, but their interests are those of their shareholders
6 and their boards of directors and under our system,
7 that's quite proper and we've had no objection to that.
8 But we have felt that the State needed to be involved in
9 this proceeding pro-actively because the public interest
10 needs to be represented, as well. So at various times in
11 this proceeding, we've probably been strong allies of the
12 various private parties, depending upon what the issue
13 may be, and at other times, we probably have suffered the
14 slings and arrows of some of the private parties.

15 How do we accomplish this effort? Let me
16 just take a second to introduce you to the basic team
17 that works on these issues. First is Bob Halperin and
18 other people at Crowell and Moring. That's a private law
19 firm in Washington, D.C. and I want to distinguish them
20 from lobbying firms. They are a real live law firm with
21 a strong expertise in telecommunications. They've
22 represented the State for quite some time and have a very
23 good background in that regard.

24 Secondly, we've had access to the work of
25 Carl Koursmo of Ernst and Young. I think he is reputed

1 by friends and foes alike as one of the best telecommuni-
2 cations economists in the United States and we've used
3 him at critical junctures of the process to assist in
4 economic analysis.

5 Third is Mark Dinneen, who has worked in
6 this office for the last three years on a number of
7 issues, but has immersed himself in these telecommuni-
8 cations matters.

9 Fourth is Neil Slotnick of the Department of
10 Law who is a relative newcomer to these proceedings, but
11 is one of the most gifted people in the Department of Law
12 and has a very quick learning curve.

13 And finally, through federal works, I get
14 involved in this proceeding in various capacities for the
15 last nine years and my first contact with Alaska
16 telecommunications matters actually occurred in 1969.

17 For those of you who have worked with me
18 when I was a Commissioner of Natural Resources, my modus
19 operandi in dealing with this proceeding has not really
20 changed very much from those days. First, we have an
21 open door policy at almost all times to any of the
22 parties who would like to talk to us about this
23 proceeding.

24 Secondly, we have actually actively
25 solicited their views when we've had questions about

1 their position or felt that their input and analysis
2 could be helpful to us.

3 Third, while we have a policy of not
4 allowing any of the parties to see our draft pleadings
5 before we file them, we always discussed -- discuss our
6 tentative conclusions with each of the parties before
7 filing just to make sure that we haven't missed anything.

8 I was astonished in preparing for this
9 hearing to note that we have filed some 35 major
10 pleadings over the years, totaling over 1100 pages. In
11 addition, we have filed numerous other pleadings of
12 lesser dimension. I think Mark Dinneen has those
13 pleadings there in Anchorage, if anybody is interested.

14 And then finally, beyond the pleadings, we
15 advocate directly to members of the Federal State Joint
16 Board, both state members and federal members, and I
17 think this might be a good juncture to distinguish our
18 role in this process from the Joint Board and from the
19 APUC. It is true that we are all paid for with public
20 dollars, but our role in this process is as a party, as
21 an advocate. Admittedly an advocate with hopefully a
22 little bit different perspective than the private
23 parties, but we consider ourselves to be governed by
24 exactly the same rules of structured communication that
25 govern private parties when we communicate with the Joint

Board, including Alaska's own member of the Joint Board and the federal regulators. So we file aciduously so-called ex parte letters when we have communicated substantively to any of them and we are acutely aware that our role is as an advocate and their role is as the ultimate decision maker.

I want to deal briefly with some of the major milestones in our work on this proceeding and I don't want to dwell on them, because most of it is past history, but I think you have a right to know where your appropriated funding has been going.

First, a couple of key junctures in this proceeding, the principle of rate integration, that is that Alaskans should pay no more for interstate long distance phone calls than comparable phone calls in the lower 48 states was in some jeopardy, and we advocated long and hard that we didn't want to be treated any differently, for a whole host of reasons, not just our advocacy. We believe that that principle is now well ensconced and well understood.

Secondly, we have been very concerned about jurisdictional cost shifts from the interstate long distance market to intrastate consumers in Alaska. This probably as much as anything has been one of our continuing themes, and at various junctures in the

1 process, we've interjected ourselves when we felt that
2 the intended or unintended result of a particular policy
3 was to cause jurisdictional cost shifts.

4 Third, we reluctantly oppose the master
5 memorandum of agreement between AT&T and Alascom. We
6 felt that that was a great deal to the two private
7 parties involved, but it was not a good deal in the public
8 interest. And one of the principal reasons that we
9 opposed that was our feeling that it could well lead to
10 jurisdictional cost shifts to intrastate consumers over a
11 period of time, and I should mention in this regard that
12 intrastate costs in Alaska are not low, they're not
13 particularly low in comparison with the rest of the
14 country. So we have felt that taking those costs and
15 then adding to them the results of the jurisdictional
16 cost shift would not be in the public interest.

17 Finally, we have supported the joint
18 services agreement between AT&T and Alascom pending a
19 comprehensive and final solution in this proceeding. We
20 have resisted any efforts to terminate that joint
21 services agreement in a way that we thought would be
22 premature, because the net result would be additional
23 costs and shifts.

24 Now we're faced with another critical
25 juncture in this proceeding. After careful analysis, we

1 have concluded that the joint services agreement is not
2 sustainable in the long term, and that we have to look to
3 a restructuring of the telecommunications industry in
4 Alaska. There are several reasons for that conclusion.

5 Briefly, they are the following. At various
6 points in this proceeding, all of the parties have either
7 recommended that the joint services agreement be
8 concluded or have basically admitted that that was a very
9 likely result.

10 Secondly, we get very strong messages from
11 some of the regulators, particularly the federal
12 regulators, that the joint services agreement has served
13 its time and it's time to move on to a different
14 structure.

15 And then finally, the competitive policies
16 of both the federal government and the State of Alaska
17 seem to militate in favor of change. But we don't favor
18 change at any cost.

19 Looking at the proposals that are before the
20 Joint Board, we have made the following comments on the
21 tentative recommendations of the Joint Board.

22 First, we are concerned about unintended
23 jurisdictional cost shifts to intrastate rate payers. As
24 has been indicated previously, there is a recommendation
25 in the tentative recommendation that so-called frozen

1 allocator, which allocates costs between interstate and
2 intrastate calls be reduced from 86 to 75 percent. We're
3 very uncomfortable with that and there may be some other
4 aspects that could cover jurisdictional cost shifts, as
5 well.

6 Secondly, we believe that the transition
7 period is too long. It's a total of seven years. A lot
8 can happen in telecommunications in that period of time.
9 Uncertainty in our judgment about what the future will be
10 in Alaska is a hard investment, is causing people to have
11 second thoughts about putting in the best technology, and
12 yet, it is also important to realize in our judgment that
13 Alascom has been a regulatory stake holder in Alaska for
14 many years and decades and they have served Alaska well,
15 particularly in recent times, rural Alaska, and whatever
16 policies we adopt we believe has to consider or are
17 adopted have to consider the role Alascom plays and make
18 sure that there is no stranded investment on Alascom's
19 part, that they are fully compensated for what they've
20 done and the services that they've provided and if there
21 is a merging, a long policy that deals with the position
22 of a regulatory stake holder such as Alascom in a
23 situation like this.

24 Finally, and this is hard to quantify or
25 qualify, the Joint Board proposal is very complicated.

1 It is based on a lot of regulation and a lot of
2 monitoring and in saying that, I don't want to demean it
3 at all, because in our opinion, the Joint Board and
4 particularly with Susan Knowles' impetus, is to be
5 congratulated for tackling this issue, for moving
6 forward, generating some momentum and trying to lay the
7 basis for Alaska to move into the 21st century.

8 Moving on to the AT&T proposal, on the one
9 hand there's some very attractive elements in this
10 proposal. First of all, it is much simpler and more
11 eloquent and easier to implement.

12 Secondly, it would have the effect of
13 tremendous new investments in Alaska in monetary terms.
14 In terms of new state of the art equipment, it would
15 bring new technology to Alaska and expose Alaskans to a
16 full gamut of technology that's available in the lower
17 48. But we believe that there are also some significant
18 infirmities. First of all, there's no transition period,
19 really, in the AT&T proposal at all, although there would
20 inevitably be some start-up time before AT&T could begin
21 to function in the Alaska context, and so we are
22 concerned about the impact on other carriers and the
23 performance of their service and responsibility.

24 Secondly, we don't believe that the AT&T
25 proposal provides us sufficient detail. It's, as I say,

1 very attractive conceptually, but at least as an advocate
2 in this process, we want to know much more about how
3 these concepts will be implemented. If we were private
4 parties, we might be willing to accept the risk that
5 things will be implemented and in a way that is
6 consistent with the promises in the various AT&T
7 proposals, but we feel as partial custodians of the
8 public interest, we have to be risk averse and we've
9 encouraged AT&T in the many very fruitful and useful
10 discussions we've had to put more on the record so that
11 we and others in the regulatory process could look at it
12 and make any final comments.

13 Finally, we have been concerned about the
14 impact on rural Alaska. Now, in deference to AT&T,
15 particularly in some of their recent papers, they have
16 said a couple of things which are assuring. One is that
17 they will accept the responsibility for service in rural
18 Alaska, if for any reason Alascom is not able to provide
19 it and they will accept the responsibility for launching
20 a satellite. But again, I think we need more details.
21 We need more security, we need to know exactly how all
22 that will come together. So in the last pleading we
23 filed before the FCC, which I guess is the shortest and
24 at least in my tenure, we stated these problems in the
25 hope that both the Joint Board proposal and the AT&T

1 proposal would continue to evolve, and that perhaps these
2 issues could be addressed.

3 And then finally, we have pursued a parallel
4 and separate track with the various parties and that is
5 we have encouraged them and we have worked with them to
6 determine whether they could develop a business oriented,
7 privately generated proposal that could be considered by
8 the regulators. We all share the uncertainty of what the
9 regulatory process may ultimately yield. One way to
10 resolve some of that uncertainty is to come up with a
11 proposal that would fit within the public interest
12 parameters. There's been discussion, meandering
13 discussion over the years about the advisability of
14 AT&T's purchasing or acquiring certain of Alascom's
15 functions. That can't be mandated by regulators. It's
16 an interesting concept and there may well be others.

17 Finally, Mr. Chairman, in conclusion, I
18 guess I would like to conclude this way, in our opinion,
19 this proceeding has been going on for a very long time
20 and it's time, we believe, to bring it to a conclusion.
21 Not every conclusion, obviously, is satisfactory. We, in
22 our view of that conclusion, would have to fit within the
23 public interest parameters that I discussed earlier.

24 I also believe that Alaska is being harmed
25 by delays in this process, that we're not receiving all

1 of the service and all of the benefits that would accrue
2 if the capitalistic sector had some security about what
3 the ground rules might be. And so we would like within
4 those parameters to see the proceeding concluded in a
5 reasonable way.

6 If that were not the case, then I would
7 certainly recommend to the governor that we sue, although
8 I don't think the courts are the proper place to resolve
9 this. But I also believe that -- that the history of
10 telecommunications in the lower 48 demonstrates that
11 there really are no final solutions, that once we get
12 across this tremendous barrier, whenever that happens,
13 that there will have to be continuing adjustments, and
14 responses as the various parties implement whatever
15 proposal is ultimately adopted and we also believe that
16 the APUC has a role here in this proceeding, not in this
17 particular proceeding, but on this issue, that we have
18 sought to protect in our pleadings, so when the Joint
19 Board process is ultimately concluded, I think it is very
20 likely that the APUC will be asked to consider some of
21 the intrastate implications of these issues, and there
22 will be another opportunity for the public interest to be
23 protected.

24 With that, Mr. Chairman, I will stop and see
25 if we can respond to your questions.

1 CHAIRMAN HUDSON: Thank you, John. That was
2 a good presentation and I must say that I believe that
3 you've expressed, at least from my perspective, a lot of
4 the concerns that I've wanted to have protected and some
5 of the areas that we need to be diligent and watchful of
6 as this is finalized. You have -- John, a question that
7 I've got as a result of looking over your comments and
8 listening to your comments there, you have now made two
9 pleadings with the -- with the Joint Board for crafting
10 these comprehensive solutions and could you give me some
11 idea of if your recommendations are not adopted, did you
12 suggest that there may be other avenues that the State
13 might have to take?

14 MR. KATZ: Yes, Mr. Chairman. I certainly
15 don't want to commit us to that, and our hope and
16 expectation is that either under the auspices of the
17 Joint Board or the private parties, whichever, we will
18 have an acceptable conclusion, but we've been in this for
19 so long and the stakes are so high for the Alaskan
20 consumer that I don't think that the State can fall short
21 six inches of the finish line, and if the ultimate
22 conclusion really deviates from the interest of Alaskans,
23 then I think we would have to consider what other
24 remedies are available there.

25 CHAIRMAN HUDSON: John also, one of the

1 things that have been made quite clear and one of your
2 primary concerns with market restructure is potential for
3 upward pressures on intrastate rates. I think you've
4 elaborated on that through jurisdictional cost shifts and
5 the Board, of course, proposed the transition period of
6 seven years and you're recommending, the State is
7 recommending a shorter period, five years. What does the
8 State hope to accomplish by limiting the transition
9 period? I mean, can you give me a little bit more
10 information as to how that accrues a benefit to the
11 various parties and to the people?

12 MR. KATZ: Our basic effort there was to try
13 to strike a balance between the need to make sure that
14 Alascom is whole in the aftermath of all this with the
15 need to get on with business, and we were concerned that
16 an overwhelmed transition period might do two things.
17 One is it could deny Alaskans the opportunity to begin to
18 participate in the 21st century technology, and secondly,
19 it could postpone the decision of some competitors who
20 might otherwise want to enter the market at some point in
21 time.

22 CHAIRMAN HUDSON: Thank you very much. Any
23 questions from anyone? Representative Porter?

24 REPRESENTATIVE PORTER: Thank you, Mr.
25 Chairman. Mr. Katz, Representative Porter. From your

1 perspective, could you give us I guess your version of
2 this, what your concern is in specifics as to why the
3 current proposals would have an adverse effect on
4 intrastate rates.

5 MR. KATZ: Well, in the case of the AT&T
6 proposal, they contend that there really wouldn't be any
7 jurisdictional cost shifts because they would be in both
8 the interstate and the intrastate market. So our concern
9 there has not been so much with jurisdictional cost
10 shifts, but that is with much greater definition
11 generally and with clarification of what they are willing
12 to do to maintain and improve service to rural Alaska.

13 With respect to the Joint Board, our
14 principal concern with jurisdictional cost shifts is the
15 reduction in the so-called frozen allocator from 86 to 75
16 percent, which would shift, we think, about ten million
17 dollars in costs at the end of the transition period to
18 the intrastate market, and in a collateral proceeding
19 that was concluded some time ago, the State and then
20 Commissioner Marv Weatherly of the APUC, were very active
21 in trying to establish that 86 percent figure. So you
22 know, we have some strong interest at maintaining it.

23 Also, we're not totally clear and certain
24 about how the Alaska fund would work, which is in the
25 Joint Board proposal, and whether that could, you know,

1 be counted on as a real guarantee against jurisdictional
2 cost shifts.

3 REPRESENTATIVE PORTER: Thank you.

4 CHAIRMAN HUDSON: Mr. Boucher,
5 Representative Boucher.

6 MR. BOUCHER: John, Red Boucher here. I
7 want to congratulate you on the thoroughness of this.
8 There's two questions that I would have for you. I think
9 everybody wants to bring this to a conclusion, you and I
10 have both been involved for a long period of time in it
11 dating back to when I was lieutenant governor. How do
12 you see -- Susan earlier stated November 1. Some of the
13 written testimony is October 1. What do you consider as
14 a reasonable drop dead date, if you will, based on what
15 you have now? Then the second question, I hear a lot
16 about technology, technology, and oftentimes we talk
17 about technology as the solution to the problem a instead
18 of the information that it genders. What technologies do
19 you feel that we do not have in place in Alaska that this
20 agreement would tend to bring here? I happen to feel
21 we're pretty sophisticated, probably more so than 80
22 percent of the other states. I mean, I've been sending
23 stuff by modem since 1978 and I'm in receipt of my new
24 Newton which will allow me to fax. I can do everything
25 but send myself, and that's from -- that's from

1 Anchorage. So what technologies are we being told that
2 we don't have?

3 MR. KATZ: Representative Boucher, let me
4 start with your first question first. After nine years,
5 I think I would have to admit that there is no -- you
6 know, that it's sort of unreasonable to postulate a
7 specific drop dead date and say that that has some
8 talismanic significance. Our general feeling is that the
9 proceeding should be brought to a reasonable conclusion
10 and frankly, the last couple of phases of the proceeding
11 have generated a lot more light than neither we nor
12 probably of any of the private parties are seeing a whole
13 lot that's new. The ultimate decision about the date is
14 not ours to make, obviously, as the regulators, and I
15 guess I would say that on the basis of what we know,
16 November 1 probably gives them the time to analyze all of
17 this data going back, you know, really to the original
18 submission of years ago, and to come to their
19 conclusions, but we believe that the Joint Board has been
20 extremely dedicated and well motivated and if they could
21 not complete the work to their satisfaction within that
22 time period, I'm sure the State would be the first to cry
23 uncle and ask to war.

24 With respect to your second question, I
25 agree with what you've said and while we always want

1 improvements, I know from our work with other states back
2 here that we're decades ahead in some of the
3 technological aspects, witness this hearing which I think
4 could probably not occur with any great facility in many
5 of the other states that we work with.

6 What I'm thinking about, Representative
7 Boucher, more than anything, is just exposing Alaskans to
8 the full gamut of service options and cost reductions
9 concomitant with those options that exist for consumers
10 in the lower 48, whatever those service options may be,
11 and they keep evolving, we just want to make sure that
12 Alaskans have the opportunity to receive those at
13 reasonable rates also.

14 MR. BOUCHER: Thank you, John. Thank you,
15 Mr. Chairman.

16 CHAIRMAN HUDSON: Further questions from the
17 table? Representative Finkelstein.

18 REPRESENTATIVE FINKELSTEIN: Thank you. Hi,
19 John, this is David Finkelstein. We also, as always,
20 appreciate all the great work you're doing back there.

21 MR. KATZ: Thank you.

22 REPRESENTATIVE FINKELSTEIN: The -- you've
23 had the advantage to follow along these federal
24 proceedings and regulatory proceedings over the years.
25 One of the issues that concerns us is the issue of public

1 participation and, you know, participation by the various
2 entities involved. In your experience, compared to other
3 telecommunication proceedings like this occurring at this
4 federal level or joint leveled in the last ten years, has
5 the -- has the participation level been good, as good,
6 bad or about the same as in the past.

7 MR. KATZ: It's been similar. There is a
8 certain format for these federal state joint boards and I
9 believe that the Joint Board in this instance is
10 following that format. There are a couple things worth
11 saying about all that. One is that at various times,
12 state commissioners and federal commissioners on the
13 various iterations of the Joint Board have been to
14 Alaska, and we've encouraged the FCC a couple of times
15 to -- to still work up there, but one of the -- while the
16 principal reason that we're in this proceeding is because
17 the average Alaskan doesn't have the time or the
18 resources to be involved, and I don't claim that we have
19 a monopoly on knowledge, by any means, in this
20 proceeding. It's way too complicated for that, but in a
21 way, this proceeding is unfolding like many federal
22 issues do, in the sense that the people elect the
23 governor and a congressional delegation and a legislature
24 to -- to represent their interests and to oversee that
25 they're properly carried out and without sounding

1 sanctimonious, we've tried to accomplish that,
2 recognizing the limited access that the average Alaskan
3 has to this proceeding, but also recognizing that these
4 proceedings unfold this way almost every time.

5 And there are a couple of other things worth
6 adding to that answer, I think. One is that we see our
7 goal here in this proceeding exactly as Chairman Hudson
8 stated his concerns at the beginning of this hearing, and
9 certainly to the extent that 60 legislators are
10 representative of the body of politics in Alaska. We
11 would be pleased to work with you all if you believe that
12 there are interests that are not being reflected.

13 Secondly, it's been pointed out to me that
14 this kind of administrative proceeding is a little bit
15 different than some others that we're all familiar with,
16 and Alaskans can, as a right, without filing a motion to
17 intervene, file their concerns and comments in this
18 proceeding just by writing Dear FCC or Dear Joint Board.
19 And because the FCC and the joint boards act not so much
20 on the basis of oral presentations, but more on the basis
21 of written presentations, that seems to us to be another
22 way that Alaskans can represent themselves here. But you
23 know, in addition to our work over time, the
24 congressional delegation, in particular Senator Stevens,
25 has also been very much involved and I think the total

1 effort here is to represent the interests of Alaskans and
2 then finally, the private parties are sure there to make
3 sure that neither we nor anybody else strays very far
4 from the beaten track. And I feel through a combination
5 of their advocacy and their economic self-interests and
6 ours, and the rebuttals that go back and forth, that the
7 Joint Board has been exposed to a pretty fair
8 representation of Alaska thought on these matters.

9 REPRESENTATIVE FINKELSTEIN: Thank you, Mr.
10 Chairman.

11 CHAIRMAN HUDSON: Thank you very much.
12 John, we would appreciate receipt of any pertinent
13 analyses or studies that you might have or obtain over
14 the next few months as this issue is being resolved that
15 would be pertinent to the formation of the administra-
16 tion's adoption or agreement, you know, with the various
17 proposals there. I understand now that it's all kind of
18 working and you've got people that are analyzing
19 different proposals, probably even your own, but in the
20 final analysis, somewhere along the line, you'll probably
21 come up with some justification, something that turns
22 your attention to one particular concept or idea that you
23 felt most represented those protective elements of the
24 proposal that you wanted to obtain, public protection,
25 cost suppression, things of this nature. We'd like to

1 get copies of that just so we have them in the
2 legislative files there.

3 I don't -- I was trying to think back on
4 the -- on this -- one of the areas that brings my
5 attention to the need for some more information is this
6 whole thing about collecting from all of the different
7 carriers, putting it into a separate pot of the money,
8 this is that goes on for the four years following the
9 three in the AT&T -- or in the Joint Board proposal. Do
10 you understand that? Does anybody understand how that
11 would work? Did I understand you to say you don't?

12 MR. KATZ: Let me respond to the first part
13 that you mentioned. We would be glad to provide you with
14 analyses that we generate and frankly, we would be glad
15 if you feel that there are particular topics you
16 would like us to generate some analysis on for your own
17 purposes. One of the reasons the governor has structured
18 this effort the way he has is to make sure that what we
19 do is first coordinated with folks in Juneau and then
20 secondly with respect to important matters, he really
21 does look at them and make the decision, and he would be
22 glad to expose you to that aspect of the analysis also.

23 With respect to the Alaska fund that I think
24 you are referring to, with Bob's indulgence, think I
25 might turn that one over to him and let him explain

1 exactly how that one works.

2 MR. HALPERIN: Hello, Mr. Chairman. The
3 Alaska fund as the Joint Board envisioned it would be
4 funded by in effect placing a surcharge on all long
5 distance carriers operating anywhere in the United
6 States. The amount of that surcharge would be simply
7 calculated to derive a set sum of money, that sum of
8 money being the amount necessary to defray in ever
9 decreasing percentage of the 11 percent difference
10 between 86 and 75. Other of that differential would be
11 recouped from this fund say beginning in the year four
12 after the decision, year four after the adoption of the
13 tentative recommendation, and that would phased down over
14 I believe a seven year period so that by the beginning of
15 the year four and the end of year ten, that fund would
16 gradually decrease -- (inaudible) -- so that in the
17 beginning, the 11 percent, all the 11 percent is recouped
18 at the end. None of that 11 percent is recouped at
19 the -- (inaudible). The thought is by the Joint Board
20 that over that seven year period, the intrastate market
21 would be able to absorb the ever increasing portion of
22 the 0 to 11 percent of that cost and that the joint --
23 the Alaska fund itself would not be doing.

24 CHAIRMAN HUDSON: Thank you, I think.
25 There's a lot of questions as to -- and I guess that's