

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

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1 part of the problem is that we don't really have a lot of
2 information on that. All we have is reference to it and
3 it appears, at any rate, so it's an integral part of this
4 plan of proposal here. So thank you very much for that
5 information.

6 At this time, we'll go around the table one
7 more time and see if there's any further questions here.
8 Mike, you got any questions? Anybody? Red, would you
9 have another one?

10 MR. BOUCHER: Thank you, sir, I'll be brief.
11 It's what I wrote on the note. What is -- I do not see
12 our delegation in Washington, and since this has been
13 constantly emphasized it is more a federal issue and
14 federal input, I see no input from Senator Stevens,
15 Murkowski or Young's office, nor do I see them testifying
16 here. Do we -- is this committee going to obtain
17 information from them on the record as to their status?
18 Maybe there's something that I don't know about.

19 CHAIRMAN HUDSON: We have notified them of
20 this hearing and the committee will -- will certainly ask
21 for the testimony. It's my understanding that at least
22 Senator Stevens has corresponded with the committee here
23 and is trying to facilitate the meetings between the
24 various private entities and I presume at any rate that
25 we'll receive information from the delegation as to their

1 position on this situation. And John, I would guess that
2 you're probably in the best position to try to ascertain
3 that for the record, if you could.

4 MR. KATZ: I'd be glad to do that. We
5 coordinate closely with them. At various times,
6 depending upon the issue involved, they've all been
7 active. Senator Stevens is particularly active because
8 he sits on the senate commerce committee which has
9 jurisdiction over the FCC, but they aren't formal parties
10 in the process, so they are a little bit careful in how
11 they make their input, but we've tried throughout the
12 proceedings to -- tried to present a consistent base to
13 the FCC.

14 CHAIRMAN HUDSON: Thank you, John. One time
15 going around on the teleconference network, if anybody
16 has a question of Mr. Katz or the members of his staff
17 that are here or of the committee at this time, just go
18 ahead and call on in, tell us where you're calling from,
19 give us your name and ask your question. Going once --

20 REPRESENTATIVE BROWN: I have a question.

21 CHAIRMAN HUDSON: Representative Brown.

22 REPRESENTATIVE BROWN: Thank you. John, are
23 you in your office having ongoing discussions with AT&T
24 about the details of their consumer benefit plan?

25 MR. KATZ: Representative Brown, we are, as

1 well as with the other party. We've -- we believe that
2 some of the things in AT&T's latest filings may have been
3 because of discussions we had with them, particularly
4 about what would happen in rural Alaska if anything
5 untoward happened to Alascom and what assurances AT&T
6 would be willing to make in that regard, and secondly,
7 what they would be willing to say on the record with
8 respect to launching a satellite which would basically
9 cover Alaska in the period of time when that would be
10 required, and we've also talked to them about providing
11 additional detail on other matters.

12 CHAIRMAN HUDSON: All right, John. Thank
13 you. Hearing nothing from the -- from the conference
14 line.

15 MR. DINNEEN: Representative Hudson?

16 CHAIRMAN HUDSON: Yes, please, Mr. Dinneen.

17 MR. DINNEEN: Yes, Mark Dinneen, I just
18 wanted to make one short observation. It was my
19 impression that Susan Knowles was unduly modest with
20 respect to her self-congratulations in her role on the
21 APUC and on the Joint Board and presenting and defending
22 Alaska's interests with the FCC and the state members of
23 the Joint Board, and I wanted to suggest my own high
24 regard for her work on behalf of the interests of the
25 State and the consumers of the State of Alaska, and also

1 suggest to anyone who would like to do further or more
2 extensive elaboration of the State's participation or the
3 State's role in the proceeding at all that I'll be here
4 at home in the State through Labor Day.

5 CHAIRMAN HUDSON: And I might ask that any
6 pertinent information that you think the committee needs,
7 if you can't get hold of me since I might be over in the
8 Yukon in a nice little cabin alongside a lake, Royce
9 Weller (phonetic) over here is up on this whole subject
10 and will make sure everybody gets a copy. Poor Royce, he
11 doesn't get to go to the lake. Thank you very much.

12 Okay, at this time, then, we're going to go
13 ahead. It's two minutes before noon. It's time to get
14 some bread. Thank you all. John, thank you very much.
15 Have a good day back there, sir.

16 MR. KATZ: Thank you very much. Bye now.

17 CHAIRMAN HUDSON: Good-bye.

18 (At about 11:59 a.m. - luncheon recess, and
19 at about 1:20 p.m. - proceedings reconvened)

20 CHAIRMAN HUDSON: I apologize for those that
21 have been waiting for us here. We're a little late in
22 getting started, but I think we've got ample time in this
23 afternoon's agenda. We did notice one thing in your
24 published hearing agenda here that the time slot for this
25 particular segment, which is the industry's

1 presentations, is only for one hour and we've actually
2 got two. So I think we'll have plenty of time for
3 everyone to make their full presentations and I offer
4 that to the industry, and for that, matter of fact,
5 anyone that wishes to testify that has not already signed
6 up here if you'd also like to do that, be sure that you
7 are signed up to testify so that we can catch you here.
8 I think we'll have plenty of time this afternoon to
9 conclude, get a good full hearing on this.

10 And so at this time, I'd like to -- I'm not
11 even sure who's going to go first here on the industry
12 side. How about -- how about the smallest going first.
13 GCI, would you like to be the first?

14 MS. TINDALL: Is that company size we're
15 talking?

16 CHAIRMAN HUDSON: Well, I'm sorry.

17 MS. TINDALL: I do my best to look pregnant.

18 CHAIRMAN HUDSON: Maybe I should have said
19 both of you come up. And if you would, give us your
20 name, please, and your affiliation and then we'd be happy
21 to have your testimony.

22 MS. TINDALL: Thank you very much, Mr.
23 Chairman. My name is Dana Tindall and I am the
24 Vice-President of Regulatory Affairs for GCI and I thank
25 you for this opportunity to be here today on this very

1 important issue.

2 Just very quickly a couple of facts about
3 GCI to update those who may not have been following us,
4 we do serve both the interstate and the intrastate market
5 in Alaska. We provide service or offer service to 93
6 percent of the access lines in the state. We are
7 prohibited from going -- from providing facilities based
8 service in the very rural areas of the state on both the
9 intrastate and the interstate jurisdictions, something we
10 hope changes soon. And we have, since the advent of
11 intrastate competition, we have been competing and I
12 think the market's been working very well.

13 Commissioner Knowles, both Commissioner
14 Knowles and Mr. Katz provided backgrounds to the
15 decisions. Commissioner Knowles did a pretty good job
16 and I agree with everything she said. I'd just like to
17 flush out a couple of points that are important from
18 GCI's perspective. As Commissioner Knowles said, the
19 Joint Board proceeding began in -- really began in 1985.
20 There was a petition from the State to do a proceeding in
21 1983, but it really got underway in 1985, and the
22 question of harmonizing rate integration and competition
23 would not seem at first to be an obvious question. GCI
24 as a competitor in Alaska has no complaint with rate
25 integration. It is a policy we've embraced. We think

1 should be maintained at all cost.

2 What is more difficult to harmonize in
3 Alaska is the way rate integration has been effectuated
4 in Alaska and how that harmonizes with the competition,
5 and that is the joint services arrangement, and the way
6 we look at the joint services arrangement is a subsidy
7 flow from AT&T to Alascom. Alascom charges AT&T's rates,
8 it collects the revenues its receives from charging those
9 rates and AT&T writes them a check for the difference
10 between the revenues it recovers and their actual costs,
11 plus a rate of return on most of those costs.

12 This is a fine system and worked well. It
13 satisfies universal service concerns and it works well in
14 a monopoly situation. It does not work so well in a
15 competitive situation where you have one carrier that's
16 subsidized and one carrier that's not. To give an
17 example of the type of costs that are paid for by AT&T,
18 political contributions, legal fees, marketing costs, and
19 I think that this arrangement has led to a distortion of
20 many of the incentives in this market. You have far more
21 marketing than you would have in this Alaska, pretty
22 fairly small telecommunications market. You have your
23 two telecommunications companies very active in politics
24 here in Alaska, and other things that I think we're all
25 aware of, strictly pretty much come about as a result of

1 this joint services arrangement, and that has been a
2 problem for us to compete against since we began in this
3 market.

4 So that's really the question that, you
5 know, why do you need to harmonize rate integration and
6 competition in Alaska? That's why, because of the way
7 rate integration has been effectuated. There are other
8 ways of effectuate rate integration and I think the Joint
9 Board has come up with a very good one and that is to
10 make AT&T responsible for service in the State of Alaska
11 and at their nationwide integrated rates and GCI
12 certainly recognizes that that is the way we need to go
13 in this state. So again, we have to problem with rate
14 integration. We have a problem with the way it's been
15 effectuated.

16 I'd like to talk a little bit about why
17 we're where we are today from our point of view. This
18 proceeding's been going on for ten years. Why has it
19 been going on for ten years? And I think -- I'm just
20 guessing because I'm not a policy maker in this
21 proceeding, but from my observations of this proceeding,
22 as a policy maker you want do make sure that universal
23 service is protected, you want to make sure rate
24 integration is protected, you want to make sure that the
25 other five goals that both Mr. Katz and Commissioner

1 Knowles laid out to you are protected, and so which way
2 do you move, how do you make sure? As you've asked the
3 question, how are we sure this is going to happen? Okay,
4 and I think that that's why that this Joint Board has
5 taken ten years to look at this issue and has looked at
6 reams of data and conducted, you know -- has a record two
7 and a half times the size of Commissioner Knowles, but in
8 the last 18 months, something very profound has happened
9 in this market and that is that all of the parties to the
10 Joint Board have gone on record saying that the joint
11 services arrangement that exists today is no longer
12 sustainable. The State of Alaska has said it, GCI has
13 said it, AT&T has said it, and Alascom has said it, and
14 I'd like to read you a couple of quotes from Alascom in
15 the proceeding before the APUC on the master agreement
16 and testimony they filed. Of Vern Dunham (phonetic),
17 Senior Vice-President in Alascom, the question was, do
18 you believe that the status quo for Alaskan service and
19 particularly frozen allocator can be maintained
20 indefinitely, and the answer is no, I do not. The
21 parties attacking the master agreement appear to operate
22 from the unarticulated assumption that the joint services
23 agreement and the frozen allocator related to it will
24 continue indefinitely.

25 And then they have their lawyer filed some

1 testimony in what Mr. Naftalin from Washington, D.C. and
2 what he has to say is what these witnesses have not taken
3 into account in the testimony is that the present
4 conditions under which rate integration is accomplished
5 through a joint service arrangement between Alascom and
6 AT&T, as well as the jurisdictional separation rules
7 which assigned only a small fraction of the expense and
8 investment of jointly used facilities to the intrastate
9 jurisdiction are not conditions that can be counted upon
10 to be preserved if Alascom's proposal here is denied.

11 Now, why is this important? I think this
12 gets at the heart of what this community is looking at,
13 which is do we need to leave the status quo, and if so,
14 have we had enough Alaskan infusion into this process.
15 Has there been enough Alaskan comment. And I think Mr.
16 Katz alluded to the problem when he said that the State
17 may sue or the FCC may take over.

18 All the parties are on record saying the
19 existing arrangement is no longer stable. Given that, we
20 have to move to another arrangement. If the Joint Board
21 does not determine another arrangement, I believe that it
22 will be taken out of Alaskan's hands. This issue will
23 either be resolved by the FCC or by the courts.
24 Somebody's going to sue. If it's not the State of
25 Alaska, it most likely could be AT&T, who has said very

1 vocally and very often that they do not want to pay this
2 subsidy to Alascom anymore.

3 Now, about the proposals before the Joint
4 Board, as both Mr. Katz and Commissioner Knowles have
5 said, there are two main proposals before the Board.
6 There is the tentative recommendation by the Joint Board
7 and there is the AT&T Alaska consumer benefits plan. GCI
8 supports the tentative recommendation by the Joint Board
9 for a number of reasons. One, we firmly believe that the
10 Joint Board has been put in place to protect the public
11 interest and we believe they've done so. They have stuck
12 to their five goals and we believe that this tentative
13 recommendation will preserve rate integration, universal
14 service, as much as possible jurisdictional revenue
15 requirement neutrality, market based competition and
16 increased efficiency.

17 Some of the things that the Joint Board
18 found are when they released the tentative recommendation
19 are important from the perspective of helping Alaskans
20 have a better world in telecommunications. One thing
21 they said on the subject of efficiency is Alascom,
22 however, has not felt the presence of formidable
23 interstate competition. As long as the JSA exists there
24 is little incentive for Alascom to control costs or trim
25 its rate base as both its revenue requirement and a

1 customer for its interstate services are virtually
2 assured. Based on current conditions and comments we
3 tentatively conclude that the public interest would be
4 better served by terminating the JSA and thereby
5 restructure interstate telecommunications market in
6 Alaska, to promote competition open entry and increased
7 efficiency.

8 So not only does this proposal maintain
9 integrated rates, universal service, but it increases
10 efficiency, it improves market based competition and it
11 will hopefully correct some of the distorted incentives
12 brought about by the current joint services arrangement.

13 The other thing that's important to
14 understand about this tentative recommendation that I'm
15 sure that some of you who've been watching or partici-
16 pating in Alaska telecommunications will appreciate is it
17 is a fair compromise between the parties. This tentative
18 recommendation does not give any party what they wanted
19 and if you review what each party wants and then you look
20 at the tentative recommendation, you'll see what I mean.

21 What would AT&T like? And I'm -- I don't
22 mean to speak for AT&T. This is how GCI views the world.
23 We think AT&T wants out of this joint services
24 arrangement and they want out of it tomorrow. They want
25 it stopped immediately. That's what the consumer benefit

1 plan is all about. The problem is AT&T entered into an
2 agreement with Alascom a long time ago to participate in
3 the joint services arrangement. So the tentative
4 recommendation doesn't let AT&T out immediately. It
5 let's them out after three years, after they have given
6 Alascom a transition period to adjust to the new
7 competitive world and after they have most likely
8 compensated Alascom for some portion of their facilities
9 rate base.

10 What does Alascom want? I guess that in the
11 best of all worlds Alascom would like the status quo to
12 continue, but even they say that's not going to happen.
13 And so what does this tentative recommendation give them?
14 It gives them an opportunity to remain in the market, it
15 gives them time to slim down, become a competitive
16 carrier, and it gives them money. It gives them a lot of
17 options.

18 There is -- this is quite a deal. If you
19 look at the history of when AT&T was broken up, they
20 weren't given money for their rate base. They were just
21 broken up and told to go forth and compete. Alascom's
22 not being treated that way. This is quite a nice
23 transition for Alascom.

24 What does GCI want? Best of all worlds, the
25 subsidy would end tomorrow, same as AT&T, but we're not

1 getting that and what we want more than anything else is
2 certainty. We want this issue resolved. We don't want
3 it resolved in a court of law. We want it resolved here
4 and that's why we are supporting the tentative
5 recommendation as a fair compromise between the parties.

6 Some of the things that you were asking
7 about, maybe I could shed some light on. The Alaska
8 fund, that wouldn't be our first choice of how to do
9 things, but we'll support it as part of the resolution
10 and what that does is it does keep intrastate rates where
11 they are for ten years, at least no higher. They may go
12 lower. It does not shift any costs for ten years, and
13 GCI's going to have to pay into that. We're going to
14 have to give money to Alascom to keep costs at least
15 where they are for ten years, but we'll do it if that's
16 the price of resolution. And at the end of ten years, we
17 believe since -- since telecommunications in general is a
18 downward cost industry, it won't be an issue after ten
19 years. It simply -- we believe that long before the ten
20 years is up, the rates in Alaska intrastate telecommuni-
21 cations are going to be below the level where there could
22 be any damage.

23 Another question you have is what happens if
24 Alascom wants to leave the market, the intrastate market,
25 and my answer for that is Alascom today is regulated as a

1 dominant carrier. In this tentative recommendation, they
2 would continue to be regulated as a dominant carrier for
3 the intrastate market. What that means is in order for
4 them to abandon any site in Alaska, there has to be a
5 public proceeding where they have to prove it's in the
6 public interest. Alascom cannot do that unless there is
7 someone standing there willing to take their place. AT&T
8 has said they will step in if Alascom wants to abandon
9 the market. GCI has said the same.

10 What I think Alaskans, the notion that
11 Alaskans have always had historically about Alaskan
12 telecommunications is no longer true. That notion is
13 that who would want to serve the rural areas of State of
14 Alaska for god's sakes, can't be making money, why would
15 you want to serve. It's not true. GCI wants to serve
16 the rural areas of the state. We want to serve the
17 entire state and on the state as a whole, we can make
18 money. The telecommunications technologies and platforms
19 are pushing us to want to serve everywhere and we have
20 filed an application with both the FCC and the APUC to
21 allow us to serve throughout the entire State of Alaska.

22 The next thing I'd like to talk about is
23 the -- oh, I'm sorry, I didn't talk about the AT&T
24 consumer benefit plan.

25 GCI supports a lot of the things that AT&T

1 brings out in the consumer benefit plan, but as a whole,
2 we favor the tentative recommendation of the Joint Board
3 over the consumer benefit plan. We believe there
4 probably ought to be a transition period in this market
5 and the major differences between the AT&T consumer
6 benefit plan and the tentative recommendation is whether
7 or not there's a transition, and again, GCI's position is
8 in the best of all worlds the subsidy would end tomorrow,
9 AT&T would come in, but we believe that that transition
10 period is necessary to -- for fairness to all the
11 carriers, as a fair compromise, because again, what we're
12 looking for is certainty. We don't want this delayed in
13 court.

14 One thing I'd like to review, I'm sure most
15 of you are aware of it, but I'd like to bring it up
16 again, is the history of the legislative role in this.
17 Different legislators have been involved in telecommuni-
18 cations from time to time, but recently I've heard the
19 question asked on a number of occasions, can this market
20 support three carriers and should we do something about
21 that. You know, should we say that we don't think this
22 market should support three carriers.

23 GCI's position is this market can support as
24 many carriers as want to enter, and as many carriers as
25 want to enter should be allowed to enter, and that was

1 our position when we lobbied for the bill that was passed
2 in 1990 that adopted competition as the policy of the
3 legislature of the State of Alaska, and I'd just like to
4 remind you of the findings that were in those bill that
5 by the way was passed unanimously by the legislature.
6 The legislature found that, one, modern, affordable
7 efficient and universally available local and long
8 distance telephone service is essential to the people of
9 the State. Two, facilities based long distance telephone
10 service should be provided competitively, wherever
11 possible. Three, technological advances, reduced costs
12 and increased consumer choices for long distance
13 telephone service resulting from the adoption of an
14 appropriate competitive market structure will enhance the
15 State's economic development. That's far more true for
16 the rural areas of the state than ever before. Four, the
17 benefits of competition and long distance telephone
18 service should be shared by consumers throughout the
19 state. Five, the commission should oversee competition
20 in long distance telephone service to ensure that
21 competition is fair to consumers and competitors, and
22 six, the commission should provide for competition in a
23 timely manner and should adopt regulations that eliminate
24 inappropriate impediments to entry for long distance
25 carriers fit, willing and able to provide that service.

1 From our perspective, the legislature has
2 already spoken on this issue. This bill doesn't say let
3 GCI in and don't let anybody else in, although it was
4 kind of at GCI's instigation that this bill came about,
5 and GCI would never ask for a bill that says let GCI in
6 and don't let anybody else in. As a matter of fact, I'm
7 here asking you today to let any carrier into this market
8 that wishes to come into this market and we'll compete
9 with them.

10 In conclusion, this issue is ripe for a
11 decision. This proceeding's been going on for ten years.
12 The last 18 months in particular the Joint Board and the
13 parties have engaged in an awesome discovery proceeding
14 where we looked at piles of data, we filed piles of data,
15 and at this point, any further delay is harmful to
16 Alaskan telecommunication users. We're in hold. We're
17 in limbo. The investment that we need to have going
18 forth in Alaska is not going forth. The rural areas
19 don't have digital service everywhere. They're not
20 receiving the technological platforms they need to be
21 part of the nationwide infrastructure, and any further
22 delay is just going to continue to make Alaska a
23 technological backwater.

24 I've heard recently -- I had the pleasure of
25 listening to Senator Stevens talk about what he thinks

1 the future of rural learning is in Alaska and he thinks
2 it's video conferencing capabilities and computer
3 capabilities and instead of a school teacher, you'll have
4 a technological expert who can run these things. It
5 can't happen in Alaska today because we don't have the
6 telecommunications infrastructure to do it. We need
7 competitive services throughout the state. We need this
8 resolved. We need to go forward so the carriers know
9 where they stand and they can start investing in the
10 state telecommunications.

11 And again, we need it from the perspective
12 of if there is to be an Alaskan voice in resolving this
13 issue, the Joint Board is the best bet, because after
14 that, it's gone, out of our hands.

15 I'd be happy to answer any questions you
16 have. Thank you.

17 CHAIRMAN HUDSON: Thank you, Dana. Let me
18 bring you back to this issue of assurance. It's
19 something that I've been hitting on when I talked to I
20 think everybody else that's spoken to us here. How do we
21 get the guarantee that -- you know, we've heard so much
22 rhetoric nationwide from huge communication companies, I
23 mean, pennies quite often make the difference and
24 suddenly becomes a platform for a major communications
25 media blitz, but what we're looking for, I think, is the

1 guarantee that -- not as to who's going to serve, but
2 that we'll have somebody on the mark that can be held
3 accountable and regulated and whether that be you, if you
4 were to take over the bush, you know, and do you have
5 anything in your filings or in your analysis or your
6 studies that makes certain to you that you could do that
7 and, you know, you seem to give the indication that you
8 think three major players can participate into this thing
9 and I'd be delighted if somebody could give us any kind
10 of a study or analysis that shows that that's happening,
11 because I'm looking at, from a legislative perspective at
12 any rate, less revenues, I think more economic hard times
13 coming up, you know, which may even demand more tele-
14 communications, but we need to have that kind of
15 information, and I've been all assuming all along that
16 each one of the major carriers and the Joint Board and
17 certainly the governor's office would be putting a
18 tremendous amount of resources to make certain that what
19 they say is what they can actually deliver and what we
20 can hold them accountable for. How do we get that
21 statement from you that if Alascom were to, through the
22 process, walk away from serving the bush as we have known
23 it for some period of time here, that we can hold you
24 accountable? Do we have that guarantee for the record?

25 MS. TINDALL: Yes.

1 CHAIRMAN HUDSON: Well, that's what I
2 wanted.

3 MS. TINDALL: In addition to that, I have --
4 I have some more answer to your question, but I want to
5 make that clear at the start and not garble it up. Yes.

6 CHAIRMAN HUDSON: I like long answers.

7 MS. TINDALL: How are you sure? I think
8 there is three parts to that answer. First of all, the
9 laws of this state provide -- the laws in the regulations
10 of this state have -- have quite a bit assurance there.
11 If you take a look at the regulations by which the Alaska
12 Public Utilities Commission regulates, as a dominant
13 carrier, you simply can't walk away. And the APUC and
14 the FCC have full authority to regulate Alascom as a
15 dominant carrier. And that's a lot of assurance right
16 there. That's a lot of assurance, and they have full
17 authority to regulate AT&T as a dominant carrier and they
18 do so today, and they regulate Alascom as a dominant
19 carrier today.

20 The second thing is we have filed, as I
21 said, with both the APUC and the FCC a plan to provide
22 service to the entire State of Alaska and we call it our
23 small busser station plan. What it is is Richard Dowling
24 as I think you know him, Representative Hudson, Richard
25 Dowling spent quite a bit of time and effort and worked

1 with Hughes satellite systems and he came up with a very
2 small earth station that he calls TES, Telephony Earth
3 Station, and that earth station is a digital earth
4 station and it runs on two boards. The only wiring --
5 it's kind of -- it's kind of the way, you know, the way
6 calculators have gone. The only things that can go wrong
7 with that earth station has to be on one of two boards
8 and so for maintenance, if something goes wrong you
9 switch one of them out or the other and if you're not
10 sure, you switch them both out. It's no big deal. The
11 person going in to maintain that earth station walks
12 around with these spare boards and just puts them in.

13 We calculate that we could serve everywhere
14 that Alascom serves today, and we calculated this in our
15 filing, without a subsidy and at rates at or below
16 integrated rates, and I would be happy to provide that to
17 you.

18 CHAIRMAN HUDSON: Would you do that, please?

19 MS. TINDALL: Yes. The other -- the final
20 part, answer to my question is a bit of history. This
21 may or may not be a declining revenue industry. I think
22 it tends -- right now it's probably going into a flatter
23 period, but if you look at the history of interstate
24 competition in Alaska, GCI has anywhere between 40 to 50
25 percent of the market in the areas we serve. The

1 revenues that we have captured have come purely from
2 demand stimulation due to lower rates. Alascom has not
3 suffered a loss on the interstate side in trafficking
4 minutes whatsoever.

5 CHAIRMAN HUDSON: Because of increased
6 capacity?

7 MS. TINDALL: Because you lower rates and
8 demand goes up and that's been the history all over the
9 country, and it will continue to be the history, I think,
10 because we're starting to come out with things like rural
11 education through teleconferencing, video broadcasting.
12 Look at the cellular telephone boom. Who would have
13 thought telephones you have to hold to your ear in your
14 car would be so popular. But they are. I've heard a
15 couple go off in this hearing room today. The minutes
16 just keep growing. As the technology develops and we
17 keep coming up with more service, people just keep buying
18 and that just keeps driving the costs down.

19 So the history of telecommunications is not
20 only that it's a declining cost industry, but that the
21 incumbent carriers, Alascom and AT&T, have not lost
22 minutes. The competitors that have come in have taken
23 their portion and we haven't even taken as much as we
24 would like of our portion of the minutes that are
25 stimulated as a result of this technological revolution

1 and so when people say to you that this market can't
2 afford three carriers or more, what they are giving you
3 is a very static analysis. It's assuming that minutes
4 never change, but that's not true. The demand is always
5 growing and new carriers coming in are just capturing the
6 growth and the demand.

7 And I'd also like to add from the perspec-
8 tive of a competitive carrier coming into a market,
9 nobody wants to enter a market where they're going to
10 lose their shirt. You wouldn't have carriers knocking at
11 the door to come into a market unless they thought that
12 they could make money at it.

13 CHAIRMAN HUDSON: And one additional
14 question, if I might, the governor's office has entered
15 two filings or two alternative proposals. Have you
16 analyzed the governor's recommended changes to the joint
17 services agreement proposed tentatively?

18 MS. TINDALL: As I understand the State's
19 proposals, and the State can correct me if I'm wrong,
20 it's something of a trade-off, there would be a
21 shortening of the transition period and maintenance of
22 the frozen allocator. That would be fine with us.

23 CHAIRMAN HUDSON: And a buy-down, I believe.

24 MS. TINDALL: And a buy-down. We agree
25 that -- we support the buy-down, basically.

1 CHAIRMAN HUDSON: So GCI could support
2 either the Joint Board or the Joint Board as amended by
3 the governor's recommendations?

4 MS. TINDALL: With the exception that the
5 State proposal calls for more fleshing out of the AT&T
6 proposal, and we don't support anything that will
7 generate further delay in resolving this proceeding. But
8 with that caveat, yes. However, we tend to go with the
9 tentative recommendation because it is the result of the
10 Joint Board's full analysis on this, but if the Joint
11 Board were to look at the State's proposal and say, oh,
12 the State's got a point there, we think this would be
13 better for the protection of rate payers, we would
14 support it.

15 CHAIRMAN HUDSON: Questions? Representative
16 Navarre?

17 REPRESENTATIVE NAVARRE: Thank you, Mr.
18 Chairman. Does the earth station, the small earth
19 stations that you're talking about, will that provide
20 enough ability to do the video conferencing and long
21 distance teaching? Is there enough capacity in that?

22 MS. TINDALL: As I understand it, yes. This
23 would be a digital system that would support broad band
24 services, such as video conferencing.

25 REPRESENTATIVE NAVARRE: And the teaching in

1 the villages?

2 MS. TINDALL: Yes.

3 REPRESENTATIVE NAVARRE: Thank you.

4 CHAIRMAN HUDSON: Yes, Representative
5 Porter?

6 REPRESENTATIVE PORTER: Thank you, Mr.

7 Chairman. Dana, if you were able to alter, change, amend
8 or upgrade one element of that joint marketing proposal,
9 tentative proposal, what would it be?

10 MS. TINDALL: I might have to speak for
11 myself on this. I think that I'm divided with Ron Duncan
12 on this, but I'd probably go with a slightly shorter
13 transition period, but Mr. Duncan thinks the transition
14 period's just fine. Also, something that some of the
15 parties have had problems with but is currently in the
16 tentative recommendation is the maintenance of
17 geographically averaged rates throughout the state for
18 carrier offered rates, and I would like to see that
19 maintained and I'm not sure -- none of us have any idea
20 what the final order of the Joint Board is going to come
21 out with, but that has been called into question by some
22 of the parties and I would like to see that maintained.

23 REPRESENTATIVE PORTER: Thanks.

24 CHAIRMAN HUDSON: Mr. Boucher?

25 MR. BOUCHER: Thank you, Mr. Chairman, Red

1 Boucher. Dana, you continue to contribute to my
2 knowledge on this thing and certainly your presentations
3 are always outstanding. In the early part, you said that
4 you are serving 93 percent of the access lines in the
5 state. Are you authorized to service more than 93
6 percent?

7 MS. TINDALL: Yes. We are not serving on a
8 facilities basis in a few locations where we are
9 currently authorized to serve.

10 MR. BOUCHER: Where are they?

11 MS. TINDALL: I can't list them off. They
12 are listed in the --

13 MR. BOUCHER: Are they small communities?

14 MS. TINDALL: Yes.

15 MR. BOUCHER: Why aren't you serving them?
16 You're authorized; right?

17 MS. TINDALL: Right now, until we get
18 statewide authorization, it's a matter of one of the
19 reasons that we can do the telephony earth station system
20 at the cheap cost we have said we could do it at is
21 because we would be buying in bulk and we've actually
22 priced out all this stuff because we had -- we were very
23 serious about our proposal. To do it onesy-twosy tends
24 to cost quite a bit more and in addition, although I
25 think that there are -- we continue to expand every year,

1 it's also a question of time and priorities, given the
2 fact that we're not doing it a statewide build.

3 MR. BOUCHER: I'd like to know which
4 communities you're not serving and you've, in essence,
5 told me that it's too costly to serve them right now.

6 MS. TINDALL: No, I -- I don't mean to
7 correct you, I just mean to correct the misperception I
8 left. It is not too costly to serve them. If we get
9 permission to serve the entire State of Alaska, we will
10 engage in a three-year build where we are buying our
11 material in bulk. It is more costly to go out and serve
12 them one at a time where you are not buying your material
13 in bulk. That doesn't mean to say it can't be done, but
14 given the fact that it is more costly, we have not put
15 the priorities and the resources on it as quickly as we
16 otherwise would have if we were doing a statewide
17 build-out. We do continue to expand every year, however.

18 MR. BOUCHER: One final question, Mr.
19 Chairman. I was kind of taken aback by your comments
20 we'd be in technological backwater and I kind of thought
21 we were a little bit up front and Katz appeared to agree
22 with me. What technology would you bring onto the scene
23 if magically this agreement went into effect tomorrow
24 that's not here already and that people want.

25 MS. TINDALL: Digital single hop

1 telecommunications throughout the State of Alaska.
2 Currently in the rural areas there are still areas of
3 Alaska that are analogued double hop. You can't get data
4 transmission through them, and as I've been going around
5 the state fishing, now that I have a young one who's not
6 quite two, I have to call him every night and sing him
7 his favorite song to get him to go to bed and that's very
8 difficult over analogue double hop, so I know it's
9 difficult to talk over that system, let alone send data,
10 and you could not do video conferencing.

11 MR. BOUCHER: Thank you, Mr. Chairman.
12 Thank you, Dana.

13 CHAIRMAN HUDSON: Any other questions? Are
14 there any questions from anyone on the line? All right,
15 Dana, I thank you very much. This task force would
16 appreciate copies of any of what you consider to be
17 pertinent document that -- documents that, you know, that
18 reflect on your comments, the filings, the -- you've
19 given us great assurance now that, lots of room in the
20 marketplace here and that we can count on you to become
21 the dominant carrier if we need one. So thank you very
22 much.

23 MS. TINDALL: Thank you.

24 CHAIRMAN HUDSON: And I don't know, I guess
25 next we'll ask for AT&T. I went by how it would appear

1 in the telephone directory.

2 MS. TINDALL: Is he still going by the
3 biggest.

4 REPRESENTATIVE PORTER: Next biggest.

5 CHAIRMAN HUDSON: Good afternoon, sir.

6 MR. WILCOX: Good afternoon. Is this on?

7 CHAIRMAN HUDSON: You have to push the
8 button forward, and then if you'd give us your name,
9 please, your affiliation and then we'd like to have your
10 testimony. Welcome to the Committee.

11 MR. WILCOX: Thank you. My name is Doug
12 Wilcox. I'm the General Manager for Alaska for AT&T. I
13 appreciate the opportunity to present some thoughts to
14 you folks today and I -- I understand the activity level
15 of the legislature in telephone matters in this state is
16 probably unprecedented. I commend you for your -- your
17 efforts here to understand this very complex and complex
18 set of issues. It's a very difficult thing to get
19 through and I commend your ambition. I'm glad to be of
20 whatever assistance I can.

21 My remarks will not be very long. We filed
22 a lot of documents. They're part of the record. I'm
23 sure you've reviewed at least the executive summaries
24 that are in each of those, so I won't spend a lot of time
25 explaining the consumer benefit plan other than to say

1 that there are basically four simple things that it
2 brings, lower prices, more modern infrastructure, wider
3 array of services, and a guarantee of continued service
4 in rural Alaska.

5 A couple things I would like to address
6 today, though, given this opportunity, is to explain the
7 misconception that I hear so often about what happens to
8 the, quote, subsidy, unquote, when AT&T enters the
9 Alaskan market. It is true that the costs that Alascom
10 incurs and AT&T incurs to provide long distance services
11 between Alaska and the lower 48, those costs are higher
12 than the revenues generated by those services. So in
13 that sense, AT&T is providing a subsidy to the share-
14 holders or the owners of Alascom, and it's that subsidy
15 to which we object.

16 When I talk to folks from rural Alaska, they
17 seem to worry about another subsidy, and in some cases,
18 the two get intermingled and confused. We've just heard
19 Dana Tindall say that she doesn't think the costs of
20 serving rural Alaska are more than the revenues generated
21 in it. I would be very surprised if that were true for
22 every village in rural Alaska. I certainly know it's not
23 true for every rural village in Minnesota or North Dakota
24 or Wyoming or Colorado or Maryland or Delaware or any
25 state in the Union, possible exception of the District of

1 Columbia. That is the norm in the long distance
2 industry. That is normal in the telephone industry in
3 general. Urban areas subsidize rural and we have vibrant
4 competition in the lower 48 in long distance industry and
5 those subsidies continue to exist. There are some
6 customers who get subsidized by other customers.

7 In the sense of level of usage, no long
8 distance carrier that I know of can make money off a
9 customer that makes one short call a month. It's just
10 too expensive to keep track of billing, 29 cents for the
11 stamp, keeping their account in your computer, not to
12 mention handling the call, itself. Goodness gracious,
13 ~~handling~~ questions about why the charge was what it was
14 when they call up to get an explanation. You can't make
15 money on a customer that makes one call a month, but
16 every customer doesn't make one call a month and every
17 customer might make one call this month and lots of calls
18 next month. So there are continued subsidies in a very
19 competitive market. That's true in the lower 48. I'm
20 sure it's true in Alaska, and it will not go away. We
21 understand those subsidies to the extent that rural
22 Alaska revenues don't cover costs, big deal. We
23 understand that. We know that will continue to the
24 extent it has to.

25 Integrated rates are a national policy. We

1 support it and when you have integrated rates, it means
2 that sometimes the cost of serving some customers in some
3 months is going to be higher than the revenues you get
4 from them.

5 The second question that comes up frequently
6 to me and it's come up here today is is there enough room
7 for more than two carriers in Alaska. We've heard GCI
8 take the position that any carrier that wants to enter
9 the state ought to be allowed to do so, take their own
10 risks. The last time I gave some data on numbers of
11 carriers in various states I was asked to be more
12 specific and I couldn't. Now I can and I'd like to do
13 that. In the 1990 census, there was one state with a
14 smaller population than Alaska and that's Wyoming. The
15 census said there were 453,588 people in Wyoming, or
16 about a hundred thousand less than in Alaska. In Wyoming
17 there happened to be 40 long distance carriers doing
18 business, four zero, 40. 35 of those are resellers, four
19 of them are facility based carriers, AT&T, Sprint, MCI
20 and Wil-Tel, and there is an additional carrier, Western
21 Telecommunications Company, Inc. that is what we call a
22 carrier's carrier. They don't provide service to end
23 users directly, in other words to people making the
24 calls. They own facilities over which those calls are
25 carried and lease those facilities to other carriers,

1 like AT&T, MCI and Sprint and Wil-Tel, who use them to
2 complete their networks.

3 There were a few other states with
4 population slightly higher than Alaska. Those include
5 North and South Dakota and Vermont. In North Dakota,
6 population 638,800, there are 3 facility based carriers
7 and 78 resellers or alternative operator services
8 suppliers. South Dakota, population 696,004, there are
9 67 long distance companies, five of whom are facility
10 based carriers. They are AT&T, MCI, Sprint, Express
11 Communications, Inc. and Polaris Telecom and 62 resellers
12 or alternative operator services providers. I have some
13 data on other states as well and we'll make this part of
14 the record, both here and the Joint Board proceeding, but
15 I wanted to share that with you today and explain that we
16 believe this market is a better market than many of those
17 states I've just mentioned. Alaskan's spend more on
18 telecommunications than do people in other states. Part
19 of that is the fact that you're farther away from the
20 lower 48 so your bills tend to be higher and telecommuni-
21 cations are used more often to replace physical travel
22 because of the geographic breadth of the state.

23 The final comment I'd like to make is
24 actually on the record, but I thought it would be of
25 particular interest to this panel. We did a study of

1 opinions of Alaskans relative to competition in long
2 distance service in Alaska. We asked them specifically
3 two questions. One was do you believe competition in
4 long distance service in Alaska has been beneficial. 20
5 percent of the people who answered -- and this was a
6 statewide statistically valid study by the way -- 20
7 percent of them, didn't know, 70 percent said yes, and 10
8 percent said no. So seven out of eight Alaskans who have
9 an opinion about whether competition in long distance has
10 been beneficial or not think that it has.

11 The next question was do you think AT&T
12 should be allowed to offer competitive long distance
13 service to the Alaskan consumer. 86 percent said yes.
14 Three and two-thirds percent said no, and ten percent
15 either didn't know or didn't care.

16 We think we can provide more services in
17 Alaska than are being provided today. We think we can do
18 it at lower prices for consumers than they're being
19 charged today. We can invest in a state of the art
20 network to provide those services and make money. This
21 is an attractive market to us and we don't think we will
22 replace any existing carrier. Our guess is that once we
23 get in, more will follow.

24 One of the reasons we think that is that
25 the -- one of the reasons we think that there is a dearth

1 of resale activity in Alaska is that the services that
2 resellers often use simply aren't available here.
3 Software defined network, to name one. So we think that
4 our entry in the market, the resolution of this Alaska
5 market structure will probably provide a market structure
6 and a framework that will encourage other competitors to
7 enter as well.

8 I'd be happy to answer any questions.

9 CHAIRMAN HUDSON: Any questions from the
10 committee here? Representative Boucher.

11 MR. BOUCHER: Thank you, Mr. Chairman. I
12 focus back again on the new technologies that are going
13 to be brought in. I guess it's two-fold, Mr. Wilcox.
14 What services aren't being provided now that AT&T would
15 provide and how much would that increase the volume of
16 business in the state or employment in the state or are
17 the two related? Other words, how many people would you
18 bring into the state in jobs with this new technology or
19 would it actually decrease?

20 MR. WILCOX: I think there are a number of
21 questions there.

22 MR. BOUCHER: Okay.

23 MR. WILCOX: Let me see if I can take them
24 from the beginning. We did list in our FCC filing the
25 services at that time that AT&T was offering that were

1 not offered by Alascom. Some of them won't mean much to
2 you if I give you the names. Virtual private line
3 service is one of them. We call it software defined
4 network service. Other carriers call it other things but
5 it is a virtual private line service. That's of interest
6 primarily to larger business customers. There are a
7 number of services that are related to inbound calling
8 and provide advanced features on 800 calls that customers
9 make into reservation bureaus or service bureaus and so
10 on. Many of those are not available in Alaska, either.

11 There are some multi location calling plans
12 that are not available in Alaska and most -- well, there
13 are two primary reasons why these services are not
14 offered here by Alascom and I'm not -- when I say this,
15 I'm not berating Alascom, don't mistake me. Alascom uses
16 Northern Telecom switches which are very fine switches.
17 They have a huge share of the market in the world, but
18 they are not programmed to provide AT&T services. It
19 wouldn't be practical for Northern Telecom to program
20 their switches to handle our services since we don't buy
21 many of their switches. We use our own. So many of
22 these services like software defined network, like
23 advanced 800 services, Megacom 800 service and so on, are
24 specifically designed to work with AT&T manufactured
25 switches. Those are not in Alaska at the present time

1 because we don't do business in Alaska.

2 Some of the others have to do with combining
3 volumes of calling from different locations around the
4 country and since Alascom serves Alaska and doesn't serve
5 Tennessee, they don't have those kinds of calling plans
6 either. So those are the two main reasons why those
7 plans are not available here. There are numbers of them.
8 I can go through the attachment if you like.

9 In terms of what effect those services would
10 have on the Alaska economy, we commissioned a study by
11 Leland Johnson and Peter Pitch to look at the effect of
12 AT&T's entry into the Alaska market on Alaska and part of
13 the study was devoted to looking at what might happen to
14 the Alaska economy. That is a very difficult question to
15 answer because there are so many factors that are
16 involved in terms of impact on the economy. It's very
17 difficult to single out one event and say this is what's
18 going to happen to employment, this is what's going to
19 happen to average disposable income and those kinds of
20 ways that the economy is measured. I think it's fair to
21 say, though, that the introduction of a wider array of
22 services makes it possible for entire industries to exist
23 where they do not today. Alaska for example today could
24 not support a reservationist system because the
25 telecommunications are not here that those kinds of

1 businesses demand. If you're going to have a state of
2 the art reservation system, you're not going to put it in
3 Alaska, not now.

4 MR. BOUCHER: Mr. Chairman, I guess -- I
5 guess my question is we see technology grow and obviously
6 great things are happening and I guess I'm really
7 concerned. Alascom, whether you like it or not, has a
8 presence in the state, a social, Dana pointed out
9 political. We are a very political state and I want to
10 know, when the big guy comes in, obviously you're the end
11 of the world, as far as technology, how many jobs are
12 coming in with you? I mean, we're in a downcline, as far
13 as the economy is concerned. Oil is a finite resource,
14 and some of us are talking about mining our brains, the
15 opportunities, and if we are remotely controlled from
16 someplace else via satellite, I mean, I'm not going to be
17 happy no matter what the rates are and Alaskans will pay
18 for them in the long time. So I want to know what you're
19 bringing to Alaska beyond Bell Labs technology, which is
20 the greatest in the world. There's no disputing that.

21 MR. WILCOX: We have, again, put on the
22 public record that we will have a general manager for
23 Alaska. We will -- that person will be responsible for
24 community affairs, public affairs, legislative affairs,
25 have a staff, and appropriate regulatory affairs. Have a

1 staff to help with that. We also will do customer
2 service in Alaska for Alaskans. That is to say, if you
3 want to talk to someone at AT&T or AT&T wants to call you
4 up and see if you'd like to be a customer of ours, you'll
5 be talking to an Alaskan. If you don't understand your
6 bill and want to talk to us about that, you'll be talking
7 to an Alaskan during -- I was going to say normal
8 business hours, during most business hours, let's put it
9 that way. We have an all night customer service center
10 for those who find it needful to call in the middle of
11 the night and it happens to be in Texas. So if that's
12 when you want to call up and ask about your bill, you'll
13 talk to somebody in Texas, just like somebody in New York
14 City would. But as a practical matter, we know that in
15 areas like Alaska, Hawaii, Puerto Rico, Virgin Islands,
16 where there is a sense of pride in -- in either the
17 statehood or the culture, that if you want to be
18 successful as a long distance company, you better have
19 presence there. You better have, in this case, Alaskans
20 talking to Alaskans. We're starting with zero customers.
21 We need people to feel good about us. We need to be
22 Alaskans to do that. So all of those kinds of jobs will
23 be located here in Alaska.

24 MR. BOUCHER: One final question if I may,
25 Mr. Chair, do you see with AT&T's technology an

1 opportunity for Alaska to be a bridge to Siberia, Eastern
2 Russia? We're reaching out there now and certainly with
3 your presence here, are there opportunities in that area?
4 Are you thinking about that or is it just a matter of
5 you'd like to come here because it's a good market?

6 MR. WILCOX: The truth is the latter is the
7 case. When we developed a consumer benefit plan, of
8 course we included revenues for calls to oversize
9 locations, and you know, customers call wherever they
10 want to call, but we did not specifically look at Alaska
11 as a jumping off point to the new Russia or to the new
12 set of countries over there. That's come up several
13 times in several venues since I've been here and it's a
14 fascinating concept, but it was not part of the planning
15 that we did in developing the consumer benefit plan.

16 MR. BOUCHER: Reason I ask that, Mr.
17 Chairman, is Alascom is now serving across the creek
18 there.

19 MR. WILCOX: Yeah, I know.

20 MR. BOUCHER: And I'd like to hear from you
21 on that. Certainly you've got the brain power to begin
22 to think in that area and as an opportunity, AT&T will
23 probably be one of the first to see it. Thank you, Mr.
24 Chairman.

25 CHAIRMAN HUDSON: Thank you. Representative

1 Navarre.

2 REPRESENTATIVE NAVARRE: Okay, when I'm
3 talking with the different people about this, the
4 subsidy, what's the value of the subsidy, 80 million?

5 MR. WILCOX: Let me take the most recent
6 year for which we've completed the analysis of Alascom's
7 costs and agreed on -- on what the payment would be. If
8 you took all of the revenues that involved the lower 48
9 and Alaska for long distance calling, in other words,
10 switched services, private line is not part of the joint
11 service arrangement, if you put all of those revenues
12 into a pot and then you took out from that pot payments
13 to local exchange companies in Alaska for access to their
14 networks, if you took out Alascom's costs and the return
15 on their investment devoted to these calls, if you also
16 took out the payments to local exchange companies in the
17 lower 48, and if you took out AT&Ts network costs of
18 providing service for those calls, you would have about
19 70 million more dollars in costs, those four sets of
20 costs in total, than were collected in revenues
21 associated with those, with those costs.

22 REPRESENTATIVE NAVARRE: Okay. So that's
23 not an amount that you pay to Alascom?

24 MR. WILCOX: No, it's not.

25 REPRESENTATIVE NAVARRE: That's an amount

1 that's calculated over the entire length of the call,
2 including all the local exchanges and like that?

3 MR. WILCOX: That's correct, that's correct.

4 REPRESENTATIVE NAVARRE: Okay, so your costs
5 and Alascom's costs, do you guys agree on how much you're
6 going to charge or how much each costs are?

7 MR. WILCOX: Every year, Alascom gives us a
8 statement of what their costs were. We have an
9 arrangement whereby we fund we provide funds to them on a
10 monthly basis on an estimate of what their revenue
11 requirement will be, revenue requirements including their
12 rate of return, and then we true that up at the end of
13 the year when they give us what we call a cost study that
14 supports what they spent and what their rate of return
15 requirement is. We audit those cost studies and then we
16 come to an agreement as to what the amount is and we
17 settle up the difference, plus or minus.

18 REPRESENTATIVE NAVARRE: And that's for
19 interstate?

20 MR. WILCOX: Yeah, it's for interstate
21 domestic switched services.

22 REPRESENTATIVE NAVARRE: Okay, so is the
23 value of that, the subsidy to Alaska 70 million or is it
24 somewhat less?

25 MR. WILCOX: Be careful now. The subsidy

1 isn't to Alaska, it's to Alascom and the subsidy would be
2 something less. I mean, their revenue requirement on an
3 annual basis I think is -- John can tell you better than
4 I can, but I think it's around 124 million dollars, but
5 that would be their -- their -- yeah, their revenue
6 requirement. That's what we would pay them on an annual
7 basis, AT&T of course taking all the revenues, both
8 southbound and northbound.

9 So how much the actual subsidy is to Alascom
10 varies from year to year. It is a subsidy. I mean,
11 there has never been a year in which there were more
12 revenues than the revenue requirement would -- in other
13 words, we've never had a positive year. Theoretically in
14 this deal, if business got real good and they would still
15 just get their revenue requirement and rate of return on
16 their investment and we would get the -- the longfall.
17 So far it's always been a shortfall.

18 REPRESENTATIVE NAVARRE: Okay, and what
19 about I guess in terms of how you calculate the costs,
20 where is whatever the subsidy is going to be made up? Is
21 that with your entrance into the market, do you think you
22 can provide it cheaper than you're providing it now
23 through your agreement with Alascom?

24 MR. WILCOX: Yes.

25 REPRESENTATIVE NAVARRE: How much cheaper?

1 MR. WILCOX: Well, first of all, remember
2 the joint service arrangement is only for interstate
3 switched services. When we enter the Alaska market, we
4 don't intend just to provide interstate domestic switched
5 services. Obviously if -- if you're our customer, we'll
6 want to handle all of your calling, whether it's to
7 Russia or England or the lower 48 or Hawaii or within the
8 state. So when we looked at the consumer benefit plan,
9 we didn't propose investing in a new state of the art
10 fiberoptic cable just to offset the services presently in
11 the JSA. Those are for any service that needs to leave
12 Alaska, whether it's going to terminate there or
13 somewhere overseas.

14 REPRESENTATIVE NAVARRE: Whatever the value
15 of the subsidy is, you figure that entering the market
16 you can provide that same service at less cost, including
17 whatever the value of the subsidy is, and still make
18 money?

19 MR. WILCOX: Yes, absolutely. Furthermore,
20 we think that Alascom can be more efficient than they are
21 and continue to be an effective competitor as well
22 without the subsidy. Won't be able to do business like
23 they do it now, but we think they're capable of doing
24 that.

25 REPRESENTATIVE NAVARRE: Okay, and when you

1 talk about entering the market, I assume that means local
2 exchange?

3 MR. WILCOX: No, absolutely. If I gave that
4 impression, Representative, no, I'm sorry. No, we do not
5 feel it is in AT&T's strategic interest to be in the
6 local exchange market. We were not interested in being
7 in that market. We don't own any local companies. We
8 have no intentions of buying any.

9 REPRESENTATIVE NAVARRE: So when you enter
10 the market, though, you said that the rates will remain
11 the same or lower?

12 MR. WILCOX: Yes.

13 REPRESENTATIVE NAVARRE: For interstate and
14 intrastate calls both?

15 MR. WILCOX: Both, yes.

16 REPRESENTATIVE NAVARRE: Okay, how about
17 other charges that you might assess to customers for not
18 the phone call? You know, you see on the phone bill the
19 60 cents to call directory assistance or 40 cents a
20 minute to make a phone call somewhere, not that, but what
21 about the other charges, customer charges?

22 MR. WILCOX: The only charge on your phone
23 bill that I -- well, I won't speak for your phone bill.
24 The only charge on a customer's phone bill that is
25 related to long distance, in a way, is the subscriber

1 line charge that's actually an FCC charge. It's a flat
2 rate per month, \$3.50. But that's not an AT&T charge. I
3 mean, that's imposed by the Federal Communications
4 Commission as a way to -- to recover the costs that are
5 assigned to federal jurisdiction that are actually non
6 traffic sensitive plan, local exchange kinds of costs.

7 There are no hidden charges. We're not
8 going to make up for lower revenues from lower prices by
9 jacking up prices somewhere else. In fact, to the
10 contrary. Those prices that we talked about lowering for
11 the basic schedule for long -- you know, basic dial one
12 long distance calling, that schedule is used by people
13 with moderate to low usage levels. For higher users,
14 we'll be introducing Reach Out America, Simple Savings
15 Plan, all the stuff you see on TV about the I Plan, so
16 bigger customers, higher usage customers are going to get
17 even better prices than that.

18 REPRESENTATIVE NAVARRE: One more question.

19 CHAIRMAN HUDSON: Go ahead.

20 REPRESENTATIVE NAVARRE: Okay, I guess the
21 last question I'll ask then is that if you're not going
22 to be providing a subsidy, is the service that's provided
23 to Alaskans now overcharged by whatever the value of the
24 subsidy is? I mean, is that a conclusion that you can
25 draw from the fact that you're going to enter the market,

1 not pay the subsidy or not provide any subsidy and
2 provide service at or below existing costs?

3 MR. WILCOX: I don't think you can make that
4 simple a statement. I'll tell you what I can say for
5 sure, and the reason I'm so confident in saying this was
6 I used to be in charge of pricing for interstate long
7 distance service. I was the product manager not too many
8 years ago and every time we started to look at lowering
9 prices because our costs were going down or MCI was
10 pricing too far below us and we were losing too many
11 customers, every time we looked at lowering basic
12 schedule prices, we ignored the last two mileage bands,
13 10 and 11. Only Alaskans and Hawaii, Hawaiians can make
14 calls or receive calls that are over 3,000 miles long.
15 There is a huge difference between calling from New York
16 to L.A. at 25 cents a minutes during the business day
17 versus calling Anchorage from New York, which is 30 cents
18 a minute or Barrow or Bethel, which would be 33. Those
19 are huge differences, and if you need to call Newark or
20 right across the Hudson River from New York it's 22 cents
21 a minute. Only costs three cents more to call Los
22 Angeles, and the reason for keeping that difference in
23 rates is because of the costs of the JSA to AT&T. People
24 don't like it but it's the truth. The differential in
25 rates doesn't cover the shortfall, by any means, but it's

1 there because of it. And those are the rates that we're
2 proposing to do away with. We'll do away with mileage
3 bands 10 and 11. So the if you're calling the eastern
4 part of the United States from Anchorage, you might as
5 well be in Seattle in that scenario, just eliminate those
6 two mileage bands entirely.

7 REPRESENTATIVE NAVARRE: Thank you.

8 CHAIRMAN HUDSON: Just following along that
9 if I might, I guess this is getting right down to where I
10 had the most difficulty in understanding all the
11 different proposals and the long term effects on the
12 people of Alaska. I saw this subsidy going away, which
13 is now part of the whole rate mechanism, and we heard GCI
14 talk about how they want to get into all the rest of the
15 State of Alaska and they're filing to do that, so there's
16 great competition to get involved in that whole
17 situation, and somewhere along the line, it looks to me,
18 unless you're really going to get a tremendous reduction
19 by modernizing or modifying your delivery system, which I
20 can remember when they took all the men off the light
21 stations, the coast guard light stations, every mariner
22 and fisherman out there was at risk, you know, but more
23 than that, I mean they just missed that voice and knowing
24 there was somebody out there if they got into distress,
25 and are we looking at -- and I guess this is where we're

1 trying to figure it out. Nobody's been able to --
2 everybody's saying trust me, this is what's going to
3 happen, but is there some sort of study or analogy that's
4 put together that says this 70 to 80 to 100 million
5 dollars goes away, how it's made up. How would you make
6 it up? How would GCI make it up? And how would it
7 impact Alascom? You say all three will thrive, but is it
8 because there's going to be that much more usage by the
9 Alaskan customers?

10 MR. WILCOX: I think it's two things.
11 Certainly part of it is growth and demand. Demand is
12 growing. We've published a ten year view of our best
13 supplementary studies as what we can as to what demand
14 for services in Alaska will be and every year is growing.

15 CHAIRMAN HUDSON: What's the total revenues
16 derived on an annual basis approximately from these
17 services from Alaska?

18 MR. WILCOX: Oh, 300 million, roughly.

19 CHAIRMAN HUDSON: So the total is about 300
20 million through all of the people participating in the
21 program, providing services, all users?

22 MR. WILCOX: I would like to make that
23 subject to check, but yeah, I think that's about -- about
24 it.

25 CHAIRMAN HUDSON: So we're going to make up

1 up to 100 million dollars of this --

2 MR. WILCOX: No, now remember, that's the
3 same as Representative Navarre's 80 million here and 70
4 million --

5 CHAIRMAN HUDSON: Yeah, maybe we're --

6 MR. WILCOX: Or 100. You hear the numbers
7 tossed around. Again you have to remember what that
8 number is. That is really the shortfall after
9 everybody's -- in other words, if prices -- it is the
10 shortfall after deducting our expenses, Alascom's
11 expenses, the local exchange carrier costs in both Alaska
12 and the lower 48 as compared to total revenues. It's
13 sort of the shortfall of the JSA partnership, if you
14 will. We bear the shortfall, solely, which is what
15 causes us problems but --

16 CHAIRMAN HUDSON: You give that money to
17 Alascom.

18 MR. WILCOX: Yeah, but it isn't, what I'm
19 saying the 70 million isn't the level of subsidy that
20 goes to Alascom because that includes our costs, as well
21 in the equation. So if you're looking at what would -- I
22 think what you're getting at is how much more efficient
23 does Alascom have to be in order to not -- in order to
24 stay in the business --

25 CHAIRMAN HUDSON: Without the subsidy.

1 MR. WILCOX: Given they're not going to get
2 a subsidy from us. I think you're looking at a probably
3 10 to 15 percent improvement in efficiency and cost,
4 something like that. Not unheard of. Certainly we've
5 reduced our costs more than that since the vestiture.

6 CHAIRMAN HUDSON: Dollar wise how many
7 dollars, just approximately.

8 MR. WILCOX: My guess is 30, something like
9 that.

10 CHAIRMAN HUDSON: We're really not talking
11 about 70 to 100 million dollars, we're maybe talking
12 about 30 million dollars, some figure? I'm not trying to
13 pin anybody down to the bottom line, not trying to figure
14 out anybody's -- also if we could, again I'm trying to
15 collect and get as much intelligence as we can here.
16 You've done a study through Leland Johnson --

17 MR. WILCOX: Yes.

18 CHAIRMAN HUDSON: As to what happens to the
19 Alaska economy when this all occurs and we would like to
20 have this. I'm getting a number of my colleagues saying
21 that, you know, before you put any final report together
22 make sure you make copies of stuff and let us know what's
23 going on there. We're obviously interested. We know, I
24 know just as a legislator and Mike and I and all of us
25 here, we have to try to figure out how to even make

1 government run with fewer people, you know, by reducing
2 our overhead, got less money, so that's not uncommon, but
3 we'd like to know what to anticipate and if you have any
4 ideas on what to anticipate, that would be very valuable
5 I think to us.

6 Oh, one of the things that I was reading
7 back through your filings there, some of them at any
8 rate, you proposed 240 million dollars in investment for
9 Alaska. I think one of them you indicated there, but
10 none of it was for the bush. I think it was all for if
11 the interstate situation.

12 MR. WILCOX: No, actually the -- well, there
13 are a couple numbers that float around. That's one of
14 them. To build the undersea cable, to put in our
15 switching capacity here and to build a digital microwave
16 route from Anchorage to Fairbanks, that's the backbone
17 network, the fiberoptic cable to go into Juneau, back
18 out, come up to Anchorage --

19 CHAIRMAN HUDSON: Through Whittier, I
20 believe?

21 MR. WILCOX: Yeah, probably through Whittier
22 and then conductivity through Fairbanks to Anchorage
23 through digital microwave we would have points of
24 presence as they're called in those communities. Beyond
25 that we would just as soon lease facilities from Alascom

1 and/or GCI as opposed to build further microwave routes.
2 We are -- we are probably going to ask permission to
3 build those routes, those so-called secondary routes,
4 just to make sure that we have an alternative in case the
5 lease negotiations fall apart.

6 CHAIRMAN HUDSON: When you say secondary
7 routes, you mean the part that you would rather lease
8 from Alascom?

9 MR. WILCOX: Right, right and if you add
10 that all together you get into the 220 to 240 million.
11 The 180 is to do the backbone that I described and about
12 120 of that is undersea cable alone.

13 CHAIRMAN HUDSON: I see and microwave
14 switching, okay. That clears that up a little bit for
15 me. If the Joint Board proposal is adopted and Alascom
16 costs are reduced through the accelerated cost recovery
17 program, have you done any studies showing the reduction
18 in cost AT&T will derive if you use Alascom's reduced
19 cost facilities in the future? That is, you obviously --
20 you must feel that there's going to be some reduced costs
21 to providing your services, you know, through that, and I
22 don't -- see, that's the difficult part of sitting in
23 this seat over here is when they start talking about
24 write, you know --

25 MR. WILCOX: The write down and --

1 CHAIRMAN HUDSON: Write downs, and things of
2 this nature there, but when I think of it in a practical
3 sense, it sounds to me you're going to amortize
4 somebody's debt and therefore that's part of the expenses
5 and therefore rates ought to go down. I'm looking at the
6 rate ends of the whole thing there, and I presume that in
7 your studies show that that will have rate reductions for
8 the users of Alaska. Is that part of your ability to
9 guarantee rate reductions or no increases in reductions?

10 MR. WILCOX: There are two questions there
11 and they're both very important. Let me handle them one
12 at a time. We have done studies, we have looked very
13 carefully at what would be the impact on AT&T's payments
14 to Alascom for using its facilities if there were a write
15 down, okay. So for example, if we were to pay Alascom 50
16 million a year for three years and they were to write
17 down their plant, the book value of their plant, what
18 kind of savings would come back to AT&T as we lease those
19 facilities. I mean, you would think the rates would go
20 down because the rate base is lower so they have less to
21 earn on.

22 CHAIRMAN HUDSON: Costs less to --

23 MR. WILCOX: Right. Part of the problem
24 with it is that we don't have specifics on which or what
25 set of plant gets written down. Now this gets a little

1 tricky and I'll try not to bore you. When you write down
2 the value of an asset, you don't change the depreciation
3 expense for that asset until the asset is completely
4 written off. So for example, if you were depreciating
5 this table and it cost, say \$400, would be a good buy,
6 and it has a ten year life, you're going to do straight
7 line depreciation 40 bucks a year you're going to put on
8 your expenses and you're going to recover through
9 charging people to sit here, and then somebody comes
10 along and says well look, here's \$200, write down the
11 value of that table by \$200. Well you've only written
12 off 40 so far, right, so it's down to 360. You write off
13 200 more now it's down to 160, but for the next three
14 years, next four years, you're still going to book \$40 of
15 depreciation. You don't get any savings, me as a person
16 sitting at the table, I'm going to pay the same rate
17 because you're going to have the same expenses until
18 those four years are over, and then zero. So how much we
19 save depends on how much they're going the write down.
20 It's tricky.

21 Obviously, there are some savings. That's
22 part of the reason I suspect GCI likes the write down
23 plan. We pay for the write down, they get the lower
24 rates because they lease a lot of capacity from Alascom,
25 too.

1 CHAIRMAN HUDSON: Speaking of rates, what is
2 a book rate? If I had a business and somebody came
3 along --

4 MR. WILCOX: Oh, I'm sorry. Use the table
5 again, okay. 400 dollar table when you bought it, after
6 the first year you've depreciated \$40, the book value of
7 the table is 360.

8 CHAIRMAN HUDSON: If you had a business and
9 you were buying a business for \$400,000 and halfway
10 through it somebody came in and said I'll give you the
11 book rate for it, what would it be?

12 MR. WILCOX: It depends on the business.
13 There are many businesses whose value on the market is
14 lower than book and some higher than book.

15 CHAIRMAN HUDSON: Is that why we hear the
16 proposal to buy everything at book rate? I mean how do
17 we know what book rate is?

18 MR. WILCOX: Well, no, that's the reason you
19 hear that. That is a specific number.

20 CHAIRMAN HUDSON: Sounds like a good deal.
21 I'd buy it.

22 MR. WILCOX: You could go to their balance
23 sheet and buy it at book and it's discernable. That's
24 the reason it's said that way. I mean, our initial
25 proposal on the bush, protecting service to the bush was

1 if Alascom wants out, have an auction. That sets the
2 market rate, but then people started thinking, well gees,
3 you're going to buy it cheap. Well, our thought was the
4 auction would be probably higher than book. There's
5 going to be at least three bidders that I know of.
6 You've heard one today. There's another one sitting in
7 the back of the room, you know. There's a lot of demand
8 to serve that bush, apparently. So we said use an
9 auction, but people thought that was wishy-washy. So
10 we'll buy it at book.

11 CHAIRMAN HUDSON: Representative Porter?

12 REPRESENTATIVE PORTER: If you buy it at
13 book you've just established market. Doug, may I ask you
14 the same question I asked Dana, if assuming from your
15 point of view there's going to probably be many, but if
16 you had the ability to change one element of the Joint
17 Board's tentative proposal, what would you change and
18 how?

19 MR. WILCOX: If I were to be just flat out
20 self-serving for AT&T, we'd eliminate the accelerated
21 cost reduction plan, the write down. But if I were to
22 take a broader view, I think it's important to understand
23 that under the tentative recommendation, there are no
24 tangible immediate benefits to consumers, none. AT&T
25 doesn't enter the market, doesn't lower prices, doesn't

1 build new infrastructure, doesn't put in its switches and
2 offer all the services we offer to customers in other
3 states. There are no tangible benefits.

4 Now, the consumer benefit plan has a
5 transition period implicitly in it. We can't build our
6 switches overnight. We can't put up buildings to put
7 them in overnight. It takes a year or so. During that
8 year, we're going to be buying all of our services from
9 Alascom. So we've said, don't call it the JSA but as a
10 practical matter we're going to be paying for that first
11 year exactly what we'd be paying if the JSA were in
12 existence. Probably more, because we'll be in the
13 intrastate business as well.

14 Secondly, the undersea cable is doing to
15 take us three years to complete. So for that three year
16 period we're going to be buying service from Alascom and
17 their cable.

18 And finally, we don't want to build to those
19 second tier locations. We'd rather lease or buy under
20 tariff facilities from Alascom. So and of course as far
21 as the bush is concerned, the earth station satellite
22 network that's a monopoly we have. We have to use them.
23 So we intend -- there is a transition in the consumer
24 benefit plan. It's implicit. It isn't stated year one
25 and year two and year three.

1 So if the transition plan of the tentative
2 or the final recommendation incents AT&T -- not insenses
3 but incents AT&T to enter the market, in other words, we
4 haven't -- I'm third in line on this new fiberoptic
5 cable. Pacific and Atlantic come first, Alaska's third
6 and I'm having trouble keeping my place in line. If I
7 lose the place in line, it isn't three years it's many
8 more because demand is -- this is a quantum leap in
9 technology and demand is heavy for this stuff. So if
10 we're incented to enter the market, the order goes
11 through, we order the cable, cable ships put on alert
12 they're going to be installing it, we order the switch,
13 we buy the buildings, we exercise the options on land and
14 all of that stuff, and that's when prices go down.
15 That's when all the new services become available.
16 That's when the good stuff happens.

17 So if I were to take a broader view, I think
18 it's the transition period associated with whatever final
19 recommendation comes down that's most important because
20 if the transition is such that we're incented to enter
21 the market, then all the things we promised in the
22 consumer benefit plan happen. If they don't, if it's
23 eight years from now, then sometime later on we're going
24 the make a business case study and see if this is a good
25 deal then.

1 REPRESENTATIVE PORTER: Thank you.

2 CHAIRMAN HUDSON: Yes, Red.

3 MR. BOUCHER: Now you're talking about --
4 thank you, Mr. Chairman -- the backbone network, would
5 your satellite now serve rural Alaska?

6 MR. WILCOX: Our present satellites don't
7 see all of Alaska.

8 MR. BOUCHER: You could not via satellite
9 serve rural Alaska today?

10 MR. WILCOX: Yeah, there are parts of rural
11 Alaska that we can't see from our present satellite, sir.

12 MR. BOUCHER: What would you intend to do in
13 that, since the emphasis has been rural Alaska? Now we
14 know you're going to do this 180 million in the lucrative
15 and backbone market. What are your plans on the
16 satellite for bush Alaska?

17 CHAIRMAN HUDSON: We're looking for
18 guarantees, remember?

19 MR. BOUCHER: Oh, yes, absolutely. I mean,
20 I was surprised to see with satellite technology, we're
21 not going to fiberoptic the bush. You talk about
22 expenses.

23 MR. WILCOX: Not very soon.

24 MR. BOUCHER: Until we laser beam the stuff,
25 I want to know what -- what the plans are there.

1 MR. WILCOX: Okay. Well, today Alascom has
2 a monopoly on that service. GCI is seeking to overturn
3 it.

4 MR. BOUCHER: If you could serve it
5 tomorrow; would you?

6 MR. WILCOX: Well, we could buy the monopoly
7 that Alascom now owns.

8 MR. BOUCHER: Okay.

9 MR. WILCOX: I mean, if -- what we said is
10 look if they want to get out of being the monopoly
11 provider and just get out of serving the bush, we'll take
12 over their satellite and their earth stations and any
13 carrier who has that responsibility, whether it's us,
14 Alascom, GCI, if there's -- there's got to be some
15 carrier, as you put it, that you can put your finger on
16 and say hey, Village X needs an earth station, 25 people,
17 post office, go. You got to have one carrier that does
18 that. We're willing to be that carrier. GCI's willing
19 to be that carrier. Right now Alascom is. That means
20 when they realize Aurora II, their satellite is going to
21 run out of fuel they have to put engineering plans, buy a
22 launch capacity, buy a satellite and replace it in a
23 timely fashion so service isn't interrupted. That's
24 their duty and I'm sure they'll do it, and if we're
25 responsible for doing it, we'll do it. If GCI is

1 responsible, they'll do it.

2 MR. BOUCHER: Mr. Chairman that's a strong
3 interest as Representative Brown well knows, the State
4 has invested millions of dollars in satellite to supply
5 bush Alaska and I for one would like to know beyond what
6 Alascom's doing what AT&T's long range plans are in the
7 satellite area, because obviously, in fiberoptic, which
8 is in place, they seem to have a plan there. I have one
9 other question, if I may, Mr. Chairman. Thank you for
10 your patience.

11 You were saying -- we were talking about a
12 rate decrease when Representative Navarre was here.
13 Hasn't there been a recent rate increase filed by AT&T or
14 did I misunderstand that?

15 MR. WILCOX: No, there was a recent filing.
16 Some rates went up; some rates went down. The net effect
17 was a very small increase in revenues. I would call it a
18 market adjustment as opposed to a rate filing. It was a
19 tweak.

20 MR. BOUCHER: But there has been --

21 MR. WILCOX: That's a technical term.

22 MR. BOUCHER: Market adjustment or what have
23 you because I was surprised to hear that hadn't been
24 mentioned throughout the process here. Now --

25 MR. WILCOX: In the basic schedule, some

1 rates went up, some went down. and the effects were very
2 small.

3 MR. BOUCHER: And Alascom as it currently
4 exists now they have to jack up their rates, too?

5 MR. WILCOX: They have to charge the same
6 rates AT&T charges for interstate domestic switched
7 services.

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

9 CHAIRMAN HUDSON: Yes, Representative
10 Navarre.

11 REPRESENTATIVE NAVARRE: What was the value
12 of that tweak on an annual basis?

13 MR. WILCOX: Oh, it was less than 20 million
14 dollars on a 30 some billion dollar base or something.

15 REPRESENTATIVE NAVARRE: In your overall
16 base?

17 MR. WILCOX: Um-hum. Be a lot if you and I
18 had to pay it but in the rate base it was a tweak,
19 believe me.

20 CHAIRMAN HUDSON: Doug, that's been very
21 enlightening and appreciated you coming in this afternoon
22 and I think we've all learned a great deal and appreciate
23 it.

24 MR. WILCOX: Thank you very much.

25 CHAIRMAN HUDSON: One additional question.

1 Go ahead, Mike.

2 REPRESENTATIVE NAVARRE: Still trying to get
3 a grasp on this 70 million dollar issue and if that's
4 going away how that's absorbed and what did you say the
5 300 million dollar, is that the value of the Alaska
6 market?

7 CHAIRMAN HUDSON: Total business.

8 REPRESENTATIVE NAVARRE: Total value.

9 MR. WILCOX: Subject to check, roughly.

10 REPRESENTATIVE NAVARRE: Give or take. I
11 mean, that's -- 70 million is a significant amount of 300
12 million.

13 MR. WILCOX: Now I'm sorry -- I'm sorry. I
14 did confuse some numbers. The 300 million that is Alaska
15 billed revenues, okay. So it doesn't include south --
16 essentially what we call northbound -- wouldn't include
17 revenues that we billed in the lower 48. In other words,
18 it's the market that a competitive carrier's going to
19 look at getting a chunk of by entering the Alaska market.
20 So those two numbers don't touch.

21 REPRESENTATIVE NAVARRE: Okay, so the 70
22 million, which is your difference between calls going
23 south, not calls going north?

24 MR. WILCOX: It's both. The 70 million is
25 the shortfall when you include the costs of both

1 northbound and southbound traffic and both northbound and
2 southbound revenues.

3 REPRESENTATIVE NAVARRE: So after you
4 calculate all that, you're losing money?

5 MR. WILCOX: Absolutely.

6 REPRESENTATIVE NAVARRE: And the amount of
7 money you're losing is 70 million?

8 MR. WILCOX: Yes, per year.

9 REPRESENTATIVE NAVARRE: Per year.

10 MR. WILCOX: That's taking northbound and
11 southbound revenues and subtracting northbound and
12 southbound costs, including the costs obtained from local
13 exchange carriers for access to their local networks.

14 REPRESENTATIVE NAVARRE: Okay, and -- okay.
15 So what the -- still even if you double the amount for
16 the -- the 300 million is just the calls billed Alaska,
17 so that's south or is that both north and south?

18 MR. WILCOX: It doesn't include northbound.
19 It wouldn't include calls billed in the lower 48.

20 REPRESENTATIVE NAVARRE: So if you doubled
21 the amount, maybe more than double, I don't know, to 600
22 million, still 70 million is more than a tweak in that
23 amount of revenues.

24 MR. WILCOX: It's about 10 to 15 percent.
25 That was the number I threw out before. That's the kind

1 of reduction in costs that need to be made.

2 REPRESENTATIVE NAVARRE: So you'll be making
3 some reduction in costs?

4 MR. WILCOX: (Indicates affirmatively).

5 REPRESENTATIVE NAVARRE: So then the
6 calculation of your costs now is either inflated or else
7 technology's going to advance in the next few years to
8 provide you with --

9 MR. WILCOX: Part of it's technology, part
10 of it's operating efficiency, part of it is growth in the
11 market spreads costs over a wider -- I mean raises
12 revenues. Part of it's revenue costs, part of it's cost
13 control, part of it's technological improvement.

14 REPRESENTATIVE NAVARRE: Okay. Now, as the
15 market has grown in Alaska as there's been an increase in
16 the amount of calls in Alaska, have your costs gone up or
17 have they gone down or have they stayed the same and the
18 subsidy's just gotten less? Because arguably there's 8
19 to 11 percent a year already that we're having an
20 increase in the market.

21 MR. WILCOX: Well actually, the subsidy is
22 probably lower now than it used to be. So costs, you
23 know, demand has gone up, costs have come down. Part of
24 the problem with the joint service arrangement is that,
25 you know, our friends over here from MCI, GCI have

1 captured 40 to 50 percent of what otherwise would have
2 been revenues in the joint service arrangement. We'd get
3 those back again, go back to good old monopoly days
4 things wouldn't be so bad you see because that additional
5 demand is spread. I mean, a lot of the costs of the
6 network are fixed. That undersea cable was put in for
7 what it was put in for and they're earning on that
8 investment. If you double the amount of calls going
9 through it and double the revenues, you don't double the
10 costs. That's part of the problem.

11 REPRESENTATIVE NAVARRE: But they're leasing
12 that.

13 MR. WILCOX: GCI is leasing a part of it.

14 REPRESENTATIVE NAVARRE: A part of it.

15 MR. WILCOX: Sure.

16 REPRESENTATIVE NAVARRE: So that cost must
17 come off that calculation?

18 MR. WILCOX: It does, it does, but revenues
19 are higher than cost. It's a recovery situation I'm
20 referring to. If you took all the revenues for
21 northbound --

22 REPRESENTATIVE NAVARRE: I see what you're
23 saying.

24 CHAIRMAN HUDSON: Doug, just now you've
25 piqued once again the business of subsidy. I thought you

1 told me the actual subsidy was only about 30 million
2 bucks.

3 MR. WILCOX: If I were to guess, which it
4 really is at this point. I can hear John scribbling
5 behind me, so he's probably got a different number. If I
6 were to say how much does Alascom have to reduce its
7 annual costs to be to be competitive and to not need the
8 subsidy, I think that's about the number they're looking
9 at. I think he can tell you some other number, but
10 that's my estimate. And I would -- having made it
11 subject to check, let me check, Council, with our friends
12 in Alascom and see if we can't put this in some orderly
13 fashion that doesn't -- doesn't do apples and oranges
14 things, which we've done enough of.

15 CHAIRMAN HUDSON: Anything you could put in
16 writing that would try to afford a layman's understanding
17 of this, this very complex subject I think will be very
18 beneficial. Mark?

19 REPRESENTATIVE NAVARRE: Again, why would
20 the costs go down if you're allowed to enter the market
21 when they're not going down now because you have this
22 joint services agreement? I mean why, if there's 15
23 percent excess costs to Alaskan consumers, why?

24 MR. WILCOX: Be careful to -- when you make
25 the connection between costs and what consumers pay,

1 that's a bit tenuous, but I can tell you that if I have a
2 cost plus contract with a guaranteed rate of return, my
3 inclination isn't going to be cutting out every single
4 cost I can possibly cut out. And that's essentially what
5 the JSA is. It's a cost plus contract with the
6 guaranteed rate of return.

7 REPRESENTATIVE NAVARRE: That's the Alascom
8 end of it?

9 MR. WILCOX: Right.

10 REPRESENTATIVE NAVARRE: What about your end
11 of it? Because you're saying you're going to cut costs,
12 too. Is that as compared what Alascom can deliver it for
13 now?

14 MR. WILCOX: Yes.

15 REPRESENTATIVE NAVARRE: Or your costs will
16 be reduced also?

17 MR. WILCOX: Well we're constantly trying to
18 reduce our costs as a practical matter to stay
19 competitive in the lower 48 and Hawaii, but yeah, we
20 think we can -- I mean, the reason we're proposing to
21 build the network is that the cost of building networks
22 have decreased so dramatically in the last five to ten
23 years. Switches are a third of what they used to cost.
24 Fiber is a tenth of what it used to cost. So we can
25 afford to build rather than lease from Alascom and do it

1 more cheaply. At least we think so.

2 REPRESENTATIVE NAVARRE: Thank you.

3 CHAIRMAN HUDSON: All right. And moving
4 right on. Thank you, again, and we'd now invite to the
5 table John Ayers. John, would you like to join us,
6 please? Welcome to the committee, John, and if you
7 would, give us your name and your position, sir, and your
8 testimony.

9 MR. AYERS: Thank you very much, Mr.
10 Chairman. My name is John Ayers. I'm Executive
11 Vice-President, General Manager of Alascom, and it's
12 particularly nice to be here. After hearing all the
13 history, I don't have to repeat and find out how much
14 money I have to save, so probably don't need to say a
15 whole lot more but suffice it to say whatever plan is
16 adopted has to do as well as the JSA to achieve and
17 continue the goals of telecommunications progress the
18 state has had. In fact whatever program we bring in has
19 to be better.

20 We think it's important to recognize both
21 the time and opportunity to ensure that the new Alaskan
22 market structure is -- it is here. It's available. We
23 need to take the time to make sure that whatever plan we
24 have does in fact strive a better balance and make for
25 better telecommunications resources in the state.

1 We believe the times have changed and we've
2 changed with them and we continue to change with them,
3 but we're not benefited anymore by any other -- than any
4 other carrier when it comes to a delay. We're not
5 benefited by uncertainty. It's difficult for us to plan,
6 as well as the other carriers in the marketplace and
7 those desiring to enter.

8 Alascom's not interested in delay but
9 neither is it interested in a decision for decision's
10 sake. We do believe that the Joint Board proposal is
11 plausible. We responded to the Joint Board request with
12 some substantive documented analyses. Anticipating your
13 question, we'd be pleased to provide them to you. We
14 have also proposed specifics which we think will ensure
15 the Joint Board proposal achieves public interest goals
16 on a basis that doesn't harm our customers, our employees
17 or our shareholders. We do in fact consider our
18 shareholders as others have said.

19 With our specifics we have proposed that it
20 would be less costly to AT&T than the JSA. We proposed a
21 221 million dollar accelerated cost recovery and some
22 prepaid expenses of about 72 million which is somewhat
23 less than the 330 million dollars AT&T had agreed to in
24 the master agreement with us, which expired January 15th.

25 Our studies demonstrate that the Joint

1 Board's plan with our specifics would indeed prevent
2 upward pressure on intrastraight rates beyond 2001 and
3 would do so on a lawful basis and as such, we're prepared
4 to go forward on this basis with the implementation of
5 the proposal on the 1st of January, 1994, as we have
6 proposed the changes.

7 I'd like to take a minute and talk a little
8 about technology because I've heard a lot about what is
9 and isn't here and whether it's good, bad or indifferent
10 in some cases. We have a second generation satellite.
11 It was built just for Alaska to serve the bush. It's in
12 an orbital slot that let's us do that. It let's us see
13 all of Alaska and let's us see it quite well. We have a
14 fiberoptic submarine cable as you all know in place. We
15 have digital switching systems by a vendor, Northern
16 Telecom, which has about 2,200 of those switches in the
17 marketplace today. Those switches also serve our major
18 local exchange companies, the Northern Telecom DMS series
19 of switches. The reason we have those by the way is
20 because when we went to bid which we do on our major
21 procurements, AT&T was too expensive in the cost per
22 switch. I'm glad to hear Doug say the costs have come
23 down. But at that time we wound up committed to a
24 Northern Telecom strategy because of cost and its
25 relationship to the rates we charge to our customers.

1 We have digital microwave connecting the
2 major locations here in Alaska, Anchorage, Fairbanks,
3 Juneau and all the way down the Kenai Peninsula. We have
4 other plans to continue that. We do on a regular basis
5 upgrade bush area stations to digital and we have more to
6 do. We have about 80 percent of our circuits in our
7 system now are digital circuits.

8 As to the Hughes technology that Dana
9 referred to, we are well aware of it. We have invested
10 about \$370,000 in the R&D Associates. So we continue to
11 follow that technology very much. We believe that it is
12 a future technology and it should be and probably will be
13 deployed in Alaska and we intend to do so as soon as it's
14 perfected. There is a trial of the technology going on
15 right now in Canada and it's not working. It's only
16 allowing about 90 percent of the calls to complete, which
17 is clearly not a standard that we would choose to employ
18 at this time. We do continue to work with them. We do
19 continue to work with our Canadian counterparts as they
20 test the system.

21 We have frame relay, which is a term that
22 you may hear, fabric on demand type services are in place
23 and are being used and certainly will play a part in the
24 State's desire for video teleconference facilities,
25 although the first customer is likely to be the Teamsters

1 Union. We're connected into that network with Wil-Tel on
2 frame relay because our network doesn't interface
3 currently with the AT&T frame relay number.

4 We did attempt to bring software defined
5 network into Alaska at the request of a major customer,
6 but we were rejected by our partner who didn't want to
7 deploy software defined network in 1991 when we requested
8 it on behalf of our customer. But the technology is
9 here. I mean, we are employing modern technology. Our
10 switches being a DMS variety allow us to do certain
11 things with local exchange companies that may enhance the
12 services provided to users in the state as opposed to
13 dealing with a -- an AT&T switch which may not be as
14 easily interconnected. Although with all of the switches
15 becoming software driven, the hardware technology is
16 compatible as the software applications, and I think
17 that's also what Mr. Wilcox had to say.

18 So as the switching competition grows, I
19 think you'll see leapfrogs in that technology and the
20 services provided, as we do in satellite technology or
21 fiberoptic technology or microwave technology, but
22 suffice it to say Alaska and Alascom have employed
23 considerable modern technology in the past years.

24 In summary, we're prepared to move forward
25 with the Joint Board proposal on the basis we put it in

1 the public record, and we wish to do so expeditiously.
2 We're unaware that any other party, including the Joint
3 Board, has done an analysis in the detail that we have
4 done and we have yet to see any analysis from any party
5 that's been submitted into the record rebutting our
6 analysis. Any party proposing a different course
7 obviously bears the burden of proof that the plan will
8 work from a public interest perspective, and we're
9 hopeful that the task force will encourage other parties
10 and the Joint Board to develop and place those studies
11 into the public record.

12 That's the end of my formal remarks.

13 CHAIRMAN HUDSON: Any questions from the
14 members here. Red?

15 MR. BOUCHER: I guess, John, I'll ask you a
16 pretty direct one, is -- are there conditions under which
17 Alascom would support AT&T's entry into the market? I
18 gather it's not whether they should come in but how they
19 should come in. Am I correct there?

20 MR. AYERS: We supported their entry with
21 the master agreement. So if you want to be led the
22 charge of bringing AT&T into the market by virtue of the
23 fact that we support the tentative recommendation as
24 we've suggested it be amended, that also says we're
25 willing to accept and bring them into the market and

1 work with them to do so.

2 MR. BOUCHER: Mr. Chairman, obviously there
3 are the two corporate entities that are head to head and
4 you have your interest, and as the Chairman so aptly
5 pointed out, we have separate constituency. What is the
6 gap between you two folks and is it possible to get that
7 solved?

8 MR. AYERS: If they do it all my way, I'm
9 sure -- no, certainly I think there's a middle ground and
10 I think that both parties, I think all parties as Dana
11 Tindall said want to get this resolved. So I think there
12 is certainly an opportunity and I think that the Joint
13 Board is taking the correct approach in doing so, and I
14 think that AT&T will probably accept the recommendations
15 of the Joint Board. I can't speak for them, but I would
16 think that if the rest of the parties are of a mind that
17 that's the most logical entry, I would expect them to
18 support that.

19 MR. BOUCHER: May I ask the last question
20 again in a different --

21 MR. AYERS: I don't know that for a fact.

22 MR. BOUCHER: Is there an identifiable
23 number in millions of dollars that separates your
24 thoughts and what's being handed to you now?

25 MR. AYERS: That's what we filed with the

1 Joint Board, said that if we could get an accelerated
2 cost recovery of 221 million and some assurance that the
3 network wouldn't be abandoned by AT&T and we suggested a
4 transition expense payment, if you will, of 72 million
5 for three years that that would be very good, would deal
6 with it.

7 MR. BOUCHER: 72 million is the figure,
8 then?

9 MR. AYERS: It's not that simple. I think
10 that again we're back to the elements of the tentative
11 recommendation, including everything that's associated
12 with it, the transition period, the protection from the
13 use of our facilities over that period, and the
14 accelerated cost recovery.

15 MR. BOUCHER: One final question, if I may,
16 Mr. Chairman, the software in 1991, did that relate to
17 data compression? Was that the software that --

18 MR. AYERS: You mean when I was talking with
19 AT&T?

20 MR. BOUCHER: Yes, you said --

21 MR. AYERS: Strictly the software design
22 network, we have a large customer that is jointly, if you
23 will, ours and AT&T's, and they asked us to pursue
24 bringing a software defined network mode to Alaska. We
25 did that they were unable to make that applicable.

1 MR. BOUCHER: Thank you, Mr. Ayers. Thank
2 you, Mr. Chairman.

3 CHAIRMAN HUDSON: John, we've heard
4 statements and I think they're in the record that Alascom
5 has had no incentive to reduce cost upgrade, that since
6 the subsidy is a guaranteed mechanism on the base of the
7 costs that you've had no incentive to reduce your costs.
8 Can you speak to that just a bit for us here?

9 MR. AYERS: Yes, I think that GCI is
10 providing quite a good incentive for us to reduce our
11 costs.

12 CHAIRMAN HUDSON: Would you call it
13 competition?

14 MR. AYERS: I call it competition.
15 Technology allows us to do some of that, as well as other
16 process work. We're continually reviewing our processes,
17 how we do our work and trying to find ways with fewer
18 people or fewer resources, if you will, because people
19 aren't the only resources that are applied. We're doing
20 that with our network operation control center which
21 allows us to look statewide and monitor our 260 locations
22 from one location. We have something like 70 or 80
23 thousand alarms to be monitored on an ongoing basis.
24 We've consolidated the people to that one point and have
25 remote test and access which let's us not dispatch

1 technicians where we used to, and all of these things are
2 related to using technology to be more efficient. We do
3 that on a regular basis.

4 CHAIRMAN HUDSON: Given the fact that it
5 appears at any rate as though the joint services
6 agreement is going away through whatever purpose there or
7 however it's going to be reconciled there, think ahead
8 now 5, 10, 15 years ahead here, how do you feel about the
9 services? What can Alaska look forward to? Is this a
10 positive optimistic view?

11 MR. AYERS: I think that Alaska can see what
12 they have been seeing, which is a growing provision of
13 all of these technologies but they are market driven.
14 There needs to be someone there who wants to use the
15 service. For example, the North Slope Borough said we
16 want do use video conference for distance learning. They
17 have a network that we helped them build to do that but
18 they drove it. The technology's available it's a
19 question of whether the technology is available at
20 acceptable cost or what the benefits are going to be
21 derived from it.

22 So some of it's market and the market, in
23 all of the communities won't demand, if you will, ISDN
24 and the video conference technologies that's are here.
25 You see a lot of service requests for different long

1 distance message programs, things of that nature. But
2 all of it isn't technology driven. Some of it is. Good
3 bit of it is but they can expect to see all that
4 technology coming perhaps slower because of the
5 difficulty in getting to certain places, but again as
6 Dana Tindall pointed out, the areospace technology's
7 changing the way we deliver some of the services, it's
8 changing and it's a question of how much money does it
9 take and is there a certainty it will be paid for either
10 through market or through some other -- (inaudible).

11 CHAIRMAN HUDSON: The AT&T's proposal to
12 duplicate the cable and the switches and the microwave
13 over land in certain places, your analysis of that? I
14 mean, can we afford -- I mean, somebody's going to have
15 to pay for it. Seems to me like if you got two cables
16 running, will the market afford two cables, for example,
17 undersea cables?

18 MR. AYERS: At some point in time, depending
19 on growth and demand you'll see a requirement for
20 additional cable capacity. I haven't seen the studies
21 personally that would tell me when that would be.
22 Certainly if we take advantage of the technology we have
23 now and use digital compression -- we don't currently do
24 digital compression on long distance with AT&T, you can
25 gain capacity on the existing cable for some foreseeable

1 future. At some point you've exceeded that, that
2 capability.

3 CHAIRMAN HUDSON: And then you need add on.

4 MR. AYERS: Then you need another facility.
5 The question is when and in the interim how will those
6 costs be covered by whoever installs it. So if AT&T
7 installs a cable that isn't full, it has to amortize
8 those costs somehow in it's overall rate base. But at
9 some point, certainly there will be additional facilities
10 required. I don't know, can't tell you today when that
11 is.

12 CHAIRMAN HUDSON: All right. Thank you.
13 Any other questions? Yes, Representative Brown.

14 REPRESENTATIVE BROWN: Thank you. When John
15 Katz spoke earlier, he said that the present situation
16 with its uncertainties is inhibiting carrier investments
17 in new equipment and technology. Do you agree with that?

18 MR. AYERS: Sure. Yeah, it is. It's as if
19 you have a major investment to make without any certainty
20 as to the recovery mechanism, will you delay it if you
21 can. The answer is yes and yes we do.

22 REPRESENTATIVE BROWN: With respect to the
23 North Slope Borough facilities that you referenced, how
24 much of that was private investment by your company
25 versus subsidy, so to speak, by the local government?

1 MR. AYERS: I don't know. They leased the
2 facility, the transmission facilities, and they purchased
3 the video conference equipment. So we provide the
4 digital transmission facilities as we would any customer
5 on a special instruction basis. So if you say did we
6 invest that and was it sitting there, the answer is no.

7 REPRESENTATIVE BROWN: My understanding is
8 the facilities they have are orders of magnitude better
9 than what is available anywhere else in the state,
10 including the urban areas. Just wondering how is the
11 demand so much greater in an area with such a small
12 population and how is it that that area is able to
13 convince your company to make that kind of -- put in that
14 kind of service? What do other local governments or
15 areas need to do to get comparable service would be
16 another way to say it?

17 MR. AYERS: First of all, that kind of
18 service is available anywhere we have digital
19 transmission facilities today. So it's available from
20 here to Juneau if you want to put it in, or here to
21 Fairbanks or here to Kenai, Homer. It's available to a
22 number of rural Alaskan locations who currently have
23 digital air stations. What the borough did was to say we
24 want to use video teleconference equipment to teach and
25 as an instruction medium, and they came to us and said

1 how can we -- how with can we do this and we said here's
2 the way you do it. Here's the technology and the video
3 conference equipment that they said, they selected that
4 and we went in and upgraded the earth stations to meet
5 that requirement.

6 Now, I don't -- I can't tell you whether or
7 not there was special construction charges or not, but
8 it's the demand that drives the earth station changes in
9 many cases. So if you had a similar requirement it would
10 depend upon the economics again of that requirement, if
11 you're going to change that in advance of your normal
12 schedule.

13 REPRESENTATIVE BROWN: Do you have a
14 schedule for when upgraded services are going to be
15 deployed throughout rural Alaska now?

16 MR. AYERS: Well, we have for example three
17 earth stations that will be converted to digital,
18 Unalakleet, Aniak, and one more. We do a certain number
19 every year and take the technology that's there that
20 was -- the older technology, the analogue technology and
21 use it for growth until we bring the whole cycle full.
22 It's difficult to say. You walk out there today, for us
23 where we have an invented cost structure to say we're
24 going to replace that whole sale because then you do have
25 a write off on your hands or whatever that investment

1 still is on your books. So we have an organized
2 schedule. I have one that goes out for two or three
3 years but that again is dependent upon what the recovery
4 mechanisms will be in the future. (Inaudible) -- can
5 give you a (inaudible). Long way around to that answer.

6 CHAIRMAN HUDSON: Brian?

7 REPRESENTATIVE PORTER: Thank you. John,
8 for the record, Representative Porter, let me ask the
9 question that I've asked the other participants. You've
10 mentioned a couple, but if you had the authority to amend
11 or change or delete or add one element to that proposal,
12 which one would it be?

13 MR. AYERS: We want the accelerated cost
14 recovery increased.

15 REPRESENTATIVE PORTER: Thanks.

16 CHAIRMAN HUDSON: Any other questions?
17 Dave? You've sat over there very quietly, haven't asked
18 very many questions. It's not like you.

19 Thank you very much, John, and appreciate
20 you coming before us. Again, I think with all this
21 airing has a wonderful affect. It really does give us a
22 better understanding of where the whole proposal's at and
23 what the differences are and are not because there's
24 certainly some misperceptions out there.

25 At this time, let's see, I think I have one