

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2230 SCOMM 88: HOUSE TELECOMMUNICATIONS TASK FORCE, 1993

9:88

SCOMM



Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES

CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

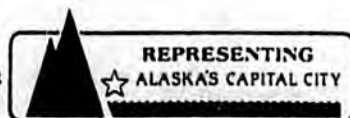
The Honorable Ted Stevens
United States Senate
522 Hart Building
Washington, DC 20510-0201

Dear Senator Stevens:

As you well know, the Federal Communications Commission (FCC) has Alaska's telecommunications industry under active review. This may very likely lead to a major restructuring of our markets. Currently, this review is being carried out by the Commission's Joint Federal/State Board. It is my understanding that the Commission, following its consideration of Board recommendations, will be issuing a ruling by November 1, 1993.

Obviously, there is much at stake for the citizens of Alaska. The more salient concerns include: preservation of universal service; termination of the Alascom/AT&T joint service arrangement; cost shifting from interstate to intrastate (in particular bush residents) users; and overall system quality. At the same time we recognize, and appreciate, the need for greater competition, market efficiency and new investments in state-of-the-art technology.

In response to developments at the federal level, House Speaker Ramona Barnes established the House Telecommunications Task Force. As Chairman, I was given the responsibility of monitoring pertinent FCC activities, soliciting public input and keeping House members informed. These duties were accomplished, in part, by conducting a day-long public hearing in Anchorage, and through the submission of a Task Force Report (see attachments).



While the record on this subject is extensive, many Alaskans remain concerned, and somewhat skeptical. Will new competitors merely skim off urban profits; leaving our rural residents to shoulder even higher costs, and rapidly aging equipment? Will universal service, itself, be sacrificed? As the hearing transcript can attest, the Task Force went to great lengths to answer these, and other, lingering questions. Industry representatives were solicited for answers and commitments.

To further assure our citizens, I respectfully request that your office review the transcript of our hearing. As a federal matter, do you find the direction of this proceeding to be in the state's long-term best interest? Do you find the industry's commitments sufficient to protect all consumers? In short, I would appreciate any advice or recommendations you may have regarding this matter.

Respectfully,

A handwritten signature in dark ink, appearing to read "Bill Hudson", with a stylized, cursive script.

Bill Hudson

Attachments: Transcript
 Telecommunications Task Force Report

cc: Speaker Ramona Barnes
 Telecommunications Task Force Members



Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES

CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER
Transportation
Regulation Review
Economic Development
Task Force

October 7, 1993

Commissioner Susan M. Knowles
Alaska Public Utilities Commission
1016 West 6th Avenue, Suite 400
Anchorage, AK 99501

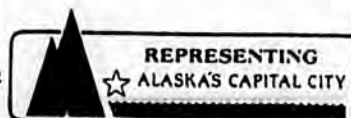
Dear Commissioner Knowles:

First, I want to thank you, personally, for participating in our House Telecommunications Task Force hearing, held in Anchorage, on August 27th, 1993. Your testimony, and that of your staff, was crucial to the overall success of this undertaking.

Enclosed you will find a transcript from the hearing. In addition, you will also find a copy of the Task Force's Report to Speaker Ramona Barnes.

I respectfully request that both the transcript, and the Report, be formally incorporated into the Joint Board's official file In the Matter of: Integration of Rates and Service for the Provision of Communications by Authorized Common Carriers between the Contiguous States and Alaska, Hawaii, Puerto Rico and the Virgin Islands.

As noted in the Task Force's Report, Recommendations section, I committed myself to bringing, to the Board's attention, a specific and lingering concern. In short, while the files on this issue could fill a large cabinet, there is virtually no "meaningful analysis of the long term implications in changes proposed...", and to what extent they "may harm the Alaskan consumer." This type of information was requested, repeatedly, during the hearing. At that time neither the industry, nor the Board, were in a position to provide the information.



I strongly encourage the Board to rectify this situation. At a minimum, the Board should request that the private parties supplement the record with a long-term economic, and market structure, analysis. If this is not possible, the Board should seriously consider contracting for a public report.

Respectfully,



Bill Hudson

Attachments: Transcript
Telecommunications Task Force Report

cc: Speaker Ramona Barnes
Telecommunications Task Force Members



Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES

CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

Mr. Jack Ryner
Alaska Telephone Association
2121 Abbott Road
Anchorage, AK 99507

Dear Mr. Ryner:

First, I want to extend my appreciation to you for participating in our recent House Telecommunications Task Force hearing, held in Anchorage, on August 27, 1993. A complete transcript of the hearing is available through my office.

Enclosed you will find a copy of the Task Force Report. This report is being distributed among all interested parties. Furthermore, it has been submitted to the Joint Board, with a request that it be incorporated into their official file on this matter.

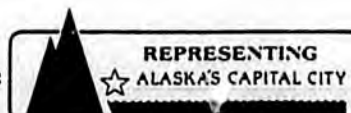
Respectfully,

A handwritten signature in cursive script, appearing to read "Bill".

Bill Hudson

BH/db

Enclosure: Task Force Report





Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES

CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

Ms. Gail Garey
MCI
707 17th Street, #4200
Denver, Colorado 80202

Dear Ms. Garey:

First, I want to extend my appreciation to you, and your staff, for participating in our recent House Telecommunications Task Force hearing, held in Anchorage, on August 27th, 1993. A complete transcript of the hearing is available through my office.

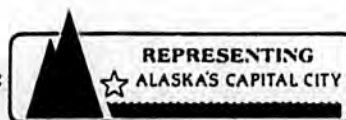
Enclosed you will find a copy of the Task Force Report. This report is being distributed among all interested parties. Furthermore, it has been submitted to the Joint Board, with a request that it be incorporated into their official file on this matter.

Respectfully,


Bill Hudson

BH/db

Enclosure: Task Force Report





Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES

CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

Ms. Dana Tindall
Vice President
GCI
2550 Denali, Suite 1000
Anchorage, AK 99503

Dear Ms. Tindall:

First, I want to extend my appreciation to you, and your staff, for participating in our recent House Telecommunications Task Force hearing, held in Anchorage, on August 27th, 1993. A complete transcript of the hearing is available through my office.

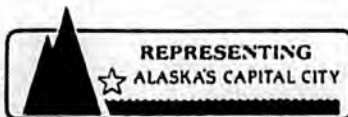
Enclosed you will find a copy of the Task Force Report. This report is being distributed among all interested parties. Furthermore, it has been submitted to the Joint Board, with a request that it be incorporated into their official file on this matter.

Respectfully,


Bill Hudson

BH/db

Enclosure: Task Force Report





Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES

CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

Mr. John Ayers
General Manager
ALASCOM
210 E. Bluff Road
Anchorage, AK 99501

Dear Mr. Ayers:

First, I want to extend my appreciation to you, and your staff, for participating in our recent House Telecommunications Task Force hearing, held in Anchorage, on August 27th, 1993. A complete transcript of the hearing is available through my office.

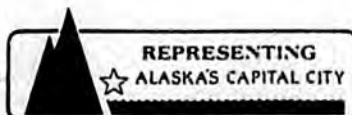
Enclosed you will find a copy of the Task Force Report. This report is being distributed among all interested parties. Furthermore, it has been submitted to the Joint Board, with a request that it be incorporated into their official file on this matter.

Respectfully,

Bill
Bill Hudson

BH/db

Enclosure: Task Force Report





Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES

CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

Mr. Doug Wilcox
General Manager, Alaska
AT&T
2627 "C" Street
Anchorage, AK 99503

Dear Mr. Wilcox:

First, I want to extend my appreciation to you, and your staff, for participating in our recent House Telecommunications Task Force hearing, held in Anchorage, on August 27th, 1993. A complete transcript of the hearing is available through my office.

Enclosed you will find a copy of the Task Force Report. This report is being distributed among all interested parties. Furthermore, it has been submitted to the Joint Board, with a request that it be incorporated into their official file on this matter.

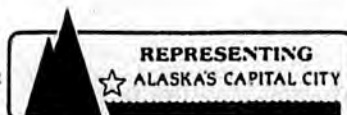
Respectfully,

A handwritten signature in cursive script that reads "Bill".

Bill Hudson

BH/db

Enclosure: Task Force Report





Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES
CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

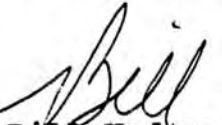
Mr. John Katz
Special Counsel
Governor's Office
State of Alaska
444 N. Capitol NW
Suite 336
Washington, D.C. 20001-1512

Dear Mr. Katz:

First, I want to extend my appreciation to you, and your staff, for participating in our recent House Telecommunications Task Force hearing, held in Anchorage, on August 27th, 1993. A complete transcript of the hearing is available through my office.

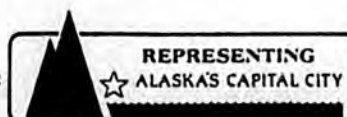
Enclosed you will find a copy of the Task Force Report. This report is being distributed among all interested parties. Furthermore, it has been submitted to the Joint Board, with a request that it be incorporated into their official file on this matter.

Respectfully,


Bill Hudson

BH/db

Enclosure: Task Force Report





Alaska State Legislature

REPRESENTATIVE BILL HUDSON

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

COMMITTEES
CHAIR
Labor & Commerce
VICE CHAIR
Resources
MEMBER:
Transportation
Regulation Review
Economic Development
Task Force

October 8, 1993

Mr. Jack Ryner
Alaska Telephone Association
2121 Abbott Road
Anchorage, AK 99507

Dear Mr. Ryner:

First, I want to extend my appreciation to you for participating in our recent House Telecommunications Task Force hearing, held in Anchorage, on August 27, 1993. A complete transcript of the hearing is available through my office.

Enclosed you will find a copy of the Task Force Report. This report is being distributed among all interested parties. Furthermore, it has been submitted to the Joint Board, with a request that it be incorporated into their official file on this matter.

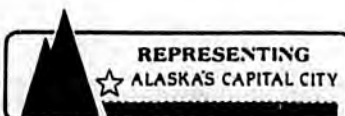
Respectfully,

A handwritten signature in cursive script that reads "Bill".

Bill Hudson

BH/db

Enclosure: Task Force Report



Can Anybody Figure Out Alaska's Phone Wars?

The story behind Alascom, GCI and AT&T's fight for the Last Frontier's long-distance lines.

By Sean Reid

"This process is virtually incomprehensible to the average humanoid." That candid and mostly serious concession comes from an expert on Alaskan telecommunications — Susan Knowles of the Alaska Public Utilities Commission (APUC), which oversees long-distance telephone service in Alaska. Just about everyone agrees that long-distance service has become a complicated tangle of corporations, regulations, history, consumer interests, special interests and competition. Only on a daytime soap opera could you find something more complicated or bizarre.

The major corporate players in the unfolding drama include Alascom (an Anchorage-based, wholly-owned subsidiary of Vancouver, Wash.-based Pacific Telecom Inc., which is 87 percent owned by utility conglomerate PacifiCorp of Portland, Ore.); and GCI (an Anchorage-based corporation

now 30 percent owned by MCII). The latest entrant into the fray is global telecommunications giant AT&T (based in New York). Of the three, Alascom has the deepest Alaskan roots and probably stands to undergo the most change as a result of the upcoming industry restructuring.

The Evolution of Confusion

The confusing mix of regulations and competing interests evident today has much to do with how Alaskan telecommunications evolved. It was gov-

ernment, not private industry, that in 1900 took the first serious step to provide Alaska with a communications network. A 25-mile military telegraph line from Nome to an outpost at Safety, Alaska, was part of an ambitious plan by the Army Signal Corps to connect scattered military outposts in the Alaska territory with the United States. The system allowed public and commercial use as well as government business.

By 1905, thousands of miles of land lines, a submarine cable and a rudimentary wireless radio link formed a



Feature: Phone Wars

moderately reliable network known as the Washington-Alaska Military Cable and Telegraph System. In 1935, the growing system changed its name to Alaska Communications System (ACS) — a name and a government system that would last well into the 1960s, when most of the traffic was commercial, not military.

By 1967 Congress decided the system, now handling 95 percent of public and commercial traffic, should be sold to private enterprise. The Air Force, operating the Alaskan system,

evaluated bids from seven major communications corporations. RCA was the winner with a bid of nearly \$28.5 million. The newly created RCA Alascom division took control in 1971 of most "long lines" facilities and became the only company other than AT&T providing long-distance service in the United States.

Bush Communication

As a condition of state certification, Alascom promised to provide tele-

phone service by 1973 to 142 villages not being served by the existing network. The company quickly fell behind schedule and over budget. The state pressured Alascom to revise plans for rural Alaska. Alascom first refused, then later proposed alternatives unacceptable to the state.

The Legislature in 1975 appropriated \$5 million for construction of small satellite earth stations in 120 villages with a permanent population of 25 or more. First planned as an entirely state-run operation, Alascom was later granted permission to be a partner in the project with responsibility for installation, operation and maintenance of state equipment. In addition to the 120 state-owned earth stations, Alascom later began construction on 21 larger satellite earth stations to replace the obsolete White Alice network of transmitters scattered across Alaska.

Additions and improvements to the network continued. In 1973, long-distance telephone service via satellite began between Alaska and the Lower 48. Six years later, in 1979, RCA sold its Alascom division to Pacific Power and Light (now PacifiCorp); the acquisition formed the core of Pacific Corp's new Pacific Telecom division.

By the mid-1980s, Alascom had invested millions of dollars to create a modern satellite and terrestrial microwave telecommunications network serving all major Alaska towns and more than 160 rural communities. The network was viewed as a successful model for developing countries worldwide faced with similar problems of serving a relatively small population scattered across vast distances, often under inhospitable climatic conditions.

For its efforts, Alascom reaped the benefits of monopolistic service. And while the rates it could charge were regulated by the APUC and the Federal Communications Commission (FCC), the company had the opportunity to receive a regulated rate of return on its investment. It also received a large annual subsidy from AT&T, with whom it connected to carry calls to and from the Lower 48 and the rest of the world.

Starting a Subsidy

In 1972, the FCC stated that with

EXPERIENCE COSTS LESS

Specialized Fields:

- UST Removal & Installation • Remediation Services
- Hazardous Materials Handling & Hauling
- General Excavating • Cold Asphalt Recycling



B.C. EXCAVATING, INC.

2251 Cinnabar Loop, Anchorage, Alaska 99507
Phone: (907) 344-4490 • Fax: (907) 344-4492



ANCO Foodservice

TOLL FREE 800-478-2653

Wholesale Distributor

- Gourmet Meats •
- Produce •
- Institutional Groceries •
- Soft Drinks •
- By-pass Mail •

Anchorage • 1401 East First Ave., Anchorage, AK 99510 • Ph. (907) 264-0224 Fax (907) 274-4622
Fairbanks • 1705 Wells, Fairbanks, AK 99701 • (907) 456-4488 Fax (907) 456-3044
Juneau • 5452 Shaune Dr., Juneau, AK 99801 Ph. (907) 780-4474 Fax (907) 456-3044
Kodiak • 8046 Rezanof Dr. W. Whse-B, Kodiak, AK 99615 Ph. (907) 487-4547 Fax (907) 487-4547
Seattle • P.O. Box 24627, Seattle, WA 98124 Ph. (206) 623-3256 Fax (206) 233-0786

the inauguration of domestic satellite service, Alaskan interstate rates should come down and eventually match rates for like-distance calls between other Lower 48 states. The concept was known as "rate integration."

To accomplish this, Alascom took a decrease in its annual revenue and argued that it could ill afford such a cut while operating where the cost of doing business was considerably higher than in the Lower 48.



Anchorage Museum

The FCC agreed, and in time, Alascom and AT&T agreed to a plan (called the Joint Service Arrangement) under which AT&T would pay Alascom's costs to provide interstate service. In exchange, AT&T was entitled to Alascom's revenues generated by the interstate service. In essence, a subsidy was created that covered the difference between costs and revenues.

The concept of subsidizing a particular long-distance market was not unique. AT&T routinely subsidized less profitable portions of their own system with revenue from more lucrative markets. A complex formula for determining Alascom's reimbursable costs was created, which today allows Alascom to attribute 86 percent of its key investments in major circuit equipment (microwave facilities, etc.) for interstate service (costs that are subsidized). The remaining 14 percent is allocated for providing intrastate service (which is not subsidized by AT&T). It works out to an annual AT&T subsidy to Alascom of some \$80 million to \$100 million per year to make up Alascom's interstate expenses not covered by toll revenues.

David and Goliath

A lot has changed in the telecommunications industry since the 1970s when the Alascom/AT&T interstate subsidy was formulated. Since 1982, Alascom's competition has been primarily GCI, which began as a company some people thought would prove to be little more than a temporary thorn in Alascom's side. For some 10 years, Alaskans watched David-and-Goliath phone companies battle for

long-distance telephone dollars.

The battles were fought in the courts, the Legislature, the regulatory arena, in the press and in advertising. GCI, essentially free to set its rates at will, attacked Alascom with interstate rates that were typically just below Alascom's, which by regulation were, and still are, tied directly to AT&T's Lower 48 rates. GCI seemed to claim credit for forcing down Alascom's interstate rates by introducing Alaskan competition. In fact, Alascom's interstate rates were going down because AT&T, facing in-

creased competition from MCI and others, was cutting its rates. And as AT&T rates fell, Alascom's had to fall.

On the intrastate side, where Alascom is not bound by AT&T rates but still must secure APUC approval, GCI often continued to undercut Alascom rates by pennies or fractions of pennies per minute — even as Alascom cut its own rates. Alascom also countered with claims of superior equipment, service, experience and a long history of investing in Alaska.

By building its own facilities where

BEST OF THE BEST

Hot new products that will improve your business (and maybe your life!).

TECHNOLOGY PAYOFFS

Space age marketing that opens a whole new world (of customers).

RIGHT CONNECTIONS

Networking breakthroughs that make a perfect match (of product, buyers, sellers).

THE TIME MACHINES

Squeezing 14 hours of work into an 8 hour day.

HITTING THE JACKPOT

Success stories by Alaskans who found the "on" button and made technology payoff for them in... catalog sales, retail inventory and manufacturing.

WHERE WE'RE HOT

Resources + Technology = Environmental Steps forward that pay off now.

DEMONSTRATE

Clearly how to harness the latest technology for small and large business.

TRADE SHOW

SEMINARS

EXHIBITS

NATIONAL SPEAKERS

THE FUTURE
ISN'T WHAT IT
USED TO BE.

TECHNOLOGY A NEW DAY FOR ALASKA

Alaska State Chamber of Commerce 34th Annual Convention & Business Trade Show

September 28-30, 1993

William A. Egan Civic & Convention Center
Anchorage

For more information call (907) 278-2722.

it could and by leasing space on Alascom's network elsewhere, the young GCI sometimes appeared larger than it really was. Some services were initially bare-boned (GCI had no long-distance operators for several years), and the advertising budget was stretched thin. Today, GCI claims it has about 50 percent of the long-distance customers in markets where it competes with Alascom. Stressing customer service, GCI executive vice president and general manager Wilson Hughes (a former Alascom engineer) explains, "People want other services than just POTS — plain old telephone service."

Alascom, feeling the sting of competition after years of regulated monopoly, responded by paring its large work force, cutting costs, increasing its advertising budget and improving its network and services, including upgrading to digital technology.

Meanwhile, GCI's market success as well as Alascom's continued profitability did not go unnoticed by AT&T. The corporate giant, growing tired of shelling out nearly \$100 million a year to Alascom; at the same time AT&T faced new competition of its own in the Lower 48. GCI and other Alascom critics also began to argue that the long-standing AT&T/Alascom subsidy provided Alascom with an unfair advantage. Particularly irksome to GCI was the fact that Lower 48 dollars provided by AT&T could be used by Alascom for advertising and promotion.

New Competition and a New Joint Board

By as early as 1983, it was clear a new round of open competition would again change the face of Alaska telecommunications. A federal/state body, called the Alaska Joint Board, was created to examine the interstate telecommunications market and reconcile the often contradictory principles of open competition and regulated rate integration or mandated averaging.

An impediment to open intrastate competition has been the concern that competitors would choose to serve only the most profitable areas and not the smallest rural communities — a practice called "skimming." This argument has long been central to Alascom's posi-

tion resisting GCI's entrance into the intrastate market at the more attractive larger communities.

Alascom has insisted that the small rural communities, on their own, are a money-losing operation. Under the concept of universal service, rates are averaged for all market areas; the high profit areas support the money losers — a fact of telephone service in many places including, for example, Nevada and Minnesota. The concept applies to just two long-distance companies in the United States — AT&T and Alascom,



Alaska State Museum

both of whom are classified as carriers of last resort. In other words, because these companies are the dominate carriers in their regions, they must provide service if no one else does and do it for the same averaged price. Other companies, like MCI, Sprint and GCI, can choose to serve virtually at will (given some oversight by the regulatory bodies).

Today, the Joint Board, Alascom, GCI and AT&T all agree that it is time for a change toward a market-driven, open and competitive arena. The Joint Board conceded that the AT&T/Alascom subsidy arrangement gives "Alascom little reason to control costs." And in a recent report it says, "There are few, if any, advocates for the current market structure's preservation."

The first serious proposition was brought to the table last year by Alascom and AT&T, who referred to their joint proposal as the "master agreement." Included in the complicated proposal were a number of sweeping changes in the way the market would be struc-

tured, as well as a buyout of Alascom's interstate side by AT&T for \$330 million. The plan met with considerable opposition and died.

The Joint Board itself then fostered an alternative plan that is today being reviewed and receiving comment. The complex plan would wean Alascom from the annual AT&T subsidy while still financially compensating Alascom for its sizable investment over the years. In theory, the plan would allow AT&T to enter the interstate market, leave Alascom with less investment to carry on the intrastate side of the books, and therefore help prevent any rise in intrastate rates to the consumer in a competitive market. In effect, open, unsubsidized competition would arrive while cushioning the blow to Alascom, which would remain the regulated carrier of last resort.

Compromise Cuts Competition

The Joint Board proposes a number of changes, all of which would be instituted and then phased out within the next 10 years. It calls for Alascom's interstate cost allocation to shrink from 86 percent to 75 percent, thereby reducing AT&T's annual subsidy. To help make up the difference to Alascom, the board has proposed the creation of a nationwide fund into which phone companies all over the country would pay. As the interstate allocation shrinks, Alascom's allowable intrastate cost allocation for key investments would nearly double, from 14 percent to 25 percent. To keep these intrastate costs from causing a rate increase for Alaskans, the proposal would require AT&T to "buy down" some of Alascom's investment, i.e., reimburse Alascom. In the meantime, AT&T would also be obliged to contract with Alascom for the use of its equipment for at least three years, providing another source of assured income for Alascom during a transition period.

Alascom seems willing to accept this deal as the best compromise package available. "We're prepared to go forward with exactly what the Joint Board is saying, as long as there is a reasonable transition period," says John Ayers, Alascom's executive vice president and general manager.

Even GCI, faced with the entry of

another formidable competitor, feels that the Joint Board proposal represents the best compromise available. "The solution to the Alaskan market structure is AT&T entry into the market," agrees Dana Tindall, vice president of GCI's legal and regulatory department. "It's always been our position that (AT&T's entry) is what needs to be done."

AT&T, however, thinks it has a better idea, which it recently proposed as an alternative to the Joint Board proposal. By comparison, their plan appears to be a remarkably simple and straight-forward approach in an arena strewn with complex timetables and calculations. AT&T proposes a complete and immediate elimination of the Alascom subsidy; it would enter direct competition with Alascom and GCI for interstate calling to and from the Lower 48 at comparable nationwide rates; it would be prepared to construct much of its own \$230 million network, including a new state-of-the-art fiber optic cable linking the Lower 48 and Alaska through Juneau and



Anchorage; and it would provide complete intrastate service across Alaska using either its own equipment or through facilities leased from Alascom or GCI at rates equal to or less than Alascom or GCI for at least five years, except to pass through APUC-approved in-

creases in intrastate access charges.

Critics are not convinced. They point to that last clause about passing through increased access charges. What that means, critics say, is that if Alascom is granted increased intrastate rates to earn its current rate of return in a shrinking market, AT&T's and presumably GCI's rates will go up too, especially since both would be paying to use some of Alascom's rural network.

However, both GCI and AT&T contend they could make a respectable return at current prices regardless of where they might serve, even in the Bush, if given unrestricted access. They say that new, lower-cost technology plus current competitive market forces would give them an edge over Alascom, which must support an older, more expensive network.

Doug Wilcox, AT&T's Alaska business unit general manager, also tries to reassure critics by responding to a claim from John Ayers that Alascom's intrastate rates will rise under unbridled competition. "I tell John Ayers every time I see him, 'I love that story, John. I hope you do it because I'll get all of your customers!'"

After years of debate over the form and future of Alaskan telecommunication, change appears close at hand. The period of review and comment is well along, with a decision expected from the Joint Board by fall. Implementation is expected to begin on the first of the year. That said, it should also be noted that given the stakes and the complexity of the issue, any decision could be appealed, negotiated or litigated for some time.

But there does appear to be consensus on at least one point. Competition will likely cull the competition. Few people seem to think the Alaska market can support three major players the likes of Alascom, AT&T and an MCI-affiliated GCI.

And like Alascom's Ayers muses, "Anything is for sale at a price." □

Reliability on the job. Efficiency in design.

These are the traits Alaska's mine managers, engineers and equipment operators look for when they've got earth to move. It's why CMI built its reputation on quality product lines like Hitachi. We know that "Hitachi-made" means careful research and design that relies on nearly 80 years of field data. It means attention to engineering, from computer-aided design to ultrasonic structural tests to field engineers checking up on applications in the remotest of sites.

Hitachi-made means quality hydraulic systems in which motors, pumps and pipings are tested individually and then tested again in high-stress conditions, tougher than any you're likely to encounter.

At CMI we know Hitachi builds excellence into its excavators. In Alaska, where isolated worksites and extreme cold are part of the job, Hitachi excellence means less downtime and improved operating costs. That adds up to a job well done.



Kirk Curry
Anchorage



Construction Machinery, Inc.

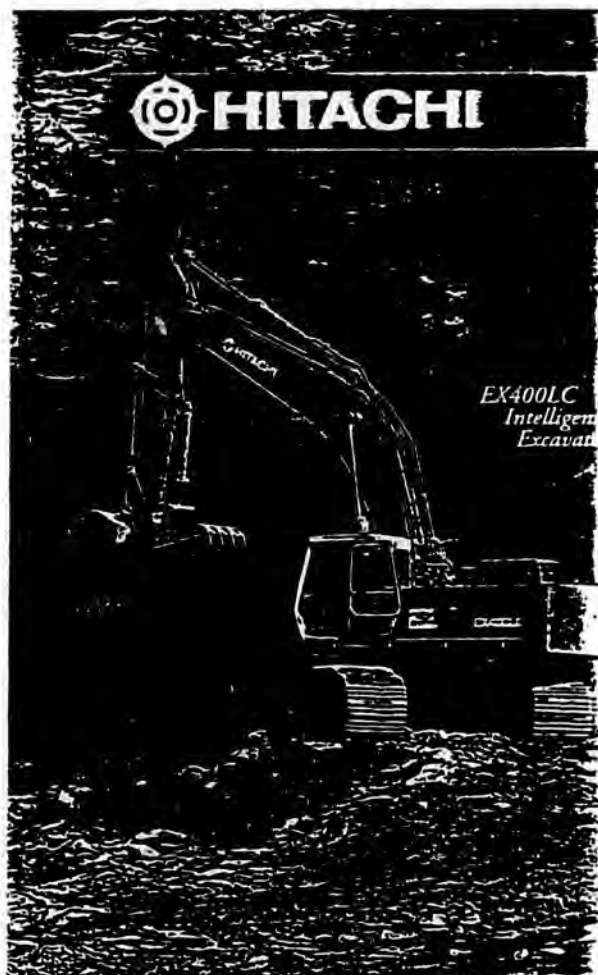


Daryl Baz
Juneau

5400 Homer Drive
Anchorage, Alaska 99518
FAX (907) 563-1381
(907) 563-3822

5295 Glacier Highway
Juneau, Alaska 99801
FAX (907) 780-4800
(907) 780-4030

P.O. Box 999
Ward Cove, Alaska 99928
FAX (907) 247-1405
(907) 247-2228



SCOMM

88:6



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

March 4, 1994

OFFICE OF
THE CHAIRMAN

Honorable Ted Stevens
United States Senate
522 Hart Senate Office Bldg.
Washington, D.C. 20510-0201

Dear Senator Stevens:

Thank you for your January 26, 1994 letter regarding proposed telecommunications legislation and telecommunications issues in Alaska. I also appreciated our discussion of the letter during my appearance before the Senate Committee on Commerce, Science, and Transportation. In your letter, you mention the legislation that is currently before the Committee that proposes wide-ranging changes to this Nation's telecommunications market structure for the purpose of increasing competition in the local exchange marketplace, and ensuring universal service. I look forward to working with you on issues related to this legislation and I hope that I can assist you as you proceed.

You also relate this legislation to several pending issues regarding telecommunications in Alaska. The Commission has moved cautiously in modifying the interstate telecommunications market structure in Alaska. In 1985, the Commission referred market structure issues to the Alaska Joint Board (Joint Board) in order to have state as well as federal consideration of the issues. Over the last eight years, the Joint Board has collected vast quantities of data, received extensive comments, reviewed numerous proposals, and held a public hearing. In October, 1993, the Joint Board recommended a comprehensive solution to the market structure issues in Alaska. The Joint Board's Final Recommended Decision, as well as public comment in the proceeding addressing Alaska telecommunications market issues, are currently before the Commission. Therefore, my comments must reflect that the public record is under review.

The objectives of the Joint Board in developing its recommendations appear to be consistent with your objectives in drafting new legislation. In its recommendations, the Joint Board proposes to increase competition in Alaska by ending the Joint Services Arrangement (JSA) between American Telephone and

Honorable Ted Stevens

2.

Telegraph Company (AT&T) and Alascom, Inc. (Alascom) that requires them to provide jointly interstate MTS telecommunications service. It also recommends several transition mechanisms that it states will promote universal service by ensuring no increase to the revenue requirements recovered through intrastate rates.

In your letter, you raise very important carrier of last resort and satellite replacement issues regarding Alaska. As you know, universal service is one of my major priorities at the Commission. I am aware that universal service issues are especially critical to the citizens of Alaska because of the state's topography and climate. As you note in your letter, Section 214 of the Communications Act grants the Commission authority to prohibit carriers from discontinuing service, thus allowing the Commission to ensure that consumers are not left without service. Sections 214 and 201 grant the Commission authority to require carriers to extend their lines and provide adequate facilities to perform service as common carriers. Under the current market structure in Alaska, Alascom is responsible for providing facilities throughout the state for interstate MTS service. If the Commission adopts the Joint Board's recommendations, Alascom and AT&T will be required to serve Alaska under the new market structure. With regard to interstate services, the Joint Board's recommended new market structure would require that AT&T provide interstate MTS service at integrated rates to and from Alaska. Thus, I anticipate no problems with ensuring that all areas in Alaska continue to receive telephone service if the Commission adopted the Joint Board's recommendations.

The Joint Board recommendations do not directly address the Alaskan satellite replacement question. Under the division of responsibility recommended in the Final Recommended Decision, however, Alascom appears to retain responsibility for the satellite replacement. Alascom has a facility monopoly in the Bush and is currently responsible for provision of facilities-based service to the Bush. Alascom's current responsibilities in the Bush would not change under the Joint Board's recommended structure. Satellite capabilities are particularly important in the Bush. Under the Joint Board's recommended structure, Alascom must provide the facilities necessary to enable interexchange carriers to offer interstate service to customers in remote areas where duplicate facilities are prohibited under federal and state regulatory policy. Alascom is not permitted to discontinue such service without Commission approval. Although AT&T could provide service to the Bush using Alascom's facilities, AT&T would not be responsible for providing facilities-based service to the Bush

because the Commission and the Alaska Public Utilities Commission have prohibited carriers other than Alascom and United Utilities, Inc. from building facilities to serve the Bush area.

Under the Joint Board's recommended market structure, I believe that Alascom would not be unfairly burdened if it replaced the current satellite at the end of its life, which should not occur before 2001. The Joint Board has recommended a number of mechanisms designed to achieve revenue requirement neutrality for Alascom, even assuming that it replaces the satellite. First, the Joint Board has recommended retention of the jurisdictional separations frozen allocator, which would assign 86% of circuit equipment investments and expenses, including a new satellite, to the interstate jurisdiction. Second, the Joint Board has recommended that Alascom be allowed to tariff interstate access to the Bush separately so that these costs are borne by all interstate carriers as they use Alascom's Bush facilities, including the satellite, to provide service to and from the Bush. Since other interexchange carriers, including AT&T, must use Alascom's monopoly facilities to and from the Bush, Alascom will continue to recover those Bush costs, including the satellite, after the JSA is terminated. And, because AT&T will continue to charge integrated rates, Alaskan ratepayers in the Bush will still pay interstate long-distance rates no higher than other ratepayers.

The Joint Board has recommended several other mechanisms that it believes would ensure that intrastate rates do not increase because of changes in the Alaska market structure. The Joint Board has recommended that AT&T make a payment of \$150 million to Alascom so that Alascom can reduce its asset account balances. This payment is designed to make Alascom more competitive and to reduce the possibility of intrastate rate increases if AT&T reduces its use of Alascom's interstate facilities. The Joint Board also has recommended continuation of the JSA for one and one-half years and mandated use by AT&T of Alascom's facilities for two and one-half years after termination of the JSA at gradually declining levels. In addition, under a non-Bush tariff, Alascom would also recover its costs for providing interstate common carrier switched and transport services from interexchange carriers serving Alaska. Finally, Alascom may also recover its costs by providing interstate telecommunications service independently, using its own facilities.

Thus, the Joint Board recommendations are designed to prevent any increases in either current or future intrastate rates, including those costs related to potential satellite replacement, over those that would be expected under the current

Honorable Ted Stevens

4.

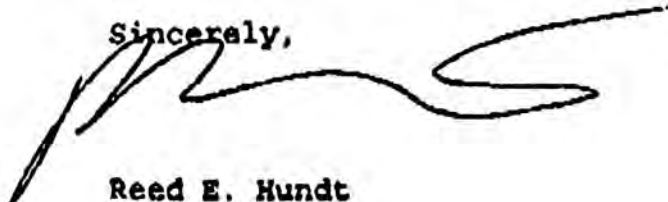
market structure (with the JSA). Indeed, the Joint Board recommendations seek to create a more competitive market structure that should lead to lower intrastate and interstate rates for Alaskan consumers.

As you indicate in your letter, several legislative proposals now before the House and Senate may change the role of telecommunications providers in the future. These proposals raise significant issues regarding the relationship between increasing local exchange competition and universal service. After preliminary review, we see nothing in the pending legislation that would compromise our current authority under Section 214 and Section 201 to preserve universal service. We appreciate your observations on these critical public policy issues and how they relate to Alaska in transitioning to the future telecommunications structure resulting from new legislation.

I concur in your view that the parties to the JSA should have sufficient time to develop and evaluate a private solution to this matter, although I think it is important to act expeditiously in considering the Joint Board's recommendations. For this reason, the Commission postponed final action on those recommendations planned for the February 3, 1994 meeting. The Commission plans to consider the Alaska market structure issues at the May 12, 1994 open Commission meeting. We will consider the Joint Board recommendations at that time unless the parties have reached agreement by May 4, 1994, the day before we will be issuing our Sunshine Notice for the meeting.

Again, I look forward to working with you and your staff on new legislation and to analyzing for you the possible effects of new legislation on Alaska telecommunications issues. I applaud your efforts, along with those of many others in Congress, to enact legislation that will better reflect developments in the telecommunications marketplace and thus advance universal service and ensure greater economic growth in this critical industry segment.

Sincerely,



Reed E. Hundt
Chairman

P.S. I enjoyed our cell. call to Barron.
Where do we call next?
- R

October 20, 1993



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

Dear Representative Hudson:

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

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

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

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

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

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

Sincerely,

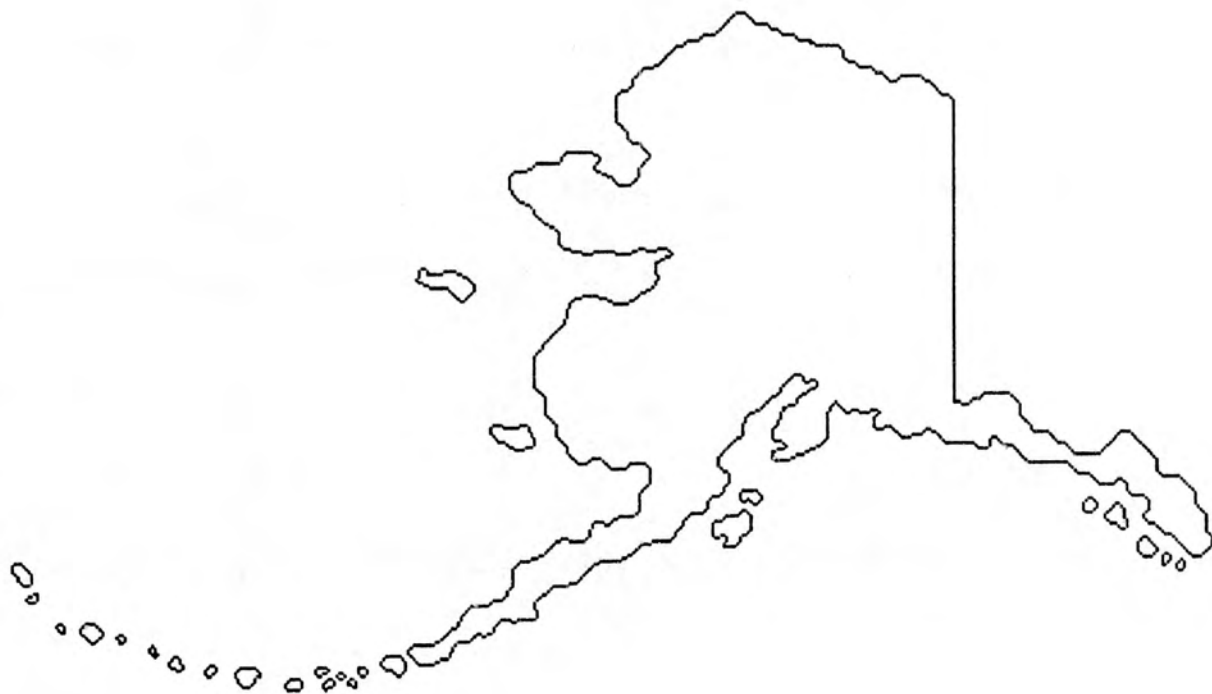
GENERAL COMMUNICATION, INC.



Ronald A. Duncan
President



FIVE -YEAR PLAN



December 29, 1989

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



GCI STATEWIDE NETWORK

New Technology:

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

Creative Operating Practices:

- pilot/technicians

Five-Year Plan - 208 Locations

Phase I

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

Phase II

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

Phase III

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

Phase IV

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



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

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

1. Phase I

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

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

A. Major Earth Stations

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



extended commercial power outages.

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

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

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

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



availability.

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

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

B. Regional Center Earth Stations

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



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

2. Phase II

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

3. Phase III

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

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

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



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

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

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

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



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

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

MobilSat earth stations are described below.

4. Phase IV

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

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



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

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

5. Network Management Center

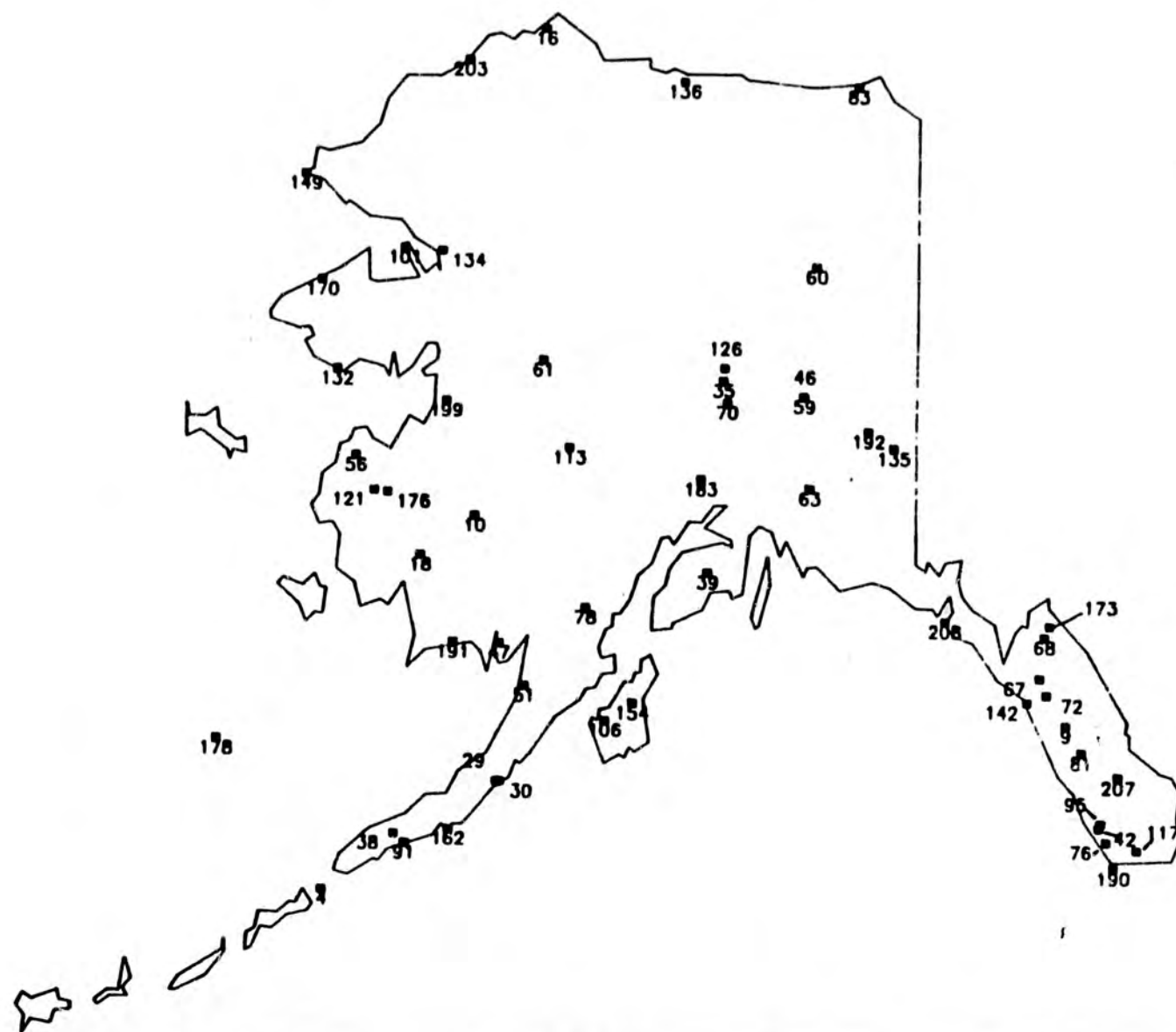
The NMC, located in Anchorage, is the focal point for all operation of the GCI system. It will be staffed on a 24-hour basis and serve to monitor and control all classes of earth stations. From this location, maintenance personnel can be alerted and/or dispatched to sites needing extraordinary surveillance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

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

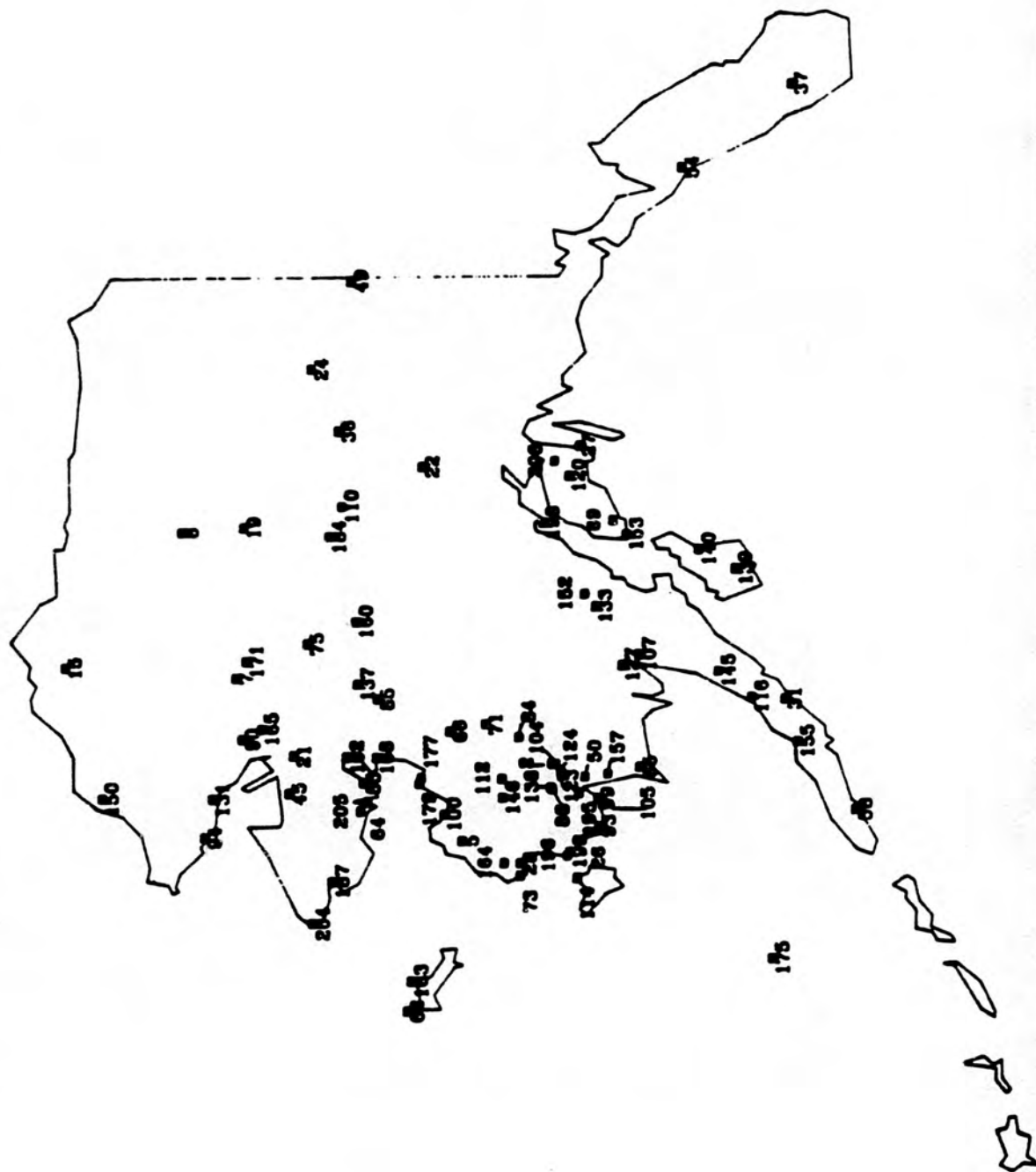
The NMC will maintain current location information on all maintenance personnel and prioritize maintenance actions in a logical order depending upon priorities established in advance. Centralized dispatch of maintenance personnel will be directed from this site.

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

GCI BUILD GROUP 2



GCI BUILD GROUP 3



Map Codes Sorted Alphabetically

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

Map Codes Sorted Alphabetically

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

Map Codes Sorted Alphabetically

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

Map Codes Sorted Alphabetically

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

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

Map Codes Sorted By GCI Build Group *

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

Map Codes Sorted By GCI Build Group

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

Map Codes Sorted By GCI Build Group

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

Map Codes Sorted By GCI Build Group

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

* Build Group corresponds to phase.

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



Anchorage Telephone Utility

Executive Offices

October 21, 1993

Representative Bill Hudson
Alaska State House of Representatives
State Capitol
Juneau, Alaska 99801

Dear Representative Hudson:

I, too, was sorry that you were unable to attend one of our briefings on the state of the telecommunications industry. I do, however, appreciate your interest and look forward to meeting with you at some point in the future.

During the briefing, we discussed federal policies which are resulting in competition being driven down to the local level. I am enclosing an excellent paper entitled "The Future of Local Competition: The War of All Against All" which was written by Dr. Joseph S. Kraemer. It summarizes succinctly and effectively the points which we made at the briefing. I would provide one update to Dr. Kraemer's work: On page nine, he refers to local telephone companies operating competitively outside their franchise areas as an emerging form of competition. The stage for such competition in Anchorage was set on October 13 when Bell South announced that it had purchased 22.5 per cent of Prime Cable with an option to purchase the remainder.

We at ATU are working very hard to position the company to meet competition. There is no doubt, however, that the system of regulation must change if we are to have a chance. We can't compete with an unregulated company if we must spend numerous months and hundreds of thousands of dollars to be granted permission to change our rates. Preliminary discussions lead us to believe that the APUC has begun to understand the dilemma and will work with us to develop a new regulatory procedure. At some point we will probably have to come to the legislature (hopefully in a joint appearance with the APUC) to ask for changes in state statute. When that time comes, we hope to have your support.

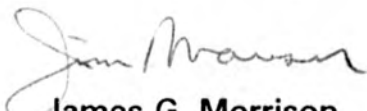
Royce -
This is a very
informative piece.
You need to read &
see that we keep a
file.
If
Competition may hurt!

Representative Bill Hudson
Page 2 of 2
October 21, 1993

I am available at your convenience should you wish to discuss this matter further.
If we can be of service, please don't hesitate to call.

Sincerely,

ANCHORAGE TELEPHONE UTILITY



James G. Morrison
General Manager

attachment

THE FUTURE OF LOCAL COMPETITION:

THE WAR OF ALL AGAINST ALL

By

Joseph S. Kraemer

DELOITTE TOUCHE TOHMATSU INTERNATIONAL
TELECOMMUNICATIONS &
ELECTRONIC SERVICES INDUSTRY PROGRAM
1993 MONOGRAPH SERIES

Reprinted with permission from *Business Communications Review*, March 1993, pp. 35-40.
Copyright 1993, BCR Enterprises, Inc., 950 York Road, Hinsdale, IL 60521; (708) 986-1432.
Minor editorial revisions incorporated.

This Monograph Series has been initiated in order to present short analyses of key issues facing the telecommunications industry. If you have any questions about the series or wish to be placed on the mailing list, call Ms. Amy Kozlowski at +1 (202) 955-4150.

ABOUT THE AUTHOR

Dr. Joseph S. Kraemer

Dr. Joseph S. Kraemer is based in Washington, D.C., and coordinates the worldwide telecommunications consulting practice of Deloitte Touche Tohmatsu International. He specializes in competitive analysis, market research and new ventures, and has worked with local telephone companies, long distance carriers, cable television companies and manufacturers of network equipment and CPE.

Dr. Kraemer is based in the Washington, D.C. office of Deloitte & Touche, a member firm of Deloitte Touche Tohmatsu International. If you have any questions or wish to discuss issues raised in this monograph, please contact Dr. Kraemer at +1 (202) 955-4203.

TABLE OF CONTENTS

	Page
I. Introduction.....	1
II. The Five Sources of LEC Competition	1
Interexchange Carriers (IXCs)	1
Competitive Access Providers (CAPs)	3
Cable Television Companies	5
Wireless	7
Emerging Competition: LECs Operating Out of Territory (LEC vs. LEC)	9
III. The LECs' Ability to Respond	10
IV. The User Stake in Local Exchange Competition.....	12
V. A Final Thought.....	12

INTRODUCTION

Think back just ten years ago. AT&T remained an integrated end-to-end carrier, and divestiture had been announced but not yet implemented. MCI was a fledgling upstart whose business was litigation not communications, and the predecessor of Sprint consisted of a series of microwave channels along the rights-of-way of a western railroad. No one predicted that a decade later AT&T would have lost 35% of its long distance market share or that MCI would be almost as large as AT&T was at divestiture.

Now, fast forward ten years to the year 2003 and change the focus from long distance to local service. Over the next decade can the local exchange carriers (LECs) expect to experience the same degree of market share erosion as AT&T in the 1983-1993 period? The confluence of certain competitive factors leads to such a conclusion.

The next question is: What will be the impact on end users, particularly large businesses? Conventional wisdom would indicate that end users should be winners because competition generally means lower prices, diversity of supply, and higher service levels.

But users should keep in mind that nothing worthwhile is free. Competition over the next decade will destabilize local markets for telecommunications services. Consequently, telecommunications managers will be forced to monitor local competitive conditions in all regions where the users have major facilities. Users may choose to deliver traffic to competitors of LECs and then manage an increasingly complex "network of networks" — or outsource the management function to a firm which specializes in optimizing local service options. The one certainty is that it will be in the interests of users to be proactive, not passive, in order to protect their own interests and leverage the opportunities which local exchange competition will provide.

THE FIVE SOURCES OF LEC COMPETITION

LECs face four actual sources — and one emerging source — of competition. The four actual include the interexchange carriers (IXCs), competitive access providers (CAPs), the cable television industry, and the emerging wireless industry. The one "emerging" source consists of the other LECs which may try to offset competitive losses in their home service territories by moving into the service areas of other LECs.

Interexchange Carriers (IXCs)

It should never be forgotten that the primary source of competition for the LECs is the interexchange carrier industry. IXCs are destined to be locked in competition with the LECs (particularly the Bell Operating Companies — BOCs) for three reasons:

1. Access charges are the largest expense of the IXCs — and constitute one-third of the BOCs' revenues (Exhibit I) and probably in excess of fifty percent of their profits. Therefore, any successful IXC effort to reduce the cost of access is a major threat to LEC operating and net income. To put it into perspective, a one percent reduction in access charges (all other things being equal) would increase the after tax earnings per share of AT&T by approximately six cents and increase the stock price approximately \$1.20. Numbers for MCI are comparable in the effects on income and stock price.

This economic reality means IXCs have no choice but to support CAPs, cable operators, and wireless companies so long as such support is translated into lower access costs. This also constitutes the essential threat to the access-dependent LECs which require the high operating margins from access revenues to support the LECs' existing cost

Exhibit I - Access Charges are the Second Largest Source of Revenue for the RBOCs...

	<u>1991 Total Revenues (\$ Billions)</u>	<u>1991 Telecom Revenues (\$ Billions)</u>	<u>1991 Access Revenues (\$ Billions)</u>	<u>Access as % of Total Revenues</u>	<u>Access as % of Telecom Revenues</u>
1. BellSouth	14.4	10.9	3.7	26%	34%
2. NYNEX	13.2	10.6	3.3	25%	31%
3. Bell Atlantic	12.3	9.2	2.9	24%	32%
4. Ameritech	10.8	8.7	2.5	23%	29%
5. US WEST	10.6	7.6	2.7	25%	36%
6. Pacific Telesis	9.9	7.8	2.3	23%	29%
7. Southwestern	9.3	7.0	2.4	26%	34%

SOURCE: 1991 RBOC FINANCIAL STATEMENTS

... AND THE LARGEST REVENUE SOURCE IS LOCAL SERVICE, WHICH IS POLITICALLY SENSITIVE

structure and cover their dividend payouts. Furthermore, loss of these revenues could reduce the LECs' investment in new network capabilities, such as higher speed digital access and switching, which will accelerate the LECs' loss of market share because competitors will deploy the latest technology.

2. By the terms of the Modified Final Judgment (MFJ) which broke up AT&T, the seven "Baby Bells" — known as the Regional Holding Companies (RHCs) — may not enter into the interexchange, inter-LATA business. **The seven RHCs constantly lobby for relief to allow them to do so. Consequently, the IXC's (particularly AT&T) must view the RHCs — and their BOC subsidiaries — as potential inter-LATA competitors.**

Currently, these potential competitors (i.e., the BOCs) control access to the IXC's customers. Therefore, the IXC's confront a potential future in which BOCs — which the IXC's partially finance through access charges — will compete with the IXC's while simultaneously controlling access to IXC customers. Under this scenario, it is a strategic imperative that all IXC's decrease dependence on the BOCs in anticipation of the day — which the RHCs never cease to demand — when the BOCs (or a separate, affiliated RHC subsidiary) will be competitors for inter-LATA traffic.*

3. Finally, LECs routinely speak in terms of "controlling their customers" — particularly large users. This is the market segment for which IXC's vigorously compete among themselves. There is a natural competitive tension between LECs and IXC's when both are struggling to "control" the same accounts. Therefore, the logical action for an IXC is to structure the interconnection of the IXC's network to the customer in such a way as to minimize the role of the serving LEC with respect to transporting or switching interexchange traffic.

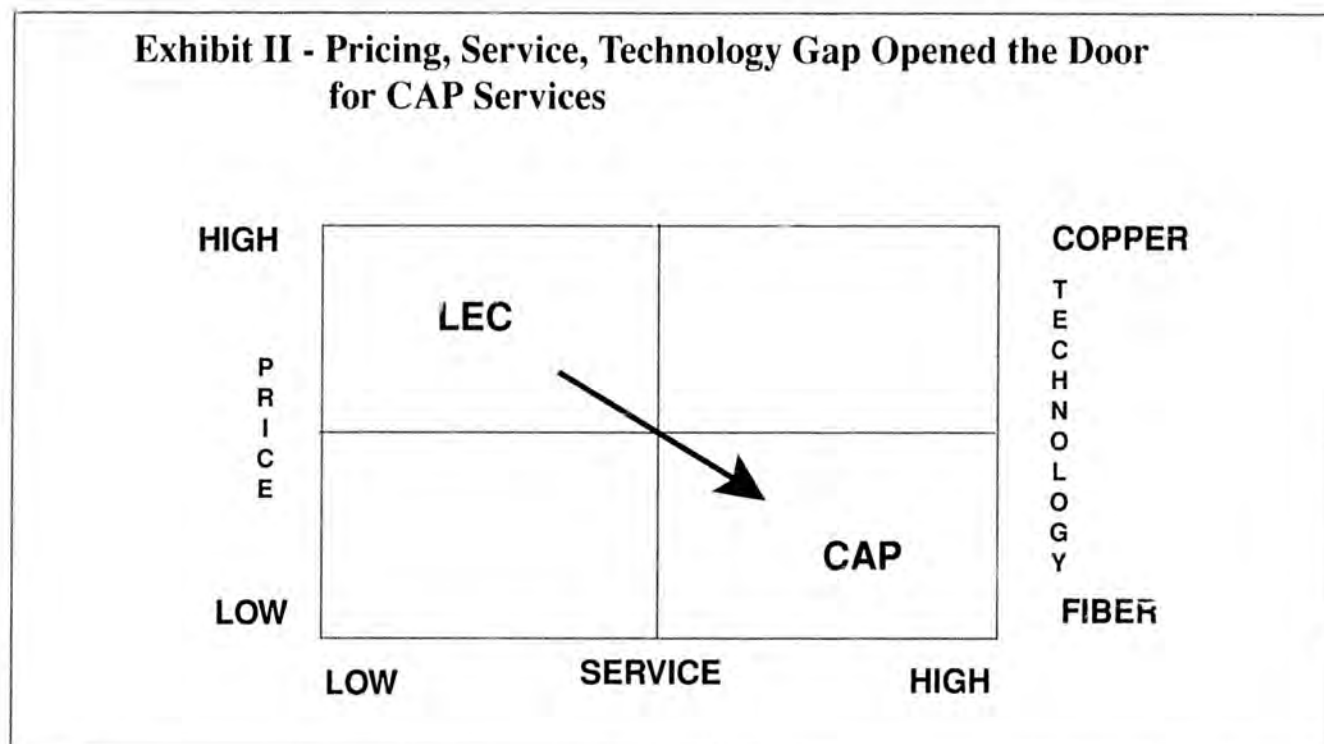
* The IXC's already compete against the BOCs for intra-LATA toll traffic which is a high margin service and averages 15% of LEC revenues. In general, access and toll combined account for approximately 50% of LEC revenues, all of which will be contested one way or the other by the IXC's.

The LECs confront a difficult choice. Recently, wherever LECs reduce the price of access, the IXC's, led by AT&T, tend to not pass the reduction on to end users so there is no stimulation effect on traffic. Therefore, the LECs lose on the transaction through reduced margins and cashflow without any offsetting increase in network traffic. (At least if the IXC's passed on the access price reductions to customers, some stimulation would occur.) Conversely, if the LECs do not reduce access prices, this reinforces the short run incentive of the IXC to accelerate bypass. Either way, the LECs confront a lose-lose choice.

Competitive Access Providers (CAPs)

CAPs are fiber optic-based firms that supply service to interexchange carriers and large end users. Since their emergence in 1987, these firms have been variously designated metropolitan area networks (MANs), alternative access vendors (AAVs), alternative local transport providers (ALTs) and, finally, competitive access providers (CAPs), which is the designation used in this paper.

The CAP industry began in the mid-1980s by exploiting what they claimed was a combined technology, service, and price "gap." This so-called gap arose because LECs operated at a competitive disadvantage in three critical areas (Exhibit II):



- **Technology:** LECs operated an embedded, underdepreciated copper network in which fiber optics were generally introduced only to support growth and rehabilitation projects. The CAPs simply overbuilt the LECs with a state-of-the-art all fiber network.
- **Price:** LECs were handicapped by regulatory policies that required cross subsidies for basic residential rates by business services. LECs were slow to offer wideband (T-1 and better) services at prices the end users were willing to pay. Consequently, CAPs entered and priced at a discount in comparison to a LEC.
- **Service:** LECs generally failed to understand the demand for wideband service by IXCs and large end users and were not prepared to efficiently handle a high volume of service orders and installation requests. The missed deadlines, excessive downtime, and poor customer service created a clear market opportunity for CAPs.

Once CAPs installed their high volume, non-ubiquitous, limited access networks, users found an economic means to diversify their networks — something the LECs in the late 1980s could not (or would not) provide. From then on, users (including IXC's as well as end users) considered diverse routing, and even diverse suppliers, as mandatory for their networks. CAPs positioned themselves to be the alternative carrier and the source of diversity. In fact, the diversity requirement sounded the death knell of the local exchange monopoly for large business users.

CAPs exist and will continue to exist because they are a tactical necessity for IXC's due to the naturally competitive business relationships existing between LECs and IXC's. IXC's use CAPs because CAPs: (a) provide effective leverage on LECs in matters of price and service; (b) offer generally lower prices and volume discounts; (c) provide all fiber networks; (d) provide network redundancy; and (e) meet end user requirements for diverse routing of access circuits. For small IXC's with a single point of presence (POP), CAPs are attractive because CAP pricing is generally less distance sensitive than LEC pricing.

Large end users use CAPs either directly or through an IXC. Surveys of end users with CAP experience identify the following competitive advantages for CAPs: (a) focus on high capacity services; (b) flexibility in provisioning and service levels; (c) a 24-hour centralized network monitoring capability; (d) diverse routing by means of an urban ring architecture; and (e) higher levels of customer service based on a "we try harder" marketing philosophy. While these five factors do not provide a permanent competitive advantage, they do represent certain factors that a LEC must address in order to compete effectively.

In addition to these five factors, there is another key competitive factor — price. In general, CAPs tend to be less expensive than LECs. That price advantage tends to be in the 10 percent to 20 percent range for recurring services. The CAP price advantage results from several factors, including higher productivity and freedom from the social pricing schemes imposed by regulation on LECs.

On September 17, 1992, the Federal Communications Commission (FCC) took a series of actions that will dramatically increase competition in the local exchange marketplace. These decisions, among other things, required LECs to offer collocation at the central office for dedicated services to competitors (including IXC's) and users.

The FCC's September 17 decisions ensured that CAPs will operate at least into the mid-1990s. However, the total revenues of the CAPs are in the \$200 - \$250 million range. This is insufficient to build out their networks, develop new services, and market and sell to new customers. Most likely, the FCC has just ensured that individual and multicity CAPs will become takeover targets — particularly for the cable television industry,* IXC's, and potentially for LEC holding companies operating out-of-region.

Because of the FCC's ruling, providers of alternate local transport services will see a big increase in their potential market, but may face new challenges in pricing their services. Most immediately, they will gain access to some of the business of private line customers (or IXC's requiring access facilities to reach private line customers) not directly served by their own access facilities. However, CAPs that interconnect with LEC facilities may lose some of the marketing advantage gained from emphasizing facility diversity to end users.

Under the FCC's new rule, a competitive local carrier need only extend its network to the LEC's central office nearest the customer, connect its circuit to the LECs, and use a LEC local loop for the "last mile." When interconnection rights are extended to switched traffic, alternate providers will

* The first CAP, Teleport, has already been purchased by four large cable companies.

also compete for the business of providing interexchange carriers with transport for ordinary switched long distance calls (i.e., between central offices serving business and residential customers and the interexchange carrier point of presence).

These expanded opportunities may permit entry into new cities. This will occur because the economics of the alternate access business will now allow a CAP to use collocation to leverage a LEC's network in order to enter smaller markets.

It should be noted that one component of the FCC's September 17 decisions revised the system of switched local transport rates. The effect will be to advantage larger IXC's (particularly AT&T) over smaller IXC's. These changes will affect IXC's incentives. For example, with larger carriers (e.g., MCI, AT&T) able to obtain transport at (geographically deaveraged) DS-1 and DS-3 rates, rather than the same per-minute rate charge to all competitors, there may be less cost pressure on IXC's to leave LEC networks. However, it is impossible to imagine a future in which any IXC relied on any LEC as the sole source for access services.

Cable Television Companies

Over the past decade, the cable industry has grown and consolidated. As of the end of 1991, cable customers numbered approximately 60 million households of which the top ten cable multiple system operators controlled 55 percent. Furthermore, cable revenues are now equivalent to 29 percent of total RHC revenues and, since 1984, have grown over twice as rapidly as the RHCs' (Exhibit III).

There is a natural synergy between CAPs and cable television. Cable networks serve primarily residential neighborhoods while CAPs traditionally cover the business centers. In combination, one or more cable companies plus a CAP cover essentially the main revenue areas of a LEC metropolitan franchise area. Interconnected cable-CAP networks could hand off and receive traffic from each

Exhibit III - Moreover, the Cable Industry Revenue is a Growing Percentage of BOCs' Revenue...

<u>Year</u>	<u>BOCs*</u> <u>(\$Billions)</u>	<u>Cable**</u> <u>(\$ Billions)</u>	<u>Cable/BOC</u>
1984	55.9	7.77	13.90%
1985	59.3	8.94	15.08%
1986	61.4	10.17	16.56%
1987	62.0	11.76	18.97%
1988	65.2	13.58	20.83%
1989	66.2	15.67	23.67%
1990	67.0	17.86	26.66%
1991	67.9	19.80	29.16%

SOURCE: FCC ANNUAL REPORT FORM M'S, PAUL KAGAN ASSOCIATES

* BOC REVENUE IS FORM M OPERATING REVENUE

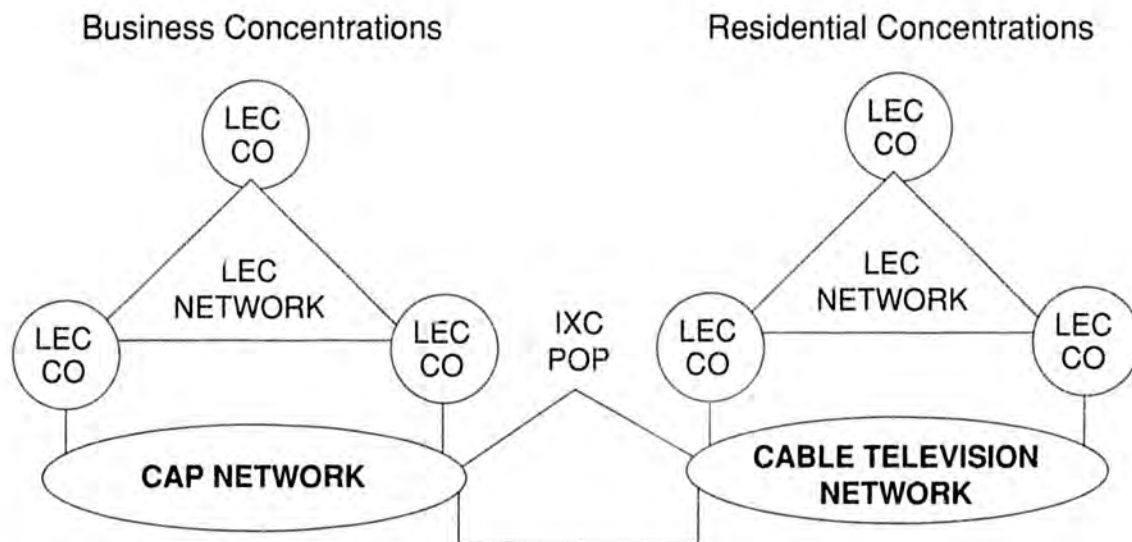
**EXCLUDES PROGRAM PRODUCTION REVENUE

**... THE COMPARISON IS EVEN MORE VIVID WHEN THREATENED
BOC ACCESS REVENUES ARE EXCLUDED**

other to be delivered to an IXC's POP, an end user's premises, or a collocated point-of-interconnection in a LEC central office (Exhibit IV).

Furthermore, the September 17 FCC decisions increase the potential for entry by cable television into the local access and transport business. Not that cable needed much encouragement. Even before September 17, Cox and TCI purchased Teleport from Merrill Lynch — and have restructured the deal to allow participation by two other top ten cable operators, Comcast and Continental. John

Exhibit IV - Unbundling Transport Increases the Potential for Entry by Cable Television...



Malone, CEO of TCI, has made clear his expectation that local access and transport will be a significant revenue enhancer for the cable industry.

Furthermore, CableLabs, the R&D center for the cable industry, has developed a network architecture for the cable industry which is based on a regional hub concept interconnecting multiple separate fiber-based cable systems. This architecture allows for — if not encourages — entry into the telephony business in competition with LECs, as well as supports a network of networks concept by taking interconnected cable systems and further interconnecting them with CAPs, wireless services (especially PCN/PCS), IXCs, and LECs (via collocation in central offices).

I would guess if the access market [for cable] is not a \$1 billion business three years out, we're all wasting a lot of time and capital.

JOHN MALONE, 1992

Finally, keeping in mind the vested interest of the IXC industry in supporting local exchange competition, AT&T has made substantial commitments to a digital cable network that could support a broad range of telecommunications services including:

- An alliance with Optical Networks International to produce a digital cable network capable of supporting voice, wireless, and large-customer interconnection to AT&T POPs;
- An alliance with General Instrument (and TCI) to develop a set-top box for digital video decompression; and

- Development of hardware and software to deliver voice over a cable fiber-coax network (to be deployed in the United Kingdom for a US WEST-TCI joint venture).

However, it should be noted that the provisions of the recent cable reregulation statute (officially titled **The Cable Television Consumer Protection and Competition Act of 1992**) contain rate regulation provisions which may adversely affect cable's capability to compete with LECs. Many observers believe rate regulation will restrict cable's ability to increase margins by raising rates, make it difficult to attract capital for network modernization, raise cable's operating costs, and impede diversification into telephony.

In fact, one impact of rate regulation may be that small, highly leveraged cable operators may opt to "partner" with LECs to build a common infrastructure. Another impact may be that cable properties become available at significant discounts to the price-per-subscriber paid in the late 1980s which will allow "new money" to enter the cable industry — including potential IXC investment in cable facilities. (For example, one potential investor could be MCI which has announced that a major use of the \$4 billion investment received from British Telecom will be to reduce dependence on LEC access services.)

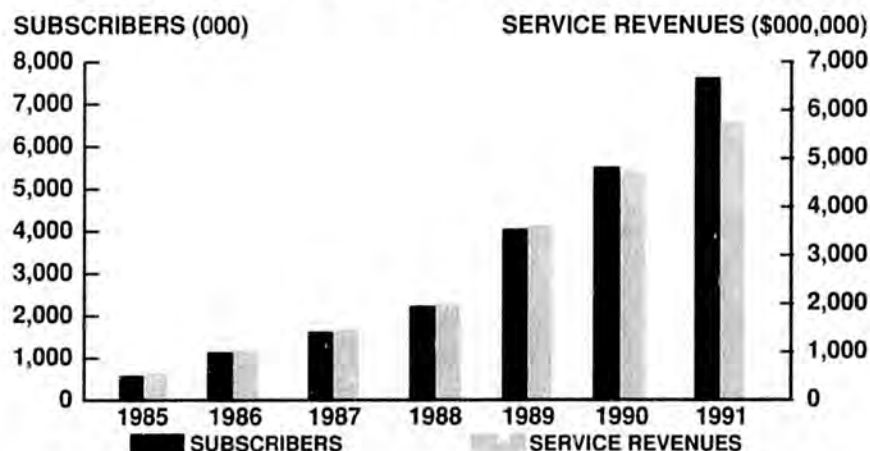
Wireless

The term "wireless" covers the existing cellular and special mobile radio industries, as well as the newly emerging Personal Communications Services (PCS) technologies. From the viewpoint of a LEC, wireless service providers will increasingly be competitors in all core business lines of a LEC, including access, toll, and local service.

Cellular service began in 1984 and by 1991 had almost eight million subscribers and annual revenues of approximately \$6 billion (Exhibit V). Currently, cellular systems in the U.S. are analog systems and capacity constrained at peak times in major metropolitan markets.

To date, the LECs have benefited from cellular and other currently deployed wireless services. Benefits to the LECs have included: (a) increased revenues from cellular traffic, most of which is intra-LATA mobile-to-fixed; and (b) additional network utilization which supports scale economies. **In fact, the relationship of wireless (primarily cellular) to wireline has been largely win-win. This condition may not necessarily hold in the future.**

Exhibit V - Cellular Telecommunications in the U.S. Has Grown Substantially in Subscribers and Revenue...



SOURCE: CTIA

One in three business users expects to spend less on wireline as they increasingly deploy wireless services.* The clear implication is that increasing penetration by wireless means less direct revenues for LECs from end users. While the LECs will receive access revenues from wireless service providers, that will only partially offset lost revenues from end users.

Cable television companies have demonstrated an increasing interest in entering into the telephony business using some combination of wireless access with a fiber-based backbone transport. Users also express a willingness to use a cable television company as their wireless service provider.

The newly emerging radio-based PCS services use frequencies that are different from those used for cellular radio service. The FCC has issued over 150 experimental PCS licenses. Significantly, LEC competitors (including the IXC's), rather than the LECs or their cellular affiliates, have filed for most of those licenses.

PCS can be the most significant component in the network of networks competing with the LECs. To put the threat of PCS into perspective, keep in mind that:

- **The FCC has decided to allot sufficient spectrum in 2 GHZ range to support two to five PCS operators, but whether they will be local, national, or a mix of the two has yet to be decided;**
- **Technology is available to support light weight, micro/picocell-based wireless systems *which will have transmission quality superior to current cellular systems and equivalent to wire-based LEC systems;***
- **Batteries will soon permit users to recharge only once a week under eight hour per day usage cycles;**
- **Computers and electronics manufacturers have developed equipment for wireless data; and**
- **Cable television system fiber/coax technology appears able to support distributed PCS antennas at relatively low cost.**

The IXC's have displayed significant interest in wireless and PCS. MCI has filed a plan with the FCC for a national service in alliance with local service providers including LECs. In addition, the recently consummated Sprint-Centel merger provides Sprint with cellular properties and potential synergies between interexchange and cellular services.

But the actions of MCI and Sprint pale into insignificance beside the commitment of AT&T to wireless as shown by such recent AT&T actions as:

- Formation of a new business unit, "AT&T Personal Communications Services" (January 1991);
- An announcement of reentry into the commercial cellular phone market with three new products (September 1991);
- Filing for PCS pioneer preference (May 1992);
- Petitioning of the North American Numbering Plan Administration for two dialing prefixes for personal communication service (May 1992);

* For example, see *User Perspectives on the Future of Wireless Communications* (1992) by Dr. Joseph S. Kraemer and Mr. Gerald M. Belson.

- Formation of an alliance with three of the largest Japanese electronics companies to build personal communicators based on the AT&T hobbit chip (October 1992); and
- **The \$3.8 billion acquisition of a major interest (with an option on a controlling interest) in McCaw Communications, the largest cellular service provider in the U.S., which will put AT&T in competition with LEC-affiliated wireline cellular companies and provide a base for bypassing LEC access facilities using cellular and PCS frequencies (November 1992).**

Given the strategic imperative of the IXC's to reduce access charges and given the interest of all three of the national IXC's — but especially AT&T — in wireless, the LECs can expect substantial wireless-based competition by the late-1990s. Furthermore, from a business strategy perspective the LECs need to consider:

- At some point, increased spending on wireless by business and residential customers will reduce spending on traditional LEC access and transport services.
- The future growth of business wireless will be data driven. This means the LEC network will be receiving more short, bursty transmissions with frequent set ups and no tolerance for error.* This has both network engineering and pricing implications for LECs.
- Wireless service providers will seek ways to reduce their cost of access to LEC network facilities. This drive toward access cost reduction may be accelerated depending upon: (a) the degree of price competition for end user business; and (b) the higher the LEC price of access to wireless providers.
- As wireless services begin to compete more fully for business and residential voice markets, LECs will experience a loss of traffic and revenues as CAPs and cable television systems compete to provide backbone transport of that traffic.
- Some PCS service providers may wish to treat LECs as *wholesalers* of: (a) transport services to remote transmission sites; and/or (b) intelligent network features.

The bottom line on wireless is that the potential for conflict between the LECs and wireless services will accelerate. User attitudes indicate a willingness to try wireless and, if successfully adopted, to spend less on wire-based services and to displace traffic from LEC networks. The competitors to LECs (e.g., AT&T, the other IXC's, cable television companies, and CAPs) recognize the potential and are major recipients of PCS trial licenses. To the extent LECs react by increasing the price of access, this will only accelerate the movement to wireless-plus-fiber bypass systems. The strategic implication for LECs of the growth of wireless will be significant.

Emerging Competition:

LEC's Operating Out of Territory (LEC vs. LEC)

The "emerging" competitor is another LEC — or more accurately a holding company with regulated in-region operations and unregulated out-of-region operations. There is no more frightening competitor for a LEC than another LEC, probably using some combination of wireless and fiber optic facilities.

To date, there has been no *meaningful* LEC versus LEC competition. Some holding companies in the mid-1980s did try to launch directory businesses (yellow pages) out-of-region, but these

* The FCC in its PCS Notice of Proposed Rulemaking has considered applications that will transmit bursty data traffic at 10 MHz bandwidths.

generally failed and were withdrawn. True, a wireline carrier operating out-of-region generally holds the non-wireline cellular franchise in metropolitan areas across the United States. However, as described above, so far the relationship of cellular carriers (wireline and non-wireline) to LECs has been win-win rather than competitive.

Until late 1992, LEC strategic planners could not prove the business case for becoming a LEC competitor out-of-region because:

1. The fundamental driver for local exchange competition is the strategic imperative of the IXC's to reduce access charges. IXC's accomplish this by handing off traffic to, and receiving traffic from, a LEC's competitor. The conventional wisdom is that no IXC wants to be dependent upon a LEC operating in- or out-of-region.
2. To expand into another LEC's territory is to invite retaliation in kind from a firm which knows the local access and transport business. The risk is too great, and the quantifiable benefits (to date) not material. (The exception may be independent telephone companies which perceive that the economics of their service territories will not invite retaliation no matter what the provocation to a BOC.)

However, such business case logic requires revision. Two recent events, the Southwestern Bell acquisition of cable television systems in Bell Atlantic's territory and US WEST's \$2.5 billion investment in Time Warner, have transformed the competitive environment. Apparently, top management at both Southwestern Bell and US WEST reached the conclusion that earnings from their in-region telephone businesses could not sustain their desired growth rate in the mid-to-late 1990s. By buying into cable television out-of-region, Southwestern Bell and US WEST moved LEC vs. LEC competition from the category of remote possibility to one of high probability in the mid-1990s time frame. The stage is now set for an even more intense war of all against all.

THE LECs' ABILITY TO RESPOND

In the early stages of competition, the LECs have substantial advantages including: access to capital, experience, a customer base, and, most important, an in-place network. But competitors usually are focused, flexible, organized, and deadly in the market segments/niches in which they choose to compete. In addition, competitors can usually rely upon IXC support — particularly from AT&T — whenever the competitor can offer a reduction in access charges to the IXC's.

To be effective competitors, the LECs need to rapidly address a difficult set of strategic issues including *at least* the following:*

1. LECs operate in a regulated environment with both federal and state regulators sharing responsibility for regulation. In the early stages of competition, the LECs have attempted to manipulate the regulatory process to delay or frustrate competitors. This has proven generally to be ineffective and, in many ways, counterproductive as LECs appear to "cry wolf" too often over too little. In the end the LECs have been forced to enter into a new market structure which was not of their design or choice.

* There are several other strategic issues facing the LECs, e.g., a financial strategy which pays out too much capital in the form of dividends, failure to hire and promote outsiders, etc. However, the three issues summarized in this paper impact directly on the capability of the LEC to respond to customers, markets, and competitors.

LEC management must become proactive and formulate or negotiate a breakthrough "deal" with state and federal regulators. The deal concept envisions more risk to shareholders (not ratepayers) in return for freedom of action and rewards (commensurate with risk) to shareholders. The deal needs to include the previously "unthinkable," including opening the network to competitive interconnection (end the "bottleneck") and writing off obsolescent plant. Shareholders must be prepared to assume more risk (in return for the associated reward potential) for accelerating the fiber-to-the-home network infrastructure necessary to supply "Information Age" services to the U.S. economy. A critical deal component would be substantial pricing flexibility for the LECs in return for opening their networks.

2. LECs tend to be organized like armies — hierarchies of levels, tight chains of command, deference to authority, and functional isolation. The organization structure supports (and reinforces) the corporate culture which is inward focused, risk averse, and does not stress individual accountability as a value.

The LECs need to reorganize into some form of strategic business units (SBUs) which focus on customers and markets, not geographical operating units. SBU managers should be compensated (or terminated) based on the performance of their SBU.

LECs must also recognize that only more autonomous SBUs can facilitate early entry into markets with shorter life cycles under conditions of uncertainty. The ease of entry that the CAPs enjoyed would not have occurred if the LECs had an SBU focused on high capacity business services. Furthermore, LECs must seek out strategic business partners to complement their strengths or offset their weaknesses.

3. As many customers know, LECs generally operate as low productivity, labor intensive businesses — a real anomaly given the "high tech" network which those operations support. The low productivity is associated with a high cost structure which creates opportunities for competitors to enter markets and underprice the LECs.

As competition increases, LECs struggle to automate, become more efficient, and reduce the labor content of operations. The effort to automate can take five to seven years, a period during which customers and employees suffer from a hodgepodge of confusing, overlapping, and partially automated systems on the road to a less labor intensive, more sophisticated, and less costly set of support systems, methods, and procedures.

In the end, the LECs must achieve a low cost/high productivity operating structure. Such a structure will yield a high market share, high margins, and satisfied customers, as well as constitute a barrier to entry by competitors. Failure to do so will alienate customers, regulators, and employees and, eventually, put the shareholders' investment at risk.

Competitors and their financial backers assume a LEC will take at least half a decade to focus and learn how to market, sell, and be effective in a competitive environment. To date, experience has shown that the competitors tend to be correct. **Since market share lost will probably never be recovered, the inability of a LEC to react (or even better — anticipate) rapidly, flexibly, and appropriately literally gives away market share to competitors.**

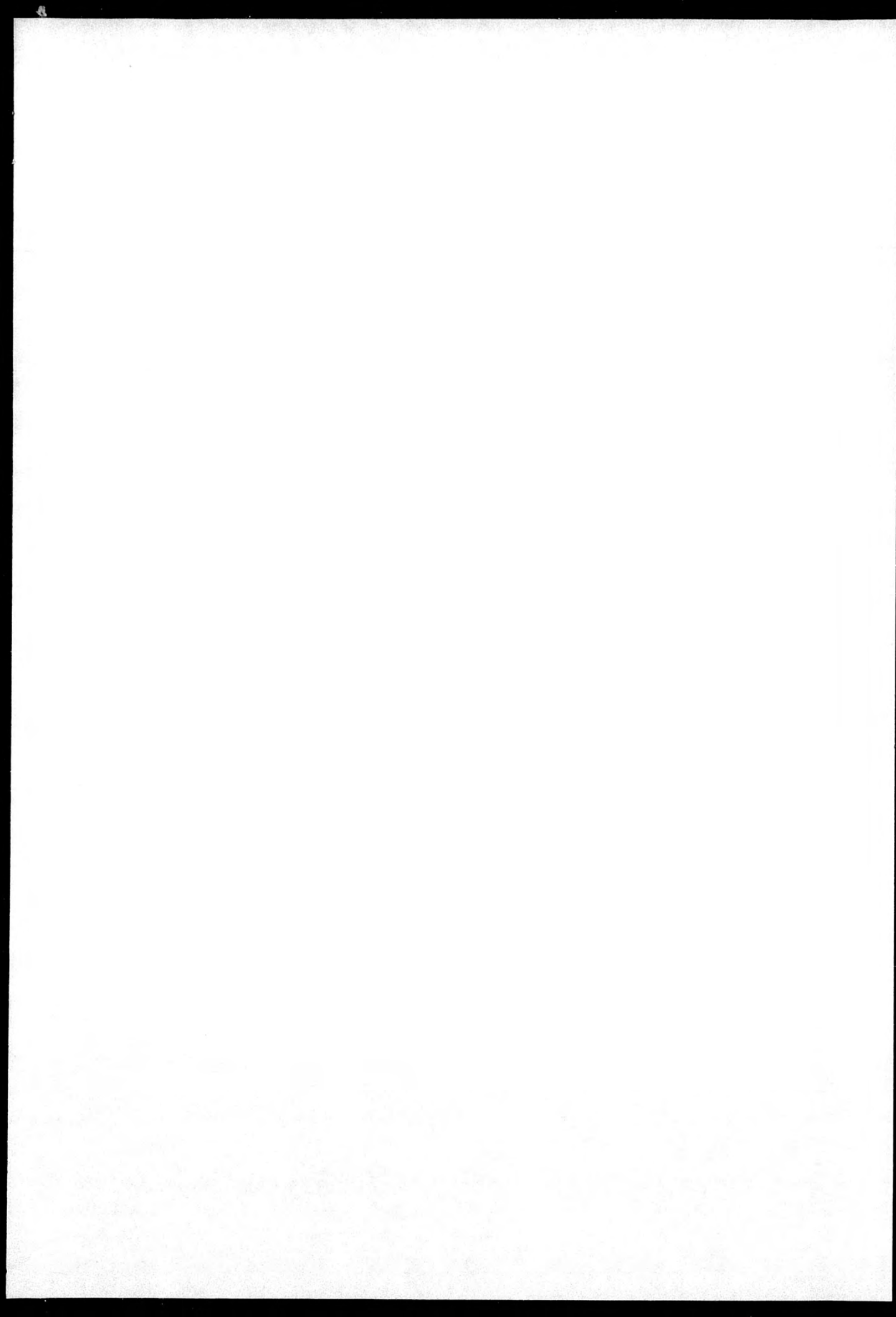
THE USER STAKE IN LOCAL EXCHANGE COMPETITION

Basically, end users appear to end up as winners because of local exchange competition. They will benefit from lower prices, better service, more innovative service options, and diversity of supply. But there is no such thing as a really free lunch, and end users need to consider the following risks:

1. LECs provide ubiquitous service under the terms of their franchise. Competitors have no such obligation. **Multi-location users with a patchwork of LEC and competitor services (within and among metropolitan areas) may experience differential service definitions and levels by location.**
2. **The revenue reduction effect of competition may affect adversely the capability of LECs to maintain the high quality connectivity and network service which has become standard in the U.S.** It is not clear that competitors can do more than cream skim so a deterioration in basic LEC service may not necessarily be offset by competitors replacing the LEC.
3. **Given the expanding range of local competitive options (variable by user location and far from uniform nationally or even region wide), end user decision making will become more complex, and, therefore, the costs associated with vendor selection and network management will increase.** This may reinforce the present trend among large users to out-source some or all telecommunications functions.
4. Keep in mind that the primary driver for local exchange competition is the core conflict between IXC and LECs over access. As a result, whenever an IXC arranges a competitive local access and transport option for an end user, **this provides the IXC increased control over the user, probably without any reduction in the price of IXC service. In fact, the IXC rather than the end user may be the winner.**

A FINAL THOUGHT...

Well managed, IXC-supported, and well capitalized competitors can be expected to succeed, especially against LECs which remain inflexible in terms of market responses and incapable of dealing with other LEC organizational, regulatory, and financial problems. There is an old Chinese curse: "May you live in interesting times." Local competition for a LEC may prove very interesting indeed — and not necessarily an unmixed blessing for end users.



ROBERT C. BYRD, WEST VIRGINIA, CHAIRMAN

DANIEL K. INOUE, HAWAII
ERNEST F. HOLLINGS, SOUTH CAROLINA
J. BENNETT JOHNSTON, LOUISIANA
PATRICK J. LEAHY, VERMONT
JIM SASSER, TENNESSEE
DENNIS DECONCINI, ARIZONA
DALE BUMPERS, ARKANSAS
FRANK R. LAUTENBERG, NEW JERSEY
TOM HARKIN, IOWA
BARBARA A. MIKULSKI, MARYLAND
HARRY REID, NEVADA
J. ROBERT KERREY, NEBRASKA
HERB KOHL, WISCONSIN
PATTY MURRAY, WASHINGTON
DIANNE FEINSTEIN, CALIFORNIA

MARK O. HATFIELD, OREGON
TED STEVENS, ALASKA
THAD COCHRAN, MISSISSIPPI
ALFONSE M. D'AMATO, NEW YORK
ARLEN SPECTER, PENNSYLVANIA
PETE V. DOMENICI, NEW MEXICO
DON NICKLES, OKLAHOMA
PHIL GRAMM, TEXAS
CHRISTOPHER S. BOND, MISSOURI
SLADE GORTON, WASHINGTON
MITCH MCCONNELL, KENTUCKY
CONNIE MACK, FLORIDA
CONRAD BURNS, MONTANA

JAMES H. ENGLISH, STAFF DIRECTOR
J. KEITH KENNEDY, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, DC 20510-6025

June 4, 1993

The Honorable Bill Hudson
State Capitol, Room 108
Juneau, Alaska 99801-1182

Dear Bill:

Thanks for letting me know of your interest in the Federal-State Joint Board proceedings on the future of the Alaska telephone market.

During a visit home last month, I met with Alascom and was briefed on their concerns about AT&T's proposal. AT&T has also expressed an interest in meeting with me to discuss their plan. I have said that I will meet with them, but felt it was proper to meet with Alascom first.

In a recent letter to the Chairman of the Federal Communications Commission, Jim Quello, I expressed my belief that the Joint Board should have the opportunity to hear testimony from Alaskans directly. Enclosed is a copy of the response that I received from the Chairman, which I hope you will find encouraging.

In addition, the Joint Board released their draft proposal for the Alaska telephone market on May 17 (a copy is enclosed). The FCC is currently accepting public comments on the Joint Board's recommendation, as well as on the proposal filed by AT&T.

With best wishes,

Cordially,


TED STEVENS

Enclosures



FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON

May 10, 1993

OFFICE OF
THE CHAIRMAN

Honorable Ted Stevens
Committee on Appropriations
United States Senate
522 Hart Senate Office Bldg.
Washington, D.C. 20510-0201

Dear Senator Stevens:

Thank you for your recent correspondence regarding two letters from Alaska state legislators interested in the ongoing Alaska Joint Board proceeding. As you note, there is considerable interest in Alaska in the Joint Board's draft market structure proposal, which will be released in the near future, and the recent restructuring proposal advanced by AT&T. In view of the significant impact these proposals will likely have on the future structure of the Alaska telephone market, you ask if arrangements can be made for the Joint Board to hear direct testimony from interested Alaskans.

As you know, the Alaska Joint Board has been examining intensively the significant and difficult Alaska market structure issues for a number of years. There have been numerous opportunities for all interested parties to comment, both generally and on specific proposals. Over the past year and a half, the Joint Board has sought comment on a Master Agreement negotiated by AT&T and Alascom for the provision of Alaska telecommunications services, and on the Memorandum of Principles on Alaska Market Structure drawn up by the state members of the Joint Board, led by APUC Commissioner Susan Knowles. The response from a wide variety of Alaskan parties -- including the State of Alaska, the Alaska Telephone Association, United Utilities, Inc., and GCI -- has given the Joint Board invaluable assistance as it considered these issues.

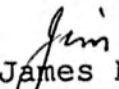
I agree with your view that Alaskans must be afforded an opportunity to present their views. Given the importance we place on informed comment by all interested parties in our decisionmaking process, we will offer both the Joint Board proposal and the AT&T proposal for public comment. I propose that once these comments are filed, I work with you and your office on how best to ensure, within our budgetary constraints, that there is adequate opportunity for direct Alaskan participation.

Honorable Ted Stevens

2.

I will keep your office fully informed of Joint Board plans and progress in its continuing efforts to craft an end product that advances all the policy objectives of the proceeding.

Sincerely,


James H. Quello
Chairman

Before the
Federal Communications Commission
Washington, D.C. 20554

FCC 93J-1

In the Matter of

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

Tentative Recommendation
and Order Inviting Comments

Adopted: May 17, 1993

Released: May 17, 1993

By the Federal-State Joint Board

Table of Contents

	Page
I. Introduction.....	3
II. Executive Summary	3
III. Background.....	5
IV. Market Structure.....	7
A. Introduction.....	7
B. Existing Market Conditions and Structure.....	7
C. New Market Structure.....	8
V. Cost Allocations	13
A. Allocation Factors for Alascom Circuit Equipment.....	13

B.	Allocation Factor for UUI Circuit Equipment.....	16
VI.	Transition Mechanisms.....	17
A.	JSA Termination.....	17
B.	Alascom Common Carrier Services.....	18
C.	Separations Factor Transition.....	18
D.	Alaska Fund.....	19
E.	Accelerated Cost Recovery.....	20
F.	AT&T Purchase Obligation.....	25
VII.	Miscellaneous.....	26
A.	Tariffs, Leases, and Contracts.....	27
B.	Alaska Spur.....	27
C.	Monitoring.....	27
VIII.	AT&T Petition to Terminate the Joint Services Arrangement....	27
IX.	Ex Parte Rules.....	28
X.	Regulatory Flexibility Act.....	29
XI.	Implementation Plans and Comments.....	29
XII.	Ordering Clauses.....	30

I. Introduction

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

II. Executive Summary

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

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

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

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

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

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

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

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

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

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

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

III. Background

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

A. Supplemental Order

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

B. Master Agreement and GCI Petition

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

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

² Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the Contiguous States and Alaska, Hawaii, Puerto Rico, and the Virgin Islands, CC Docket No. 83-1376, 4 FCC Rcd 395 (1989) (Supplemental Order).

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

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

C. State Members' Plan: Alaska Market Structure

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

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

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

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

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

IV. Market Structure

A. Introduction

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

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

B. Existing Market Conditions and Structure

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

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

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

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

⁹ APUC Annual Report to the Legislature, 1992.

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

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

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

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

C. New Market Structure

1. Elimination of the JSA

a. Parties' Recommendations

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

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

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

¹² Id. at para. 10.

¹³ Id. at para. 12-14.

¹⁴ Id. at para. 58.

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

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

b. Discussion

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

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

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

¹⁵ Master Agreement, filed January 29, 1992.

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

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

¹⁸ ATA Comments, December 17, 1992 at 2.

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

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

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

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

2. Long Term Market Structure

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

a. Facility Issues

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

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

b. Service Issues

i) MTS

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

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

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

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

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

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

ii) Alascom Common Carrier Services

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

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

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

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

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

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

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

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

iii) Private Line Services

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

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

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

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

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

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

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

c. Dominant Carriers

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

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

V. COST ALLOCATIONS

A. Allocation Factor for Alascom Circuit Equipment

1. Background

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

³⁵ *Id.* at 15.

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

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

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

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

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

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

⁴¹ Alascom Comments, December 18, 1992 at 11.

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

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

2. Discussion

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

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

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

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

⁴³ UUI Comments, December 18, 1992 at 2.

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

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

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

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

B. Allocation Factor for UUI Circuit Equipment

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

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

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

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

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

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

VI. Transition Mechanisms

A. JSA Termination

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

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

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

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

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

B. Alascom Common Carrier Services

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

C. Separations Factor Transition

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

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

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

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

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

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

D. Alaska Fund

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

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

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

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

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

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

E. Accelerated Cost Recovery

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

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

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

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

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

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

1.a. State Members' Plan

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

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

1.b. Positions of Parties

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

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

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

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