

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2232 SCOMM 88: HOUSE TELECOMMUNICATIONS TASK FORCE, 1993

783

AT&T 800 Readyline® Service

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

AT&T WATS Service

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

CERTIFICATE OF SERVICE

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

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April 27, 1993

AT&T'S PLAN FOR ALASKA SERVICE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Dated: June 28, 1993

SUMMARY

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

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

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

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

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

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

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

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

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Before the
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Washington, D.C. 20554

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

AT&T'S COMMENTS

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

INTRODUCTION

I. BACKGROUND

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

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

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

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

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

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

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

⁴ Supplemental Order, ¶ 35.

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

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

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

⁵ Id. ¶ 70, fn. 91.

⁶ Id. ¶ 36.

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

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

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

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

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

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

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

II. THE TR PROPOSAL

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

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

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

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

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

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

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

III. THE CONSUMER BENEFIT PLAN

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

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

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

ARGUMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

(footnote continued from previous page)

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

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

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

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

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

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

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

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

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

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

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

¹⁶ 288 U.S. at 35.

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

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

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

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

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

¹⁹ Consumer Benefit Plan, pp. 11-12.

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

II. THE CONSUMER BENEFIT PLAN WILL ACHIEVE THE JOINT BOARD'S OBJECTIVE OF PROTECTING INTRASTATE RATEPAYERS WITHOUT THE NEED TO FOCUS ON COMPLEX REGULATORY RULES.

A. The TR Proposal's Plan For Protecting Intrastate Customers Will Not Work.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(footnote continued from previous page)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

⁴² See Consumer Benefit Plan, p. 8.

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

⁴⁴ AT&T's June 7 Response, p. 8.

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

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

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

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

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

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

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

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

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

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

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

⁴⁹ See State Members' Plan, p. 25.

CONCLUSION

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

Respectfully submitted,

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Dated: June 28, 1993

Attachment A

AT&T's Proposed Alaska Intrastate Basic Schedule Rates

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

ATTACHMENT B

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

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

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

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

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

³ 47 U.S.C. § 201.

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

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

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

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

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

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

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

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

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

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

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

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

⁷ 751 F.2d 402, 415 (D.C. Cir. 1985).

⁸ Id. n. 17.

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

¹⁰ Id. at 6.

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

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

¹¹ 298 U.S. at 374.

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

¹³ Id. at 195.

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

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

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

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

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

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

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

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

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

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

¹⁹ See TR ¶¶ 15, 25.

CONSUMER BENEFIT PLAN

These assumptions apply to Attachment C:

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

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

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Intrastate & International:	2.959%	3.291%	3.212%	3.018%	2.999%	3.332%	3.281%	3.281%	3.281%	3.281%
Interstate	3.944%	4.445%	3.999%	3.573%	3.825%	4.171%	4.470%	4.387%	4.920%	4.920%

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

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

(v) Price reductions are calculated as follows:

Interstate : Mileage bands 10 & 11 are eliminated.

Intrastate: See Attachment A.

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

Interstate : -0.547

Intrastate: -0.58

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

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

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

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

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These assumptions apply to Attachment C:

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

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

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

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
MINUTES:										
INTRASTATE	311.11	320.14	330.42	340.40	350.56	362.24	374.13	386.40	399.08	412.17
INTERSTATE - ALASKA BILLED	579.88	595.88	629.67	652.17	677.12	705.38	736.89	769.22	807.08	848.77
INTERNATIONAL	24.55	25.38	26.20	26.98	27.80	28.72	29.67	30.64	31.64	32.68
REVENUES:										
INTRASTATE	\$98.70	\$102.45	\$105.74	\$108.93	\$112.18	\$115.92	\$119.72	\$123.65	\$127.70	\$131.89
INTERSTATE - ALASKA BILLED	122.13	127.88	132.61	137.35	142.61	148.55	155.19	162.88	169.97	178.34
INTERNATIONAL	25.58	26.43	27.27	28.19	29.94	29.90	30.88	31.90	32.94	34.02
PRIVATE LINE	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00
OTHER REVENUES	58.89	72.22	49.83	44.44	48.64	51.81	51.85	53.72	56.08	57.78
TOTAL REVENUES	\$380.06	\$403.86	\$384.48	\$393.82	\$407.38	\$421.18	\$432.45	\$446.27	\$461.88	\$477.03
TOTAL EXPENSES:	\$323.06	\$343.11	\$328.78	\$334.74	\$346.25	\$358.88	\$367.58	\$379.33	\$392.43	\$405.48
OPERATING INCOME	\$57.81	\$60.55	\$57.67	\$59.07	\$61.10	\$63.18	\$64.87	\$66.94	\$69.26	\$71.55
NET INCOME	\$37.06	\$39.36	\$37.48	\$38.48	\$39.72	\$41.06	\$42.16	\$43.51	\$45.01	\$46.51
CAPITAL INVESTMENT NET										
ALASCOM	\$259.18	\$236.82	\$213.47	\$191.48	\$207.39	\$183.78	\$160.53	\$137.67	\$126.13	\$108.87
AT&T	\$44.20	\$80.68	\$127.40	\$104.19	\$80.25	\$77.45	\$89.27	\$82.43	\$57.05	\$51.95
ALL OTHER	\$46.80	\$47.80	\$48.00	\$49.00	\$50.00	\$51.80	\$52.00	\$53.00	\$54.00	\$55.00
TOTAL	\$349.38	\$373.88	\$388.87	\$344.88	\$341.84	\$312.20	\$281.80	\$253.10	\$237.18	\$215.82
NEW										
ALASCOM	\$11.00	\$11.00	\$11.00	\$11.00	\$51.00	\$11.00	\$11.00	\$11.00	\$11.00	\$11.00
AT&T	\$49.00	\$62.88	\$64.04	\$5.25	\$5.25	\$5.21	\$5.38	\$5.22	\$5.51	\$5.51
ALL OTHER	\$6.00	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11	\$6.11
TOTAL	\$66.00	\$79.77	\$81.15	\$22.46	\$62.46	\$22.32	\$22.47	\$22.33	\$22.62	\$22.62
RATE OF RETURN	10.61%	10.53%	9.64%	11.14%	11.48%	13.15%	14.96%	17.19%	18.98%	21.55%

CERTIFICATE OF SERVICE

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

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/s/Karen Mitchell
/s/Karen Mitchell

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JOINT
BOARD

the
Communications Commission
Washington, D.C. 20554

FCC 93J-1

In the Matter of

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

Tentative Recommendation
and Order Inviting Comments

Adopted: May 17, 1993

Released: May 17, 1993

By the Federal-State Joint Board

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I. Introduction

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

II. Executive Summary

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

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

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

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

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

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

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

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

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

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

To <i>NEED STOPS</i>	From <i>Kara Tirkall</i>
Co.	Co.
Dept.	Phone #
Fax #	Fax #

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

III. Background

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

A. Supplemental Order

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

B. Master Agreement and GCI Petition

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

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

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

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

totalling \$330 million to PTI and its holding companies; (4) Alascom would transfer a portion of its facilities to TUA;⁴ (5) the restructured TUA would provide interstate service pursuant to NECA (1985) and intrastate service in Alaska using a non-statewide state and local exchange carrier (LEC) separations factor for circuit payment;⁵ (6) TUA would promise no intrastate rate increases during a five year transition; (7) AT&T and TUA would enter into various lease agreements; and (8) PTI, Alascom, and TUA would not compete against AT&T for provision of interstate and international MTS services for three years. The MA was conditioned on regulatory approval of the Joint Petition and all related documents by November 1, 1992. This deadline was later extended to January 15, 1993.⁶

C. State Members' Plan: Alaska Market Structure

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

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

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

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

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

IV. Market Structure

A. Introduction

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

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

B. Existing Market Conditions and Structure

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

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

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

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

⁹ APUC Annual Report to the Legislature, 1992.

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

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

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

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

C. New Market Structure

1. Elimination of the JSA

a. Parties' Recommendations

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

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

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

¹² Id. at para. 10.

¹³ Id. at para. 12-14.

¹⁴ Id. at para. 58.

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

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

b. Discussion

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

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

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

¹⁵ Master Agreement, filed January 29, 1992.

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

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

¹⁸ ATA Comments, December 17, 1992 at 2.

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

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

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

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

2. Long Term Market Structure

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

a. Facility Issues

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

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

b. Service Issues

i) MTS

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

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

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

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

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

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

ii) Alascom Common Carrier Services

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

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

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

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

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

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

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

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

iii) Private Line Services

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

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

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

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

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

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

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

c. Dominant Carriers

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

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

V. COST ALLOCATIONS

A. Allocation Factor for Alascom Circuit Equipment

1. Background

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

³⁵ *Id.* at 15.

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

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

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40. The parties in this proceeding have historically taken divergent positions regarding what circuit equipment separations factor should be used by Alascom. AT&T has contended that Alascom, which currently employs a frozen mileage/minute based interexchange circuit equipment factor under Section 36.126(e)(3) of the Commission's rules, 47 C.F.R. § 36.126(e)(3),³⁸ instead should either employ the termination/minutes-based LEC procedures or phase-in a reduction of the mileage used to calculate Alascom's separations factor to levels reflected by actual usage. It is argued that the current frozen mileage factor is unduly 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 1. Sixty-two percent is the average of the interstate percentages of relative use forecast by PTI for the years 1992 to 1997.

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

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

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

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

VI. Transition Mechanisms

A. JSA Termination

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

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

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

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

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

B. Alascom Common Carrier Services

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

C. Separations Factor Transition

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

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

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

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

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

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

D. Alaska Fund

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

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

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